

**MENTAL HEALTH ASSOCIATION OF  
ESSEX COUNTY, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2012 AND 2011**

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**

JUNE 30, 2012 AND 2011

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Mental Health Association of Essex County, Inc.  
Montclair, New Jersey

We have audited the accompanying statements of financial position of Mental Health Association of Essex County, Inc. (the "Association") as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2012 on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Mental Health Association of Essex County, Inc. as a whole. The accompanying schedule of expenditures of federal and state awards on Pages 26 and 27 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the New Jersey Office of Management and Budget Circular Letter 04-04 Compliance Supplement and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Certified Public Accountants

Livingston, New Jersey  
October 18, 2012

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

	June 30,	
<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 175,181	\$ 104,790
Escrow and security deposits	195,829	183,534
Investments	1,434,901	1,405,023
Accounts receivable, net	230,433	84,017
Grants and contracts receivable	77,873	70,648
Pledges receivable, net	102,500	65,393
Prepaid expenses	28,200	25,053
Total Current Assets	2,244,917	1,938,458
PROPERTY AND EQUIPMENT, Net	4,415,928	3,510,854
<b>OTHER ASSETS:</b>		
Intangible assets, net	9,324	4,667
Deferred financing costs, net	110,540	115,762
Construction in progress	313,860	165,989
Total Other Assets	433,724	286,418
Total Assets	\$ 7,094,569	\$ 5,735,730
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 28,594	\$ 68,592
Accounts payable and accrued expenses	344,171	165,682
Accrued payroll and related liabilities	515,880	355,163
Deferred revenue	57,529	-
Total Current Liabilities	946,174	589,437
LONG-TERM DEBT - Mortgages	3,630,349	2,583,246
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS:</b>		
Unrestricted:		
Board designated	246,731	246,731
Available for operations	1,593,351	1,692,716
Temporarily restricted:		
Donor restricted	550,306	495,942
DMHS Operational Incentives Reserve	57,158	57,158
Permanently restricted	70,500	70,500
Total Net Assets	2,518,046	2,563,047
Total Liabilities and Net Assets	\$ 7,094,569	\$ 5,735,730

*The accompanying notes are an integral part of these financial statements.*

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2012**  
**(With Comparative Totals for the Year Ended June 30, 2011)**

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>REVENUES, GAINS, AND SUPPORT</b>					
Government grants and contracts:					
NJ Division of Mental Health Services	\$ 4,510,587	\$ -	\$ -	\$ 4,510,587	\$ 4,444,758
NJ Department of Community Affairs	(460)	-	-	(460)	42,537
Nutrition program	47,065	-	-	47,065	43,892
NJ Child Assault Prevention Programs	219,395	-	-	219,395	216,130
NJ Division of Children and Family Services	451,560	-	-	451,560	450,778
Essex County Office of Aging	54,162	-	-	54,162	54,162
Montclair Child Development Center	36,000	-	-	36,000	-
Essex County Housing and Community Development	25,000	-	-	25,000	9,500
East Orange Teens programs and CDBG	20,004	-	-	20,004	30,000
Total Support	5,363,313	-	-	5,363,313	5,291,757
Revenues:					
Medicaid, Medicare, Welfare and private insurance	2,020,917	-	-	2,020,917	1,847,351
Fees for service	97,546	-	-	97,546	64,105
Net realized and unrealized (loss) gains on investment	(48,348)	1,280	-	(47,068)	127,636
Interest and dividends	31,616	1,756	-	33,372	31,307
Rental income	71,824	-	-	71,824	46,556
Amortized income on mortgages	28,594	-	-	28,594	28,592
Gain on sale of fixed assets	804	-	-	804	-
Other revenue	8,926	-	-	8,926	32,013
Total Revenues	2,211,879	3,036	-	2,214,915	2,177,560
Public Support:					
Contributions, membership dues, and bequests	34,613	209,996	-	244,609	217,232
Grants	-	10,000	-	10,000	-
United Way	19,251	-	-	19,251	25,361
Special events	170,196	-	-	170,196	183,677
Total Public Support	224,060	219,996	-	444,056	426,270
Net assets released from restrictions	168,668	(168,668)	-	-	-
Total Revenues, Gains and Support	7,967,920	54,364	-	8,022,284	7,895,587
<b>EXPENSES:</b>					
Program services	6,710,513	-	-	6,710,513	6,532,102
Supporting services:					
General and administrative	1,169,930	-	-	1,169,930	1,183,355
Fundraising	186,842	-	-	186,842	193,998
Total Expenses	8,067,285	-	-	8,067,285	7,909,455
CHANGES IN NET ASSETS	(99,365)	54,364	-	(45,001)	(13,868)
NET ASSETS - Beginning of year	1,939,447	553,100	70,500	2,563,047	2,576,915
NET ASSETS - End of year	\$ 1,840,082	\$ 607,464	\$ 70,500	\$ 2,518,046	\$ 2,563,047

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2012**  
**(With Comparative Totals for the Year Ended June 30, 2011)**

	2012										2011				
	Program Services										Management and General		Fundraising	Total	Total
	Integrated Case Management Service Program	Prospect House Program	Supported Employment Programs	Family Support Programs	Unified Care Management	Youth Programs	Criminal Justice/ Jail Diversion Program	Supportive Living Services	Center for Low Cost Psychotherapy	Total Program Services	Management and General	Fundraising	Total	Total	
Salaries and wages	\$ 1,068,883	\$ 972,149	\$ 206,427	\$ 223,054	\$ 295,904	\$ 134,348	\$ 276,557	\$ 494,229	\$ 422,875	\$ 4,094,426	\$ 764,398	\$ 89,061	\$ 4,947,885	\$ 4,861,577	
Payroll taxes and employee benefits	259,003	235,563	50,020	54,049	71,455	32,554	67,013	119,757	102,468	991,882	185,223	21,580	1,198,685	1,164,207	
Therapists/consultants	-	87,945	-	-	-	206,062	-	8,594	7,153	309,754	-	-	309,754	308,498	
Occupancy	68,377	112,641	8,912	11,525	-	5,960	14,258	192,797	12,559	427,029	35,793	-	462,822	409,144	
Equipment rental and maintenance	6,123	20,456	7,044	3,634	-	4,268	8,268	2,793	4,268	56,854	14,909	-	71,763	61,141	
Telephone	26,440	16,402	4,086	2,512	4,351	1,350	4,594	15,143	1,068	75,946	6,716	-	82,662	95,428	
Supplies	8,944	29,977	3,949	5,757	221	3,982	3,910	23,229	8,384	88,353	9,008	3,508	100,869	115,581	
Travel, transportation and conference	51,743	36,611	4,614	9,277	1,529	2,500	4,052	29,505	2,861	142,692	36,496	-	179,188	152,980	
Insurance	31,555	18,705	5,059	6,286	-	3,867	8,272	6,204	1,816	81,764	11,188	-	92,952	98,886	
Advertising and promotion	500	2,904	125	-	-	520	125	250	174	4,598	2,437	-	7,035	5,672	
Professional fees	16,656	14,696	2,790	1,584	-	2,322	3,633	5,205	3,150	50,036	17,945	-	67,981	79,111	
Food	-	67,906	-	-	-	-	-	-	-	67,906	-	-	67,906	60,127	
Postage and printing	1,200	708	-	623	-	1,058	-	156	602	4,347	3,199	409	7,955	7,887	
Subscriptions and publications	-	1,000	-	-	-	-	-	-	-	1,000	7,896	325	9,221	19,290	
Data processing	13,454	14,323	4,086	2,686	-	3,183	1,329	6,393	4,826	50,280	23,012	3,835	77,127	66,725	
Mental Health Association dues	-	-	-	-	-	-	-	-	-	-	9,600	-	9,600	13,887	
Consumer assistance	10,900	12,213	1,138	1,513	2,487	-	3,289	3,875	-	35,415	-	-	35,415	25,783	
Public awareness	5,154	5,154	5,154	5,154	-	5,154	5,154	5,154	5,154	41,232	-	-	41,232	11,177	
Special events	466	466	466	466	-	466	466	466	466	3,728	-	67,160	70,888	87,605	
Depreciation and amortization	30,792	43,958	3,642	5,657	-	3,808	928	85,138	6,579	180,502	27,576	-	208,078	239,471	
Bad debts	-	-	-	-	-	-	-	-	-	-	-	-	-	5,000	
Miscellaneous	-	233	-	-	100	-	-	1,738	698	2,769	14,534	964	18,267	20,278	
<b>Total Operating Expenses</b>	<b>\$ 1,600,190</b>	<b>\$ 1,694,010</b>	<b>\$ 307,512</b>	<b>\$ 333,777</b>	<b>\$ 376,047</b>	<b>\$ 411,402</b>	<b>\$ 401,848</b>	<b>\$ 1,000,626</b>	<b>\$ 585,101</b>	<b>\$ 6,710,513</b>	<b>\$ 1,169,930</b>	<b>\$ 186,842</b>	<b>\$ 8,067,285</b>	<b>\$ 7,909,455</b>	

The accompanying notes are an integral part of these financial statements.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS**

	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (45,001)	\$ (13,868)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	208,078	239,471
Reserves for bad debts	143	5,000
Net realized and unrealized loss (gain) on investments	47,068	(127,636)
Amortized income on mortgages	(28,594)	(28,592)
Gain on sale of fixed assets	(804)	-
Loss on disposal of fixed assets	1,930	-
Changes in certain assets and liabilities:		
Escrow and security deposits	(12,295)	(18,960)
Accounts receivable	(146,559)	63,885
Grants and contracts receivable	(7,225)	(46,212)
Pledges receivable	(37,107)	112,500
United Way receivable	-	527
Prepaid expenses	(3,147)	39,823
Construction in progress	(147,871)	(51,124)
Accounts payable and accrued expenses	178,492	(13,627)
Accrued payroll and related liabilities	160,717	52,326
Deferred revenue	57,529	(24,000)
Net Cash Provided by Operating Activities	<u>225,354</u>	<u>189,513</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	(1,112,587)	(42,146)
Proceeds from sale of investments	358,880	228,613
Purchases of investments	(408,361)	(356,719)
Net Cash Used for Investing Activities	<u>(1,162,068)</u>	<u>(170,252)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds from long-term debt	1,047,105	40,000
Repayment of long-term debt	(40,000)	-
Net Cash Provided by Financing Activities	<u>1,007,105</u>	<u>40,000</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>70,391</b>	<b>59,261</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>104,790</u>	<u>45,529</u>
End of year	<u>\$ 175,181</u>	<u>\$ 104,790</u>



**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 1 - NATURE OF BUSINESS:**

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The Mental Health Association of Essex County, Inc. (the "Association") is a nonprofit organization whose mission is to promote mental health, including the integration of physical healthcare, to improve the care and treatment of individuals with mental illness, and to remove the stigma associated with emotional and mental disorders. This is accomplished through advocacy, education, prevention, early intervention, treatment and service. The Association's revenues are derived principally from state funding, third party reimbursements, and support from the general public.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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***Basis of Accounting:***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America under the *FASB Accounting Standards Codification*.

***Financial Statement Presentation:***

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the objectives of Mental Health Association of Essex County, Inc., and include those expendable resources which have been designated for special use by the Board of Directors.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on any related investments for general or specific purposes.

In the absence of donor restriction, contributions and bequests are considered to be available for unrestricted use. All income is recognized in the period when the contribution, pledge, or unconditional promise to give is received.

The Association records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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***Cash and Cash Equivalents:***

Cash and cash equivalents include short-term highly liquid investments with maturity dates of three months or less on the date of acquisition.

***Fair Value:***

Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

**Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

**Level 2:** Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

**Level 3:** Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk (or other parties such as counterparty in a swap) in its assessment of fair value.

Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless the use was restricted by explicit donor stipulations or by law.

***Investments:***

Investment income is presented net of investment advisory/management fees and is reflected as unrealized gain (loss) on investment securities in the statements of activities and changes in net assets. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor. All investments are carried at fair value with the related gains and losses in the statements of activities and changes in net assets.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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***Accounts Receivable:***

Accounts receivable represent amounts due from Medicaid. The amounts are stated at the amount management expects to collect from outstanding balances based on historical trends. The Association charges uncollectible accounts receivable to operations when determined to be uncollectible. The allowance for uncollectible receivables has been reviewed by management and it has been determined to be adequate.

***Grants and Contracts Receivable:***

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. The Association charges uncollectible accounts receivable to operations when determined to be uncollectible. The allowance for uncollectible contributions has been reviewed by management and it has been determined to be adequate.

Financial assistance received from federal, state and local governmental entities in the form of grants are recognized on a cost reimbursement basis and are recorded in grants and contracts from governmental agencies on the statement of activities and changes in net assets. Grant receivables from government agencies are periodically reviewed by management for collectability. Consequently, no allowance has been recorded.

***Contributions:***

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

***Notes Payable:***

The Association occasionally enters into notes payable transactions with various state governmental agencies, some of which are forgivable upon the passage of time and the performance of the terms of the loans. It is the Association's policy to ratably write-off applicable loans to revenue over their lives. The Association does not discount non-interest bearing or below market rate loans from governmental agencies.

***Deferred Revenue:***

Deferred revenue represents revenues received in advance not yet earned.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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***Property and Equipment:***

Fixed assets are recorded at cost on the date of acquisition, or at the fair market value of the asset, based on values of comparable assets, at the date of gift, for donated assets. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 40 years.

The estimated lives of the assets are as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Computer software	3-5 Years
Buildings and improvements	5-40 Years
Furniture and fixtures	5-7 Years
Transportation equipment	5 Years
Computer equipment	5 Years

In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts. Maintenance, repairs and minor renewals are charged to operations as incurred, significant renewals and betterments greater than \$2,500 are capitalized that increase the useful life of the assets.

***Advance for Improvements:***

The Association records amounts received by the State for improvements as advances (contributions) when received. Although the title to all property and equipment is held by MHAEC, the State of New Jersey maintains an equitable interest in all equipment and real property purchased under their contracts or advances.

***Deferred Financing Costs:***

Deferred financing costs represent costs incurred to obtain financing of certain properties. Amortization of those costs is provided on the straight-line method over the remaining term of the applicable indebtedness. Accumulated amortization amounted to \$17,610 and \$12,388 at June 30, 2012 and 2011, respectively.

***Functional Allocation of Expenses:***

Program services, management and general and fundraising expenses have been recorded in the statements of activities and changes in net assets and on the statements of functional expenses based on both a direct costing method for those expenses directly attributable to a particular program or special event or on an allocation basis based on the salary percentage of each program to total salaries for joint costs attributable to all functions. The Association's management allocated general and administrative expenses based upon management's best estimates.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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***Advertising:***

The Association expenses advertising costs as incurred. Advertising is primarily for staff recruitment.

***Revenue Recognition:***

Funds received from various federal, state and local agencies represent grants awarded to Mental Health Association of Essex County, Inc. to provide program services. Revenue with respect to these awards is recognized to the extent of expenses incurred under the award terms, pursuant to donor imposed restrictions. Upon completion or expiration of a grant, unexpended funds are not available to the Association and must be returned to the awarding agency. Amounts received from granting agencies in excess of expenditures incurred are recorded as refundable advances.

Service fees are recorded at estimated net realizable amounts from consumers, third-party payers and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Estimated adjustments are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined.

***Income Taxes:***

The Association is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Association follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Association's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. The Association's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the fiscal years ended 2012 and 2011. The tax years subject to audit by federal and state jurisdictions are the years ended June 30, 2009 and forward. At June 30, 2012 and 2011, there are no significant income tax uncertainties.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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***Use of Estimates:***

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Endowment Funds:***

The Association reports permanently restricted net assets held for educational purposes and other related activities in accordance with accounting principles generally accepted in the United States of America.

***Summarized Comparative Information:***

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2011 from which the summarized information was derived. In our report dated October 28, 2011, we expressed an unqualified opinion on those financial statements.

***Reclassifications:***

Certain amounts have been reclassified on 2011 financial statements to conform to the 2012 presentation.

***Subsequent Events:***

The Association has evaluated events subsequent to the statement of financial position date as of June 30, 2012 through October 18, 2012, the date that the financial statements were available to be issued. The Association is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.

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**NOTE 3 - INVESTMENTS:**

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The Association has categorized its investments based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in the active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within the different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investments.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 3 - INVESTMENTS: (Continued)**

Investments consist of both permanently restricted net assets and assets designated by the Board of Directors for long-term purposes. They were invested in money market, certificates of deposits, corporate bonds (financial markets) and mutual funds.

The Investment Committee periodically monitors the investment portfolios for consistency in each investment manager's investment philosophy, return relative to objectives and investment risk measured by asset concentration, exposure to extreme economic conditions and volatility.

**FAIR VALUE MEASUREMENTS**  
**AS OF JUNE 30, 2012**

	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>TOTAL</b>
Money Market	\$ 7,411	\$ -	\$ -	\$ 7,411
Certificates of Deposit	-	453,422	-	453,422
Government Securities	79,323	-	-	79,323
Mutual Funds:				
Domestic Stock Funds	311,670	-	-	311,670
International Stock Funds	121,265	-	-	121,265
Fixed-Income Funds	83,282	-	-	83,282
Corporate Bonds	378,528	-	-	378,528
Investments at Fair Value	<u>\$ 981,479</u>	<u>\$ 453,422</u>	<u>\$ -</u>	<u>\$ 1,434,901</u>

**FAIR VALUE MEASUREMENTS**  
**AS OF JUNE 30, 2011**

	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>TOTAL</b>
Money Market	\$ 169,255	\$ -	\$ -	\$ 169,255
Certificates of Deposit	-	265,939	-	265,939
Government Securities	78,604	-	-	78,604
Mutual Funds:				
Domestic Stock Funds	282,276	-	-	282,276
International Stock Funds	117,346	-	-	117,346
Fixed-Income Funds	131,392	-	-	131,392
Corporate Bonds	360,211	-	-	360,211
Investments at Fair Value	<u>\$ 1,139,084</u>	<u>\$ 265,939</u>	<u>\$ -</u>	<u>\$ 1,405,023</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 4 - PLEDGES RECEIVABLE:**

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Pledges receivable are as follows at June 30:

	<u>2012</u>	<u>2011</u>
Receivable in one year	\$ 102,500	\$ 85,393
Less: allowance for doubtful accounts	-	(20,000)
Pledges Receivable, Net	<u>\$ 102,500</u>	<u>\$ 65,393</u>

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:**

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Property and equipment are as follows at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,073,191	\$ 1,097,492
Building and improvements	3,029,268	2,987,573
Furniture and fixtures	207,268	179,522
Transportation equipment	565,353	513,689
Computer equipment	91,083	82,624
	<u>5,966,163</u>	<u>4,860,900</u>
Less: Accumulated depreciation	1,550,235	1,350,046
Property and Equipment, Net	<u>\$ 4,415,928</u>	<u>\$ 3,510,854</u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$200,189 and \$229,137, respectively.

**NOTE 6 - INTANGIBLE ASSETS:**

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Intangible assets are as follows at June 30:

	<u>2012</u>	<u>2011</u>
Computer Software	\$ 22,020	\$ 14,696
Less: Accumulated amortization	12,696	10,029
Total Intangible Assets	<u>\$ 9,324</u>	<u>\$ 4,667</u>

Amortization expense for the years ended June 30, 2012 and 2011 was \$2,667 and \$5,111, respectively.



**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 7 - LONG TERM DEBT:**

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Long-term debt is comprised of the following:

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
Mortgage payable to New Jersey Housing and Mortgage Finance Agency ("NJHMFA") due November 2023, bearing no interest. Principal to be repaid with twenty-five (25%) of the project's annual available cash flow (for a term not to exceed 15 years). The note is collateralized by land and building in Bloomfield, New Jersey and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms.	\$ 396,608	\$ 396,608
Mortgage payable to the County of Essex due April 2028, bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven over the 20 year compliance period, scheduled to be completely forgiven at maturity.	143,946	153,040
Mortgage payable to the County of Essex due July 2029, bearing no interest. The note is collateralized by land and building in Nutley, New Jersey. The mortgage is scheduled to be forgiven over the 20 year compliance period, scheduled to be completely forgiven at maturity.	237,998	252,000
Mortgage payable to New Jersey Housing and Mortgage Finance Agency ("NJHMFA") due October 2039, bearing no interest. Principal to be repaid with twenty-five (25%) of the project's annual available cash flow (for a term not to exceed 30 years). The note is collateralized by land and building in Bloomfield, New Jersey and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms.	528,377	528,377

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 7 - LONG-TERM DEBT: (Continued)**

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
Mortgage payable to New Jersey Housing and Mortgage Finance Agency ("NJHMFA") due October 2039, bearing no interest. Principal to be repaid with twenty-five (25%) of the project's annual available cash flow (for a term not to exceed 30 years). The note is collateralized by land and building in Nutley, New Jersey and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms.	1,184,188	1,184,188
Mortgage payable to the County of Essex due March 2029, bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven over the 20 year compliance period, scheduled to be completely forgiven at maturity.	92,127	97,625
Mortgage note payable to the Corporation for Supportive Housing, bears interest at 6%, with original maturity on October 31, 2011, was refinanced with Corporation for Supportive Housing.	-	40,000
Mortgage note payable to the Corporation for Supportive Housing, bears interest at 7% and matures on the earlier of closing of permanent financing or on August 2013.	157,310	-
Mortgage payable to the Department of Housing and Urban Development due November 2030. The mortgage is scheduled to be forgiven over the 20 year compliance period, scheduled to be completely forgiven at maturity.	400,000	-
Mortgage payable to the County of Essex due July 2029, bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven over the 20 year compliance period, scheduled to be completely forgiven at maturity.	518,389	-
Total Long-Term Debt	3,658,943	2,651,838
Less: Current Maturities	28,594	68,592
Long-Term Debt, Net of Current Maturities	\$ 3,630,349	\$ 2,583,246

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 7 - LONG-TERM DEBT: (Continued)**

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At June 30, 2012, the aggregate maturities of long-term debt are as follows:

<u>Year</u>	<u>Amount</u>
Amounts to be repaid in cash:	
2013	\$ 28,594
2014	-
2015	-
2016	-
2017	-
Thereafter	2,237,889
Debt to be forgiven over lives of loans	1,392,460
Total	<u>\$ 3,658,943</u>

**NOTE 8 - DMHS OPERATIONAL INCENTIVES RESERVE:**

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During 2006, New Jersey Department of Human Services – Division of Mental Health Services (“DMHS”) instituted a new operational incentives pilot program. Contracted DMHS providers can receive incentives as a result of efficient and effective management. The maximum incentive for any contract period is limited to 3.33% of the total operating budget up to \$400,000 per year up to three years and should not exceed \$1,200,000. The operational incentives reserve is recognized in the year following the fiscal year surplus, after contract closeout with the Division of Mental Health Services. Such reserve is subject to the provisions of DMHS Policy Circular P7.07.

Fiscal Year 2006	\$ 36,408
Fiscal Year 2007	161,968
Fiscal Year 2008	98,082
Less: Allowable Expenditures	<u>(239,300)</u>
Total	<u>\$ 57,158</u>

The Operational Incentives Policy has been suspended by the State of New Jersey effective for fiscal year 2009 until further notice.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets are as follows at June 30:

	<b>2012</b>	<b>2011</b>
Prospect House deficit funding	\$ 200,558	\$ 250,558
Mental Health in "The School Program"	20,701	20,701
Educational activities	11,796	11,796
Prospect House consumer trips	60,441	60,441
Supportive Housing	64,086	54,086
Children psychiatric services	182,724	98,360
Hyde Watson Foundation	10,000	-
DMHS Operational Incentives Reserve	57,158	57,158
Total Temporarily Restricted Net Assets	<u>\$ 607,464</u>	<u>\$ 553,100</u>

**NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support:

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
Educational activities	\$ 25,000	\$ 25,000
General purposes	45,500	45,400
Total Temporarily Restricted Net Assets	<u>\$ 70,500</u>	<u>\$ 70,500</u>

**NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS:**

Net assets were released from restrictions during the years ended June 30, 2012 and 2011 as follows:

	<b>2012</b>	<b>2011</b>
Prospect House deficit funding	\$ 50,000	\$ 28,275
School based/Safety net	99,996	99,996
Investment income (Endowment)	3,036	7,947
Children Psychiatric Services	15,636	-
DMHS Operational Incentives Reserve	-	22,142
Total Program Restrictions	<u>\$ 168,668</u>	<u>\$ 158,360</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 12 - ENDOWMENT FUNDS:**

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**Donor Designated Endowment**

The Association's endowment consists of individual funds established for the purpose of supporting Mental Health Association of Essex County, Inc. Client's Programs. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments.

The Association's endowment consists of donor-restricted endowment funds, and do not include any funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association follows accounting standards that provide clarification on accounting for donor restricted endowment funds. The guidance prescribes that the portion of donor-restricted endowment funds that are classified as permanently restricted should not be reduced by losses on the investment of the fund or an Association's appropriations from the fund.

The Board of Directors' interpretation requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, the Association classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association. The Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the principal of contributions
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

Investment Return Objectives, Risk Parameters and Strategies. The Association has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 12 - ENDOWMENT FUNDS: (Continued)**

Investment Return Objectives, Risk Parameters and Strategies. (Continued)

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return exceeding the Consumer Price index by 3% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Association has a policy of appropriating for distribution each year 5% of the average total net assets at year-end for the five-year period ended with the most recent fiscal year end. In establishing this policy, the Association considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Association expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets as well as to provide additional growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund as of June 30, 2012 and 2011 are as follows:

	<b>2012</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total Net Endowment Assets</b>
Donor-Restricted Endowment Fund	\$ -	\$ 70,500	\$ 70,500

	<b>2011</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total Net Endowment Assets</b>
Donor-Restricted Endowment Fund	\$ -	\$ 70,500	\$ 70,500

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 12 - ENDOWMENT FUNDS: (Continued)**

Changes in Endowment Net Assets:

*For the fiscal year ended June 30, 2012*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 70,500	\$ 70,500
Investment return:				
Investment income	-	1,756	-	-
Net appreciation (realized and unrealized)	-	1,280	-	-
Total Investment Return	(3,036)	3,036	-	-
Contributions	-	-	-	-
Appropriation for expenditure	3,036	(3,036)	-	-
Endowment Net Assets, End of year	\$ -	\$ -	\$ 70,500	\$ 70,500

*For the fiscal year ended June 30, 2011*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 70,500	\$ 70,500
Investment return:				
Investment income	-	1,565	-	-
Net appreciation (realized and unrealized)	-	6,382	-	-
Total Investment Return	(7,947)	7,947	-	-
Contributions	-	-	-	-
Appropriation for expenditure	7,947	(7,947)	-	-
Endowment Net Assets, End of year	\$ -	\$ -	\$ 70,500	\$ 70,500

Contributions include donor restricted contributions, the change in the allowance for uncollectible pledges and amortization of present value of pledges made for more than one year. Endowment funds are invested with operating funds and all investment income is available for operating expenses at the Board's discretion.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 13 - PENSION PLANS:**

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The Association currently maintains a defined contribution profit-sharing plan. The Plan is open to all employees who meet certain eligibility requirements. The Plan provides up to 2% match and discretionary employer contributions to be determined at year end by the Board. Effective January 1, 2012, the Plan was changed to a Safe Harbor Plan. The Safe Harbor Plan provides up to a 4% match and discretionary employer contributions to be determined at year end by the Board. Profit-sharing expense for the fiscal years ended June 30, 2012 and 2011 was \$163,500 and \$137,587, respectively.

**NOTE 14 - NEW JERSEY CHILD ASSAULT PREVENTION PROGRAM:**

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As a participant in the New Jersey Child Assault Prevention Program (NJCAP), the Association receives the funds necessary to pay the staff salaries and other expenses associated with the Program. Advances are included in support, and disbursements are included in program expenses, currently \$205,733 and \$206,062, respectively. Timing differences in the recording of advances and expenses may result in the appearance of a slight program deficit or a surplus in any given year.

As required by the NJCAP program, a separate bank account is maintained for all program receipts and disbursements.

**NOTE 15 - UNIFIED CARE MANAGEMENT PROGRAM:**

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The Association is sub-contracted with Partnership for Children of Essex (PCE) who is under contract with New Jersey Department of Children and Families - Division of Child Behavioral Health Services (DCBHS). The Association provides special services to children and families served by the New Jersey DCBHS. The Association received \$451,560 and \$450,778 in fiscal years 2012 and 2011, respectively, from PCE, which is included in support.



**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 16 - CONCENTRATIONS OF RISKS:**

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Financial instruments that expose the Association to concentrations of credit risk consist primarily of cash, cash equivalents, receivables, investments and debt. The Association maintains its cash in bank deposit accounts at high quality financial institutions. These balances at times may exceed federally insured limits.

The Association receives the majority of its funding from various federal, state and local governmental agencies. The operations of the Association are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to changes that may occur because of inadequate funding with little notice to pay for the related costs, including the additional administrative burden, to comply with a change. In addition, under the terms of certain State of New Jersey grants, periodic audits of the grants are required. Such audits could result in claims against the Association for disallowed costs or non-compliance with grantor restrictions. Provisions for estimated adjustments resulting from audit and final settlement have been recorded. Differences between the estimated adjustments and the amount settled are recorded in the year of settlement.

The Association receives support and revenue primarily from grants, fees from governmental agencies, resident and private fees, special events and United Way allocations. A significant reduction of such support could have a material impact on the Association's operations. Management, however, does not expect that its support will be materially reduced.

Approximately 67% of the Association's revenue for the years ended June 30, 2012 and 2011 is from government grants and contracts.

The Association's receivables are concentrated with Medicaid, as well as, a single donor and a significant amount of its debt financing is concentrated with governmental agencies. A considerable balance of the Association's investments is concentrated in equities and corporate bonds. The Association's exposure to concentrations of credit risk is limited by its policy of investing in diverse investments.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 17 - COMMITMENTS AND CONTINGENCIES:**

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The Association is involved with certain claims, including equal opportunity employment issues and other routine litigation matters in the normal course of operations. In the opinion of management, after consultation with legal counsel, the outcome of such matters is not expected to have a material adverse effect on the Association's financial position or results of operations.

The Association is obligated to contribute to the support of the State and National Mental Health Associations.

The Association has paid or accrued its obligation of \$9,600 and \$7,116 for the years ended June 30, 2012 and 2011, respectively.

The Association has a lease agreement for a facility located in East Orange through May 31, 2013. The lease provides for the Association to cancel upon 60 days written notice in the event of the loss of state funding for the programs that operate out of the facility.

The Association also leases office facilities in Montclair, under month to month leases. Under these leases, the Association is charged base rent of approximately \$800, \$1,200 and \$1,400 a month for each lease. The Association is also responsible for security expenses and for all utilities metered to this rental space.

The Association leases other apartments for clients and additional office space as operating leases expire at various times during the year.

Future minimum payments on these leases are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 146,765
2014	60,272
2015	53,100
2016	50,160
2017	45,980
	<u>\$ 356,277</u>

Rent expense for facilities for the years ended June 30, 2012 and 2011 totaled \$244,241 and \$179,787, respectively. Equipment rental expense for fiscal 2012 and 2011 totaled \$61,358 and \$63,321, respectively.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**NOTE 18 - LINE OF CREDIT:**

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The Association has a revolving line of credit with a bank to fund temporary deficits in its working capital. The total amount available under this line of credit is \$500,000. The revolving line of credit renews annually. At June 30, 2012 and 2011, the Association has no borrowings under the line. Interest on the line of credit is payable based on the prime rate as published by the financial institution, not to fall below 5%. (4.5% at June 30, 2012.)

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**NOTE 19 - TAX RETURNS:**

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At June 30, 2012 and 2011, all required tax returns have been filed.

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**NOTE 20 - SUBSEQUENT EVENTS:**

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The Agency signed a mortgage note subsequent to year-end with the Special Needs Housing Trust Fund in the amount of \$1,666,197 for the construction of the Orange Road Project to be located in Montclair, New Jersey. This Construction Project will provide twelve units of affordable housing for individuals with mental illness. The funds have not been disbursed as of the date of the report.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/ Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Award Period</b>	<b>Program Award or Loan Amount</b>	<b>Outstanding Loan Balance</b>	<b>Expenditures</b>
<b>Federal Awards</b>						
U.S. Department of Housing and Urban Development Passed through City of East Orange Community Development Block Grant	14.218		7/1/11 - 6/30/12	\$ 20,000	\$ -	\$ 20,000
Passed through County of Essex		B-10-UC-34-0101	7/1/11 - 6/30/12		-	
U.S. Department of Health and Human Services Passed through County of Essex Division of Senior Services	93.044		1/1/11 - 12/31/11 1/1/12 - 12/31/12	14,800 39,160	- -	14,800 39,160
U.S. Department of Health and Human Services Passed through State of New Jersey Department of Human Services Division of Mental Health and Addiction Services Community Mental Health Services Block Grant	93.958	30209	7/1/11 - 6/30/12	375,537	-	375,537 *
Department of Homeland Security Passed through State of New Jersey Department of Human Services Division of Mental Health and Addiction Services	97.032	60145		8,164	-	8,164
<b>Total Federal Awards</b>				<b>457,661</b>	<b>-</b>	<b>457,661</b>

\* Tested as a major program

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/ Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Award Period</b>	<b>Program Award or Loan Amount</b>	<b>Outstanding Loan Balance</b>	<b>Expenditures</b>
<b>State Awards</b>						
State of New Jersey - Division of Mental Health Services:						
Supported Employment Program						
Adult Partial Care Program (Prospect House)						
Center for Low Cost Psychotherapy						
Criminal Justice Program						
Collaborative Justice Services (Jail Diversion)						
Integrated Case Management Services Program						
Supportive Living Services	N/A	30209	7/1/11 - 6/30/12	4,313,305	-	4,313,305 *
New Jersey Department of Children and Families						
Passed through Partnership for Children of Essex	N/A	11APGR	7/1/11 - 6/30/12	451,611	-	451,611 *
Passed through New Jersey Child Assault Prevention			7/1/11 - 6/30/12	205,733	-	205,733
New Jersey Department of Community Affairs						
SRAP (State Rental Assistance Program)	N/A		7/1/11 - 6/30/12	35,868	-	35,868
New Jersey Division of Food and Nutrition						
Adult Care Food				47,065	-	47,065
New Jersey Housing & Mortgage Finance Agency						
NJHMFA	N/A		11/24/08 - 6/30/12	2,190,287	2,190,287	-
<b>Total State Awards</b>				<b>7,243,869</b>	<b>2,190,287</b>	<b>5,053,582</b>
<b>Total Federal and State Awards</b>				<b>\$ 7,701,530</b>	<b>\$ 2,190,287</b>	<b>\$ 5,511,243</b>

\* Tested as a major program

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTE TO SCHEDULE OF**  
**EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED JUNE 30, 2012**

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**NOTE 1 - BASIS OF PRESENTATION:**

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The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB Circular Letter 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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To the Board of Directors  
Mental Health Association of Essex County, Inc.  
Montclair, New Jersey

We have audited the financial statements of Mental Health Association of Essex County, Inc. (the "Association") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

Management of the Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, Management, others within the Association, and the relevant governmental agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

Livingston, New Jersey  
October 18, 2012



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR LETTER 04-04**

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To the Board of Directors  
Mental Health Association of Essex County, Inc.  
Montclair, New Jersey

**Compliance**

We have audited the compliance of Mental Health Association of Essex County, Inc. (the "Association") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the New Jersey Office of Management and Budget ("NJOMB") Circular Letter 04-04 that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2012. The Association's major federal and state programs are identified in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of New Jersey Department of the Treasury, and NJOMB Circular Letter 04-04. Those standards and OMB Circular A-133 and NJOMB Circular Letter 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program has occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

In our opinion, the Association complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2012.

**Internal Control over Compliance**

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the federal and state programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on major federal and state programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133 and NJOMB Circular Letter 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a major program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a major program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, Management, the relevant governmental agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

Livingston, New Jersey  
October 18, 2012

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

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**I. Summary of Auditors' Results**

**Financial Statements**

The auditors' report issued on the basic financial statements of Mental Health Association of Essex County, Inc. was an unqualified opinion.

Internal control over financial reporting:

- Material weakness identified?                    \_\_\_\_\_ Yes                      X   No
- Significant deficiencies identified that are not considered to be material weaknesses?                    \_\_\_\_\_ Yes                      X   No

Noncompliance material to financial statements noted?                    \_\_\_\_\_ Yes                      X   No

**Major Awards**

Internal control over major programs:

- Material weaknesses identified?                    \_\_\_\_\_ Yes                      X   No
- Significant deficiencies identified that are not considered to be material weaknesses?                    \_\_\_\_\_ Yes                      X   No

The auditors' report issued on compliance for major programs was an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 or NJOMB Circular Letter 04-04                    \_\_\_\_\_ Yes                      X   No

The following federal and state programs were designated as major programs:

<u>CFDA Number</u>	<u>Grant Number</u>	<u>Name of Federal and State Program or Cluster</u>
93.958	30209	U.S. Department of Human Services, Passed through State of New Jersey
	11APGR	New Jersey Department of Children and Families – Passed through Partnership for Children of Essex
	30209	New Jersey Division of Mental Health Services

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

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**Federal and State Awards (Continued)**

Dollar threshold used to distinguish between  
Type A and Type B programs: \$ 300,000

Auditee qualified as a low-risk auditee?        Yes   X   No

**II. FINANCIAL STATEMENT, FEDERAL AND STATE AWARDS AND COMPLIANCE FINDINGS**

None.

**III. STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**Item 11-01 Financial Statements**

Condition identified: Audit adjustments were required in 2011 to correct prior years audited financial statements.

Current status: Condition corrected.