

MENTAL HEALTH ASSOCIATION OF  
ESSEX COUNTY, INC.

Financial Statements  
June 30, 2009 and 2008



MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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MALESARDI, QUACKENBUSH, SWIFT & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

155 NORTH DEAN STREET

ENGLEWOOD, N.J. 07631

201-567-4100

212-564-8767

FAX 201-567-3461

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

To the Board of Directors of

Mental Health Association of Essex County, Inc.

We have audited the accompanying statements of financial position of Mental Health Association of Essex County, Inc. (a Not-for-Profit organization) as of June 30, 2009 and 2008, and the related statements of activities, cash flows, and functional expenses 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 audit.

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. 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 Mental Health Association of Essex County, Inc. as of June 30, 2009 and 2008, 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 27, 2009 on our consideration of Mental Health Association of Essex County, Inc.'s internal control over financial reporting and on 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 the 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mental Health Association of Essex County, Inc. taken as a whole. The accompanying schedule of expenditures of Federal and State awards 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 is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Englewood, New Jersey  
October 27, 2009

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

ASSETS

	2009	2008
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 127,522	\$ 197,599
Investments	993,894	1,106,481
Accounts receivable, less allowance for doubtful accounts of \$3,546 and \$5,956 in 2009 and 2008	110,416	198,963
Grants and contracts receivable	129,462	125,298
Pledges receivable	153,690	35,000
United Way receivable	15,793	12,542
Deposits and prepaid expenses	88,616	47,797
Total Current Assets	1,619,393	1,723,680
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Net of accumulated depreciation of \$1,014,778 and \$832,461 in 2009 and 2008	3,142,987	2,775,891
<b>INTANGIBLE ASSETS:</b>		
Net of accumulated amortization of \$4,696 and \$4,476 in 2009 and 2008	10,000	220
<b>OTHER ASSETS:</b>		
Pledges receivable	23,980	45,750
Permanently restricted investments	70,500	70,500
Total Other Assets	94,480	116,250
Total Assets	\$ 4,866,860	\$ 4,616,041
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 180,488	\$ 35,000
Accounts payable and accrued expenses	312,804	225,399
Accrued payroll and related liabilities	298,379	286,365
Deferred support	42,128	67,684
Total Current Liabilities	833,799	614,448
<b>LONG-TERM DEBT</b>	1,697,638	1,467,083
Total Liabilities	2,531,437	2,081,531
<b>NET ASSETS:</b>		
Unrestricted		
Board designated	246,731	246,731
Available for Operations	1,325,953	1,407,497
DMHS Operational Incentives Reserve	177,382	185,716
Temporarily restricted	514,857	624,066
Permanently restricted	70,500	70,500
Total Net Assets	2,335,423	2,534,510
Total Liabilities and Net Assets	\$ 4,866,860	\$ 4,616,041

The accompanying notes are an integral  
part of these financial statements

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF ACTIVITIES  
For the Year Ended June 30, 2009  
(With Comparative Totals for the Year Ended June 30, 2008)

	2009			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>SUPPORT AND REVENUES:</b>					
Government grants and contracts:					
NJ Division of Mental Health Services	\$ 4,843,609	\$ -	\$ -	\$ 4,843,609	\$ 4,995,797
NJ Department of Community Affairs	76,000	-	-	76,000	64,800
Nutrition program	38,500	-	-	38,500	36,000
NJ Child Assault Prevention Programs	212,645	-	-	212,645	229,350
NJ Division of Children and Family Services	416,208	-	-	416,208	112,371
Essex County Office on Aging	39,162	-	-	39,162	39,162
Livingston Township	148,425	-	-	148,425	138,712
Essex County Housing and Community Development	-	-	-	-	19,435
East Orange Teens programs	20,000	-	-	20,000	17,500
CIACC, as subrecipient	69,582	-	-	69,582	69,582
<b>Total Support</b>	<b>5,864,131</b>	<b>-</b>	<b>-</b>	<b>5,864,131</b>	<b>5,722,709</b>
Revenues:					
Medicaid, Medicare, welfare and private insurance	1,725,534	-	-	1,725,534	1,752,295
Fee for service	54,186	-	-	54,186	34,009
Income from investments	(50,090)	-	-	(50,090)	(17,150)
Miscellaneous	81,579	-	-	81,579	20,126
<b>Total Revenues</b>	<b>1,811,209</b>	<b>-</b>	<b>-</b>	<b>1,811,209</b>	<b>1,789,280</b>
Public Support:					
Contributions, membership, dues and bequests	185,232	-	-	185,232	68,498
Grants	7,789	-	-	7,789	11,173
United Way	43,646	-	-	43,646	73,100
Special events	248,846	-	-	248,846	266,214
<b>Total Public Support</b>	<b>485,513</b>	<b>-</b>	<b>-</b>	<b>485,513</b>	<b>418,985</b>
Net Assets Released from Restrictions:	109,209	(109,209)	-	-	-
<b>TOTAL SUPPORT AND REVENUES</b>	<b>8,270,062</b>	<b>(109,209)</b>	<b>-</b>	<b>8,160,853</b>	<b>7,930,974</b>
<b>EXPENSES:</b>					
Program services	6,910,812	-	-	6,910,812	6,554,133
Management and general	1,212,469	-	-	1,212,469	1,114,874
Fundraising	236,659	-	-	236,659	219,459
<b>TOTAL EXPENSES</b>	<b>8,359,940</b>	<b>-</b>	<b>-</b>	<b>8,359,940</b>	<b>7,888,466</b>
<b>CHANGES IN NET ASSETS</b>	<b>(89,878)</b>	<b>(109,209)</b>	<b>-</b>	<b>(199,087)</b>	<b>42,508</b>
<b>NET ASSETS, Beginning of Year</b>	<b>1,839,944</b>	<b>624,066</b>	<b>70,500</b>	<b>2,534,510</b>	<b>2,492,002</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 1,750,066</b>	<b>\$ 514,857</b>	<b>\$ 70,500</b>	<b>\$ 2,335,423</b>	<b>\$ 2,534,510</b>

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2009 and 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (199,087)	\$ 42,508
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	182,535	165,960
Provision for doubtful accounts	2,410	5,500
Unrealized loss on investments	99,173	74,723
Net (gain) loss on sale of securities	2,412	(12,987)
Change in assets:		
Receivables	81,132	33,172
Pledges receivable	(96,920)	(1,250)
Deposits and prepaid expenses	(40,819)	(1,377)
Change in liabilities:		
Accounts payable and accrued expenses	87,405	6,298
Accrued payroll and related liabilities	12,014	66,628
Deferred support	(25,556)	(94,348)
Contributions restricted for permanent investments	-	(2,500)
Net Cash Provided by Operating Activities	104,699	282,327
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(565,311)	(762,559)
Proceeds from sale of investments	573,905	661,580
Purchase of permanently restricted investments	-	(2,500)
Purchase of property, plant and equipment, net of trade-in allowances	(559,413)	(1,195,451)
Net Cash Used in Investing Activities	(550,819)	(1,298,930)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(396,083)	(71,000)
Borrowings on long-term debt	772,126	1,036,083
Contributions restricted for permanent investments	-	2,500
Net Cash Provided by Financing Activities	376,043	967,583
DECREASE IN CASH AND CASH EQUIVALENTS	(70,077)	(49,020)
CASH AND CASH EQUIVALENTS, Beginning of Year	197,599	246,619
CASH AND CASH EQUIVALENTS, End of Year	\$ 127,522	\$ 197,599
Supplemental Disclosure:		
Cash paid during the year for interest	\$ 30,790	\$ 4,767

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2009  
(With Comparative Totals for the Year Ended June 30, 2008)

2009

	Integrated Case Management Service Program	Prospect House Program	Supported Employment Programs	Family Support Programs	Unified Care Management	Youth Programs	Criminal Justice / Jail Diversion Program
Salaries	\$ 1,195,625	\$ 1,046,505	\$ 332,836	\$ 400,654	\$ 289,137	\$ 256,031	\$ 241,230
Fringe benefits and payroll taxes	257,045	224,986	71,556	86,136	62,161	55,044	51,862
Therapists / consultants	-	-	-	-	-	177,365	-
Joint Program Consultants (UBHC)	-	-	-	-	-	-	293,468
Occupancy	64,841	153,310	40,185	24,527	-	7,251	13,089
Equipment rental and maintenance	17,783	42,192	21,699	8,595	-	8,538	3,170
Telephone	19,892	10,399	7,695	9,039	6,171	12,508	3,192
Supplies	10,094	24,269	4,558	4,498	119	21,670	6,020
Travel, transportation and conference	36,833	40,940	5,301	10,671	2,418	3,715	2,730
Insurance	38,133	26,334	13,888	7,990	-	3,437	12,358
Advertising	1,419	3,186	588	-	718	499	548
Professional fees	10,613	8,603	3,778	2,613	-	2,773	4,221
Food	-	53,839	-	-	-	-	-
Postage and printing	1,334	300	521	1,706	17	2,159	-
Mortgage interest	-	-	-	1,108	-	175	-
Subscriptions and publications	40	1,000	-	-	-	-	-
Data processing	7,453	6,431	2,144	1,484	-	1,944	1,072
Mental Health Association dues	-	-	-	-	-	-	-
Consumer assistance	8,179	1,561	540	1,270	-	-	3,918
Public awareness	-	-	-	340	-	-	-
Special events	-	-	-	-	-	-	-
Depreciation and amortization	50,864	52,685	13,057	4,099	-	-	-
Bad debts	-	-	-	-	-	-	-
Miscellaneous	55	1,073	50	664	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,720,203</b>	<b>\$ 1,697,613</b>	<b>\$ 518,396</b>	<b>\$ 565,394</b>	<b>\$ 360,741</b>	<b>\$ 553,109</b>	<b>\$ 636,878</b>

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



MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended June 30, 2009

(With Comparative Totals for the Year Ended June 30, 2008)

	2009					2008	
	Supportive Living Services	Center for Low Cost Psychotherapy	Total Program Services	Management and General	Fundraising	Total Combined	Total Combined
Salaries	\$ 247,021	\$ 196,392	\$ 4,205,431	\$ 793,077	\$ 83,320	\$ 5,081,828	\$ 4,637,341
Fringe benefits and payroll taxes	53,107	42,222	904,119	169,288	17,913	1,091,320	1,022,281
Therapists / consultants	-	6,600	183,965	-	-	183,965	190,025
Joint Program Consultants (UBHC)	-	-	293,468	-	-	293,468	297,804
Occupancy	101,580	4,686	409,469	36,614	-	446,083	404,206
Equipment rental and maintenance	1,056	6,451	109,484	34,805	4,599	148,888	183,973
Telephone	8,366	5,753	83,015	24,612	-	107,627	115,671
Supplies	8,850	1,524	81,602	12,344	2,586	96,532	152,481
Travel, transportation and conference	11,060	1,478	115,146	33,743	1,391	150,280	165,104
Insurance	4,752	1,843	108,735	8,045	-	116,780	124,578
Advertising	822	-	7,780	873	2,271	10,924	27,740
Professional fees	9,470	1,587	43,658	18,029	-	61,687	72,208
Food	-	-	53,839	-	-	53,839	47,730
Postage and printing	93	1,117	7,247	6,776	964	14,987	17,218
Mortgage interest	106,364	113	107,760	1,841	-	109,601	74,613
Subscriptions and publications	-	-	1,040	532	374	1,946	2,668
Data processing	249	1,521	22,298	3,041	-	25,339	23,906
Mental Health Association dues	-	-	-	15,896	-	15,896	17,194
Consumer assistance	2,938	-	18,406	-	-	18,406	26,409
Public awareness	-	-	340	10,309	-	28,149	20,000
Special events	-	-	-	-	17,500	28,149	20,000
Depreciation and amortization	30,705	-	151,410	31,125	103,831	103,831	82,782
Bad debts	-	-	-	-	-	182,535	165,960
Miscellaneous	50	708	2,600	11,519	1,910	16,029	5,500
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 586,483</b>	<b>\$ 271,995</b>	<b>\$ 6,910,812</b>	<b>\$ 1,212,469</b>	<b>\$ 236,659</b>	<b>\$ 8,359,940</b>	<b>\$ 7,888,466</b>

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

The Mental Health Association of Essex County, Inc. (The "Association") is a Not-for-Profit organization whose mission is to promote mental health, improve the care and treatment of individuals with mental illness and to remove the stigma associated with mental disorders. This is accomplished through advocacy, education, prevention, treatment and service. The Association's revenues are derived principally from state funding, third party reimbursements and support from the general public.

Classes of Net Assets:

The Association records gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of 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. Permanently restricted net assets include gifts which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

The Board has designated certain unrestricted net assets to be used as an endowment or for specific future purposes, subject to board approval.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents:

The Association considers all short-term investments with a maturity of three months or less to be cash equivalents.

Investments:

Investments are reported at their fair market values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Accounts Receivable:

Accounts receivable represent amounts due from Medicaid. Bad debts are accounted for using the reserve method based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year.

Income Taxes:

The Association is exempt from federal, state and local income taxes as a voluntary, Not-for-Profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for income taxes are included in the financial statements.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2009 and 2008

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):

Intangible Assets and Property, Plant and Equipment:

Intangible assets and property, plant and equipment are stated at cost (fair market value at date of donation if contributed) less accumulated depreciation and amortization. Depreciation and amortization are provided principally using the straight-line method over the estimated lives of the assets 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

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported support, revenues and expenses. Actual results could differ from those estimates.

Reclassification:

Certain reclassifications have been made to prior year information in order to conform with current year presentation.

Subsequent Events

Subsequent events have been evaluated through October 27, 2009, the date the financial statements were issued. No events have occurred subsequent to the statement of financial position date and through the date of issuance that would require adjustment to or disclosure in the accompanying financial statements.

NOTE 2 - INVESTMENTS:

Investments consisted of the following at June 30, 2009:

<u>Description</u>	<u>06/30/09</u>	<u>Quoted Prices: Level 1</u>
Money Market	\$ 40,398	\$ 40,398
Domestic and international equity funds	372,975	372,975
Bonds	<u>651,021</u>	<u>651,021</u>
Total	<u>\$ 1,064,394</u>	<u>\$ 1,064,394</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2009 and 2008

NOTE 2 - INVESTMENTS (CONTINUED):

Fair values for investments are determined by references to quoted market prices and other relevant information generated by market transactions.

Investment return is summarized as follows:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Investment income	\$ 51,495	\$ -	\$ -	\$ 51,495
Gain on sale of securities	(2,412)	-	-	(2,412)
Unrealized gain in investments	<u>(99,173)</u>	<u>-</u>	<u>-</u>	<u>(99,173)</u>
Total Income from Investments	<u>\$ (50,090)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (50,090)</u>

NOTE 3 - PLEDGES RECEIVABLE:

Pledges receivable as of June 30, 2009 consisted of the following:

Receivable in less than one year	\$ 153,690
Receivable in one to five years	<u>25,000</u>
Total pledges receivable	178,690
Less discounts to net present value	<u>(1,020)</u>
Net pledges receivable as of June 30, 2009	<u>\$ 177,670</u>

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT:

Property and equipment consisted of the following at June 30, 2009 and 2008:

	2009	2008
Land	\$ 1,097,492	\$ 1,037,492
Building and improvements	2,329,715	1,901,093
Furniture and fixtures	109,652	104,954
Transportation equipment	541,282	482,786
Computer equipment	<u>79,624</u>	<u>82,027</u>
Total Property, Plant and Equipment	4,157,765	3,608,352
Less: accumulated depreciation	<u>1,014,778</u>	<u>832,461</u>
	<u>\$ 3,142,987</u>	<u>\$ 2,775,891</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

NOTE 5 - INTANGIBLE ASSETS:

Intangible assets consisted of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Computer Software	\$ 14,696	\$ 4,696
Less: accumulated amortization	<u>4,696</u>	<u>4,476</u>
Total Intangible Assets	<u>\$ 10,000</u>	<u>\$ 220</u>

NOTE 6 - LONG-TERM DEBT:

The following is a summary of long-term debt at June 30, 2009 and 2008:

1. Mortgage note payable to a New Jersey state agency through July 1, 2010 at fixed annual principal payment plus interest at varying rates (average 4.464%). The required payment is withheld ratably from the Association's monthly advances under their State of New Jersey Division of Mental Health Services award. This note is collateralized by land and building in Montclair, New Jersey. The balance as of June 30, 2009 and 2008 was \$35,000 and \$70,000, respectively.
2. Mortgage note payable to the Corporation for Supportive Housing bearing interest at 6% per annum. The note is collateralized by land and building in Bloomfield, New Jersey. The balance as of June 30, 2009 and 2008 was \$396,000. It is anticipated that the Association will secure permanent financing with Essex County Home Funds and New Jersey Housing and Mortgage Finance Agency (HMFA) and use those monies to repay this note payable.
3. Mortgage note payable to New Jersey Housing and Mortgage Finance Agency (HMFA) bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The balance as of June 30, 2009 was \$396,608. The mortgage will be repayable only if the property does not remain available for very-low income eligible individuals for no less than 15 years.
4. Mortgage note payable to the Corporation for Supportive Housing bearing interest 7% per annum. The note is collateralized by land and building in Nutley, New Jersey. The balance as of June 30, 2009 and 2008 was \$675,000. It is anticipated that the Association will secure permanent financing with Essex County Home Funds and New Jersey Housing and Mortgage Finance Agency (HMFA). The Association has also applied for additional funds through the Federal Home Loan Bank.
5. Mortgage note payable to the County of Essex bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The balance as of June 30, 2009 was \$181,830. The mortgage will be repayable only if the property does not remain available for very low-income eligible individuals for no less than 20 years.
6. Mortgage note payable to the County of Essex bearing no interest. The note is collateralized by land and building in Nutley, New Jersey. The balance as of June 30, 2009 was \$48,200. The mortgage will be repayable only if the property does not remain available for very low-income eligible individuals for now less than 20 years.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2009 and 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED):

7. The Association has a \$500,000 revolving line of credit bearing interest at the bank's prime rate plus 1/2% and expiring April 1, 2010. At June 30, 2009 the Association had a \$145,488 outstanding balance.

Future required principal payments on all long-term debt at June 30, 2009 are as follows:

<u>Year ending June 30,</u>	
2010	\$ 180,488
2011	-
2012	-
2013	-
2014 and thereafter	<u>1,697,638</u>
	<u>\$ 1,878,126</u>

NOTE 7 - ENDOWMENT FUNDS:

Board Designated Endowment

As of June 30, 2009, the Board of Directors has designated \$246,731 of unrestricted net assets as a general endowment fund to support Mental Health Association of Essex County, Inc. Since that amount resulted from an internal designation and is not donor restricted, it is classified and reported as unrestricted net assets.

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. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Association has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, 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 various funds, (2) the purposes of

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2009 and 2008

NOTE 7 - ENDOWMENT FUNDS (CONTINUED):

the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

*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. 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 real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment fund	\$ -	\$ 70,500	\$ 70,500
Board-designated endowment fund	<u>246,731</u>	<u>-</u>	<u>246,731</u>
Total funds	<u>\$ 246,731</u>	<u>\$ 70,500</u>	<u>\$ 317,231</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2009 and 2008

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were available for the following purposes or periods at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Prospect House deficit funding	\$ 328,833	\$ 378,042
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	<u>93,086</u>	<u>153,086</u>
Total Temporarily Restricted Net Assets	<u>\$ 514,857</u>	<u>\$ 624,066</u>

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS:

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

	<u>2009</u>	<u>2008</u>
Educational activities	\$ 25,000	\$ 25,000
General purposes	<u>45,500</u>	<u>45,500</u>
Total Permanently Restricted Net Assets	<u>\$ 70,500</u>	<u>\$ 70,500</u>

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the years ended June 30, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Prospect House deficit funding	\$ 49,209	\$ 2,500
"The School Program"	-	10,000
President's Club speaker	-	10,000
Prospect House consumer trips	-	3,500
Supportive Housing (Drill Endowment)	<u>60,000</u>	<u>-</u>
Total Program Restrictions	<u>\$ 109,209</u>	<u>\$ 26,000</u>

NOTE 11 - NEW JERSEY CHILD ASSAULT PREVENTION PROGRAM:

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 \$198,833 and \$195,913, 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.



MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2009 and 2008

NOTE 12 - JAIL DIVERSION SERVICES PROGRAM:

The Association and University Behavioral Health Care (UBHC) began working in the Essex County jail in fiscal year 2006. The Association is the lead agency and receives payment from the State of New Jersey Department of Human Services, Division of Mental Health Services. The Association received \$574,150 in fiscal year 2009, which is included in support. The Association reimburses UBHC for their actual expenses. UBHC provides psychiatric screening services at the jail in order to identify misdemeanor offenders who would benefit from receiving mental health services as opposed to incarceration. The Association then works with those individuals to get them linked to both housing and mental health services to reduce the rate of recidivism.

NOTE 13 - UNIFIED CARE MANAGEMENT PROGRAM:

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 \$416,208 in fiscal year 2009 from PCE, which is included in support.

NOTE 14 - PENSION PLANS:

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 for a 2% match and discretionary employer contributions to be determined at year end by the Board. Profit-sharing expense for the fiscal years ended June 30, 2009 and 2008 was \$159,000 and \$168,935, respectively.

NOTE 15 - CONCENTRATION OF CREDIT RISK:

Mental Health Association of Essex County, Inc. maintains its cash in bank deposit accounts at high quality financial institutions. These balances at times may exceed federally insured limits.

NOTE 16 - COMMITMENTS:

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 \$9,910 for the year ended June 30, 2009.

In 2007 the Association entered into a lease agreement for facilities located in East Orange. These facilities are used in the Integrated Case Management Program and the Supported Employment Program. The lease period is from June 1, 2007 through May 31, 2010, with an option to renew for an additional two years.

<u>Year Ending June 30,</u>	<u>Facilities</u>
2010	\$ <u>99,968</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2009 and 2008

NOTE 16 - COMMITMENTS (CONTINUED):

The Association also leases space for a facility in Montclair on a month to month arrangement. Office equipment is leased under agreements expiring between November 2009 and December 2010. Future minimum annual rent payments are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>
2010	\$ 21,912
2011	<u>21,912</u>
	<u>\$ 43,824</u>

Rent expense for facilities for the years ended June 30, 2009 and 2008 totaled \$110,377 and \$118,868 respectively. Equipment rental expense totaled \$70,601 and \$72,153, respectively.

NOTE 17 - DMHS OPERATIONAL INCENTIVES RESERVE:

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 incentive 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>(119,076)</u>
Total	<u>\$ 177,382</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
For the Year Ended June 30, 2009

<u>Federal or State Grantor/ Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>State Contract Number</u>	<u>Expenditures</u>
U.S. Department of Education Passed through State of New Jersey Department of Human Services Division of Mental Health Services Supported Employment Program	84.126a	30209	\$ 202,463
U.S. Department of Health and Human Services Passed through State of New Jersey Department of Human Services Division of Mental Health Services Temporary Assistance for Needy Families	93.558	30222	215,358
Community Mental Health Services Block Grant Augmented Family Support Services	93.958	30209	431,621
Passed through County of Essex Division of Aging Older Americans Act Grant	93.044		39,162
U.S. Department of Housing and Urban Development Passed through City of East Orange Community Development Block Grant	14.218		20,000

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)  
For the Year Ended June 30, 2009

<u>Federal or State Grantor/ Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>State Contract Number</u>	<u>Expenditures</u>
State of New Jersey Division of Mental Health Services:			
Adult Partial Care Program (Prospect House)			
Family Resource Center			
Center for Low Cost Psychotherapy			
Criminal Justice Program			
Jail Diversion Program			
Integrated Case Management Services Program			
Supportive Living Services		30209	3,473,717
State of New Jersey Department of Community Affairs		2009-02110-0010-00	76,000
State of New Jersey Division of Mental Health Services:			
Welfare to Work Program			
General Assistance		30222	33,351
Passed through University Behavioral Health Care			
Jail Diversion Services Program		30209	293,467
Passed through County of Essex			
Children's Interagency Coordinating Council			69,500
State of New Jersey Department of Children and Families:			
Passed through Partnership for Children of Essex		09APGR	<u>416,208</u>
Total Expenditures of Federal and State Awards			<u>\$ 5,270,847</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
For the Year Ended June 30, 2009

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of Mental Health Association of Essex County, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MALESARDI, QUACKENBUSH, SWIFT & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

155 NORTH DEAN STREET

ENGLEWOOD, N.J. 07631

201-567-4100

212-564-8767

FAX 201-567-3461

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

To the Board of Directors of

Mental Health Association of Essex County, Inc.

We have audited the financial statements of Mental Health Association of Essex County, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated October 27, 2009. 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

In planning and performing our audit, we considered Mental Health Association of Essex County, Inc.'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 Mental Health Association of Essex County, Inc.'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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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

Compliance

As part of obtaining reasonable assurance about whether Mental Health Association of Essex County, Inc.'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 and use of the audit committee, management of Mental Health Association of Essex County, Inc. and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Englewood, New Jersey  
October 27, 2009

MALESARDI, QUACKENBUSH, SWIFT & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

155 NORTH DEAN STREET

ENGLEWOOD, N.J. 07631

201-567-4100

212-564-8767

FAX 201-567-3461

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE  
STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, OMB CIRCULAR 04-04-OMB

To the Board of Directors of

Mental Health Association of Essex County, Inc.

Compliance

We have audited the compliance of Mental Health Association of Essex County, Inc. 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 State Grants Compliance Supplement" that are applicable to each of its major federal and state programs for the year ended June 30, 2009. Mental Health Association of Essex County, Inc.'s major federal and state programs are identified in the summary of auditor's results section of 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 Mental Health Association of Essex County, Inc.'s management. Our responsibility is to express an opinion on Mental Association of Essex County, Inc.'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; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and the State of New Jersey Department of the Treasury, OMB Circular 04-04-OMB. Those standards and OMB Circular A-133 and 04-04-OMB 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 occurred. An audit includes examining, on a test basis, evidence about Mental Health Association of Essex County, Inc.'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 Mental Health Association of Essex County, Inc.'s compliance with those requirements.

In our opinion, Mental Health Association of Essex County, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended June 30, 2009.



Internal Control Over Compliance

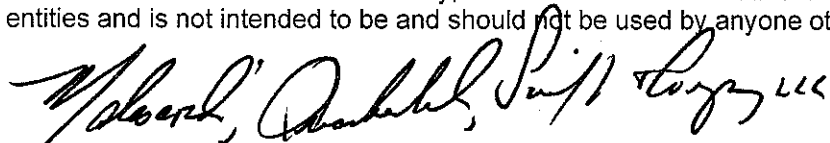
The management of Mental Health Association of Essex County, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered Mental Health Association of Essex County, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Mental Health Association of Essex County, Inc.'s internal control over compliance.

A control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 of Mental Health Association of Essex County, Inc. and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Englewood, New Jersey  
October 27, 2009

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2009

I. Summary of Auditor's Results:

*Financial Statements*

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

1. Material weakness(es) identified?

\_\_\_\_\_ yes     X  no

2. Reportable condition(s) identified that are not considered to be material weaknesses?

\_\_\_\_\_ yes     X  none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes     X  no

*Federal Awards*

Internal control over major programs:

1. Material weakness(es) identified?

\_\_\_\_\_ yes     X  no

2. Reportable condition(s) identified that are not considered to be material weakness(es)?

\_\_\_\_\_ yes     X  none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

\_\_\_\_\_ yes     X  no

Identification of major programs:

CFDA Number

Federal Program

84.126a, 93.958

U.S. Department of Human  
Services, State of New Jersey

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X  yes    \_\_\_\_\_ no