

MENTAL HEALTH ASSOCIATION OF  
ESSEX COUNTY, INC.

Financial Statements  
June 30, 2010 and 2009



MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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MALESARDI, QUACKENBUSH, SWIFT & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2010, and the related statements of activities, functional expenses, and cash flows for the year 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. The prior year summarized comparative information has been derived from Mental Health Association of Essex County, Inc.'s 2009 financial statements and, in our report dated October 27, 2009, we expressed an unqualified opinion on those financial statements.

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. 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 audit provides 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, 2010, and the changes in its net assets and its cash flows for the year 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 25, 2010 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.

*Malesardi, Quackenbush, Swift, & Company, LLC*

Englewood, New Jersey  
October 25, 2010

MEMBER AICPA DIVISION OF FIRMS

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION  
June 30, 2010 and 2009

ASSETS

	2010	2009
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 45,529	\$ 127,522
Investments	1,078,781	993,894
Accounts receivable, less allowance for doubtful accounts of \$2,000 and \$3,546 in 2010 and 2009	152,902	110,416
Grants and contracts receivable	24,436	129,462
Pledges receivable, net	177,893	153,690
Due from NJ Housing and Mortgage Finance Agency	95,807	-
Due from Essex County Home Funds	7,475	-
United Way receivable	527	15,793
Deposits and prepaid expenses	213,149	88,616
<b>Total Current Assets</b>	<b>1,796,499</b>	<b>1,619,393</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Net of accumulated depreciation of \$1,120,909 and \$1,014,778 in 2010 and 2009	3,731,065	3,142,987
<b>INTANGIBLE ASSETS:</b>		
Net of accumulated amortization of \$4,918 and \$4,696 in 2010 and 2009	9,778	10,000
<b>OTHER ASSETS:</b>		
Pledges receivable, net	-	23,980
Permanently restricted investments	70,500	70,500
<b>Total Other Assets</b>	<b>70,500</b>	<b>94,480</b>
<b>Total Assets</b>	<b>\$ 5,607,842</b>	<b>\$ 4,866,860</b>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ -	\$ 180,488
Accounts payable and accrued expenses	179,312	312,804
Accrued payroll and related liabilities	302,837	298,379
Deferred support	24,000	42,128
<b>Total Current Liabilities</b>	<b>506,149</b>	<b>833,799</b>
<b>LONG-TERM DEBT</b>	<b>2,762,117</b>	<b>1,697,638</b>
<b>Total Liabilities</b>	<b>3,268,266</b>	<b>2,531,437</b>
<b>NET ASSETS:</b>		
<b>Unrestricted:</b>		
Board designated	246,731	246,731
Available for operations	1,517,188	1,325,953
<b>Temporarily restricted:</b>		
Donor restricted	425,857	514,857
DMHS Operational Incentives Reserve	79,300	177,382
Permanently restricted	70,500	70,500
<b>Total Net Assets</b>	<b>2,339,576</b>	<b>2,335,423</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,607,842</b>	<b>\$ 4,866,860</b>

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, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	2010			2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES:</b>				
Government grants and contracts:				
NJ Division of Mental Health Services	\$ 4,767,159	\$ -	\$ -	\$ 4,767,159
NJ Department of Community Affairs	173,752	-	-	173,752
Nutrition program	38,500	-	-	38,500
NJ Child Assault Prevention Programs	239,698	-	-	239,698
NJ Division of Children and Family Services	451,626	-	-	451,626
Essex County Office on Aging	48,053	-	-	48,053
Livingston Township	79,809	-	-	79,809
Essex County Housing and Community Development	9,550	-	-	9,550
East Orange Teens programs	29,204	-	-	29,204
CIACC, as subrecipient	(164)	-	-	(164)
<b>Total Support</b>	<b>5,837,187</b>	<b>-</b>	<b>-</b>	<b>5,837,187</b>
Revenues:				
Medicaid, Medicare, Welfare and private insurance	1,845,650	-	-	1,845,650
Fee for service	29,129	-	-	29,129
Income from investments	98,859	-	-	98,859
Miscellaneous	41,375	-	-	41,375
<b>Total Revenues</b>	<b>2,015,013</b>	<b>-</b>	<b>-</b>	<b>2,015,013</b>
Public Support:				
Contributions, membership dues, and bequests	162,460	-	-	162,460
Grants	19,973	-	-	19,973
United Way	18,625	-	-	18,625
Special events	195,213	-	-	195,213
<b>Total Public Support</b>	<b>396,271</b>	<b>-</b>	<b>-</b>	<b>396,271</b>
Net Assets Released from Restrictions	187,082	(187,082)	-	-
<b>TOTAL SUPPORT AND REVENUES</b>	<b>8,435,553</b>	<b>(187,082)</b>	<b>-</b>	<b>8,248,471</b>
EXPENSES:				
Program services	6,813,692	-	-	6,813,692
Management and general	1,259,770	-	-	1,259,770
Fundraising	170,856	-	-	170,856
<b>TOTAL EXPENSES</b>	<b>8,244,318</b>	<b>-</b>	<b>-</b>	<b>8,244,318</b>
CHANGES IN NET ASSETS	191,235	(187,082)	-	4,153
NET ASSETS, Beginning of Year	1,750,066	514,857	70,500	2,335,423
Reclass of DMHS Operational Incentives Reserve	(177,382)	177,382	-	-
<b>NET ASSETS, End of Year</b>	<b>\$ 1,763,919</b>	<b>\$ 505,157</b>	<b>\$ 70,500</b>	<b>\$ 2,339,576</b>

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, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

2010

	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	\$ 1,125,157	\$ 1,059,780	\$ 243,736	\$ 389,046	\$ 305,857	\$ 130,559	\$ 294,914
Fringe benefits and payroll taxes	277,319	261,206	60,074	95,889	75,385	32,179	72,688
Therapists / consultants	-	-	-	-	-	195,411	-
Joint Program Consultants (UBHC)	-	-	-	-	-	-	221,263
Occupancy	67,845	124,583	14,529	20,053	-	2,418	13,770
Equipment rental and maintenance	24,204	45,521	19,760	8,107	-	10,651	12,843
Telephone	20,719	13,030	6,543	9,590	6,271	11,982	3,091
Supplies	8,334	31,855	2,165	7,033	231	35,437	6,021
Travel, transportation and conference	35,865	30,450	2,874	6,383	610	1,601	2,275
Insurance	37,513	25,314	6,523	7,469	1,540	713	11,143
Advertising	597	1,243	-	-	161	-	323
Professional fees	8,712	7,062	2,904	2,145	-	2,277	3,465
Food	-	54,588	-	-	-	-	-
Postage and printing	900	619	324	1,199	90	1,574	-
Mortgage interest	-	-	-	600	-	-	-
Subscriptions and publications	-	1,000	-	-	-	-	-
Data processing	8,408	7,365	2,195	435	-	1,041	1,095
Mental Health Association dues	-	-	-	-	-	-	-
Consumer assistance	7,932	2,995	1,598	1,082	420	-	4,199
Public awareness	5,478	5,478	5,478	5,478	5,478	5,478	5,478
Special events	-	-	-	-	-	-	-
Depreciation and amortization	45,990	47,637	11,806	3,707	-	-	-
Bad debts	6,950	2,317	-	-	-	-	-
Miscellaneous	113	372	-	-	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,682,036</b>	<b>\$ 1,722,415</b>	<b>\$ 380,509</b>	<b>\$ 558,216</b>	<b>\$ 396,043</b>	<b>\$ 431,321</b>	<b>\$ 652,568</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, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	2010				2009	
	Supportive Living Services	Center for Low Cost Psychotherapy	Total Program Services	Management and General	Fundraising	Total Combined
Salaries	\$ 290,179	\$ 201,647	\$ 4,040,875	\$ 811,096	\$ 81,442	\$ 5,081,828
Fringe benefits and payroll taxes	71,521	49,700	995,961	199,912	20,073	1,091,320
Therapists / consultants	-	6,600	202,011	-	-	183,965
Joint Program Consultants (UBHC)	-	-	221,263	-	-	293,468
Occupancy	166,630	3,929	413,757	29,319	-	446,083
Equipment rental and maintenance	11,305	7,671	140,062	41,309	2,929	148,888
Telephone	10,673	5,802	87,701	20,787	-	107,627
Supplies	41,644	982	133,702	9,295	1,537	96,532
Travel, transportation and conference	10,467	173	90,698	31,915	3,540	150,280
Insurance	9,571	1,183	100,969	4,492	-	116,780
Advertising	274	-	2,598	886	-	10,924
Professional fees	2,640	1,221	30,426	39,499	-	61,687
Food	-	-	54,588	-	-	53,839
Postage and printing	211	900	5,817	3,527	773	14,987
Mortgage interest	24,719	62	25,381	1,088	-	109,601
Subscriptions and publications	-	-	1,000	975	325	1,946
Data processing	255	1,617	22,411	3,183	-	25,339
Mental Health Association dues	-	-	-	9,357	-	15,896
Consumer assistance	5,830	-	24,056	-	-	18,406
Public awareness	5,478	5,478	49,302	-	-	28,149
Special events	-	-	-	-	59,816	103,831
Depreciation and amortization	52,095	-	161,235	28,143	-	182,535
Bad debts	-	-	9,267	-	-	-
Miscellaneous	127	-	612	24,987	421	16,029
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 703,619</b>	<b>\$ 286,965</b>	<b>\$ 6,813,692</b>	<b>\$ 1,259,770</b>	<b>\$ 170,856</b>	<b>\$ 8,244,318</b>
						<b>\$ 8,359,940</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,153	\$ (199,087)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	189,378	182,535
Provision for doubtful accounts	-	2,410
Unrealized (gain) loss on investments	(69,022)	99,173
Net (gain) loss on sale of securities	(269)	2,412
Change in assets:		
Receivables	77,806	81,132
Pledges receivable	(223)	(96,920)
Due from others	(103,282)	-
Deposits and prepaid expenses	(124,533)	(40,819)
Change in liabilities:		
Accounts payable and accrued expenses	(133,492)	87,405
Accrued payroll and related liabilities	4,458	12,014
Deferred support	(18,128)	(25,556)
Net Cash Provided by (Used in) Operating Activities	<u>(173,154)</u>	<u>104,699</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(554,234)	(565,311)
Proceeds from sale of investments	538,638	573,905
Purchase of property, plant and equipment, net of trade-in allowances	<u>(777,234)</u>	<u>(559,413)</u>
Net Cash Used in Investing Activities	<u>(792,830)</u>	<u>(550,819)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(1,106,000)	(396,083)
Borrowings on long-term debt	<u>1,989,991</u>	<u>772,126</u>
Net Cash Provided by Financing Activities	<u>883,991</u>	<u>376,043</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(81,993)	(70,077)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>127,522</u>	<u>197,599</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 45,529</u>	<u>\$ 127,522</u>
Supplemental Disclosure:		
Cash paid during the year for interest	\$ 26,469	\$ 30,790

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009

NOTE 1 - 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Accordingly

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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, 2009 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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

Intangible Assets and Property, Plant and Equipment

	<u>2010</u>	<u>2009</u>
Receivable in one year	\$ 192,893	\$ 153,690
Receivable in one to five years	<u>-</u>	<u>25,000</u>
Total pledges receivable	192,893	178,690
Less: allowance for doubtful accounts and discount to net present value	<u>(15,000)</u>	<u>(1,020)</u>
Net Pledges Receivable	<u>\$ 177,893</u>	<u>\$ 177,670</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2010 and 2009

NOTE 3 - INVESTMENTS:

Investments consisted of the following at June 30, 2010 and 2009:

<u>Description</u>	<u>Fair Value</u> <u>06/30/10</u>	<u>Quoted Prices:</u> <u>Level 1</u>
Money Market	\$ 98,484	\$ 98,484
Domestic and international equity funds	365,563	365,563
Bonds	<u>685,234</u>	<u>685,234</u>
Total	<u>\$ 1,149,281</u>	<u>\$ 1,149,281</u>

  

<u>Description</u>	<u>Fair Value</u> <u>06/30/09</u>	<u>Quoted Prices:</u> <u>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>

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

Investment Income

Investment income for June 30, 2010 and 2009 consisted of interest and dividend income of \$29,198 and \$51,495 and realized and unrealized gain (loss) on securities of \$69,291 and (\$101,585), respectively.

NOTE 4 - PLEDGES RECEIVABLE:

~~Pledges receivable as of June 30, 2010 and 2009 consisted of the following:~~

revenues are recognized when earned and expenses are recognized when incurred.

Financial Transactions

All transactions have been recorded and reported as unrestricted, temporarily restricted, or permanently restricted net assets:

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 represent those amounts which are donor-restricted for specific purposes. When a donor restriction expires, that is when

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010 and 2009

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,097,492	\$ 1,097,492
Building and improvements	3,020,789	2,329,715
Furniture and fixtures	157,380	109,652
Transportation equipment	493,689	541,282
Computer equipment	<u>82,624</u>	<u>79,624</u>
Total Property, Plant and Equipment	4,851,974	4,157,765
Less: accumulated depreciation	<u>1,120,909</u>	<u>1,014,778</u>
	<u>\$ 3,731,065</u>	<u>\$ 3,142,987</u>

Depreciation expense for the year ended June 30, 2010 and 2009 was \$189,156 and \$182,315, respectively.

NOTE 6 - INTANGIBLE ASSETS:

Intangible assets consisted of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Computer Software	\$ 14,696	\$ 14,696
Less: accumulated amortization	<u>4,918</u>	<u>4,696</u>
Total Intangible Assets	<u>\$ 9,778</u>	<u>\$ 10,000</u>

Amortization expense for the year ended June 30, 2010 and 2009 was \$222 and \$220, respectively.

NOTE 7 - LONG-TERM DEBT:

The following is a summary of long-term debt at June 30, 2010:

1. 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, 2010 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.
2. 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, 2010 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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2010 and 2009

NOTE 7 - LONG-TERM DEBT (CONTINUED):

3. 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, 2010 was \$200,000. 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.
4. 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, 2010 was \$80,000. 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.
5. 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, 2010 was \$418,377. The mortgage will be repayable only if the property does not remain available for very low income individuals for no less than 15 years.
6. 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, 2010 was \$110,000. The mortgage will be repayable only if the property does not remain available for very low income individuals for no less than 15 years.
7. Mortgage note payable to New Jersey Housing and Mortgage Finance Agency (HMFA) bearing no interest. The note is collateralized by land and building in Nutley, New Jersey. The balance as of June 30, 2010 was \$1,065,302. The mortgage will be repayable only if the property does not remain available for very low income individuals for no less than 15 years.
8. Mortgage note payable to New Jersey Housing and Mortgage Finance Agency (HMFA) bearing no interest. The note is collateralized by land and building in Nutley, New Jersey. The balance as of June 30, 2010 was \$200,000. The mortgage will be repayable only if the property does not remain available for very low income individuals for no less than 15 years.
9. 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, 2010 was \$110,000. 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.
10. The Association has a \$500,000 revolving line of credit bearing interest at 5% and expiring October 31, 2011. There were no borrowings as of June 30, 2010.

The total of all long-term debt, as described above, \$2,762,117, is expected to be repayable only if the properties do not remain available for very-low income eligible individuals for no less than 15-20 years.

NOTE 8 - 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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010 and 2009

NOTE 8 - DMHS OPERATIONAL INCENTIVES RESERVE (CONTINUED):

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>(217,158)</u>
 Total	 <u>\$ 79,300</u>

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

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were available for the following purposes as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Prospect House deficit funding	\$ 278,833	\$ 328,833
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	54,086	93,086
DMHS Operational Incentives Reserve	<u>79,300</u>	<u>-</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 505,157</u>	 <u>\$ 514,857</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:

	<u>2010</u>	<u>2009</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>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2010 and 2009

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the years ended June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Prospect House deficit funding	\$ 50,000	\$ 49,209
Supportive Housing (Drill Endowment)	39,000	60,000
DMHS Operational Incentives Reserve	<u>98,082</u>	<u>8,334</u>
Total Program Restrictions	<u>\$ 187,082</u>	<u>\$ 117,543</u>

NOTE 12 - ENDOWMENT FUNDS:

Board Designated Endowment

As of June 30, 2010, 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 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.



MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2010 and 2009

NOTE 12 - ENDOWMENT FUNDS (CONTINUED):

*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, 2010 and 2009 are as follows:

	2010		
	<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>
	2009		
	<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, 2010 and 2009

NOTE 12 - ENDOWMENT FUNDS (CONTINUED):

Changes in endowment net assets as of June 30, 2010 and 2009 are as follows:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets				
Beginning of year	\$ 246,731	\$ -	\$ 70,500	\$ 317,231
Investment Income	6,108	1,745	-	7,853
Net appreciation (depreciation)	14,495	4,141	-	18,636
Amounts appropriated for expenditure	(20,603)	(5,886)	-	(26,489)
Endowment net assets, End of year	<u>\$ 246,731</u>	<u>\$ -</u>	<u>\$ 70,500</u>	<u>\$ 317,231</u>
	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets				
Beginning of year	\$ 246,731	\$ -	\$ 70,500	\$ 317,231
Investment Income	9,418	2,866	-	12,284
Net appreciation (depreciation)	(9,418)	(2,866)	-	(12,284)
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, End of year	<u>\$ 246,731</u>	<u>\$ -</u>	<u>\$ 70,500</u>	<u>\$ 317,231</u>

NOTE 13 - 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, 2010 and 2009 was \$143,018 and \$159,000, respectively.

NOTE 14 - 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 \$221,629 and \$228,663, 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, 2010 and 2009

NOTE 15 - 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 \$594,304 and \$574,150 in fiscal year 2010 and 2009, respectively, 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 16 - 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 \$451,626 and \$416,208 in fiscal year 2010 and 2009, respectively, from PCE, which is included in support.

NOTE 17 - 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 18 - 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 \$6,819 for the year ended June 30, 2010.

In 2010, the Association entered into a lease agreement for a facility located in East Orange. The facility is used in the Integrated Case Management Program and the Supported Employment Program. The lease period is from June 1, 2010 through May 31, 2013.

<u>Year Ending June 30,</u>	<u>Facilities</u>
2011	\$ 69,226
2012	70,610
2013	<u>65,911</u>
	<u>\$ 205,747</u>

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 leases other apartments for clients and additional office space as operating leases expire at various times during the year. Rent expense for facilities for the years ended June 30, 2010 and 2009 totaled \$87,422 and \$110,377 respectively. Equipment rental expense totaled \$82,225 and \$70,601, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010 and 2009

NOTE 19 - SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 25, 2010, 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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
For the Year Ended June 30, 2010

<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	\$ 105,791
U.S. Department of Health and Human Services Passed through State of New Jersey Department of Human Services Division of Mental Health Services Community Mental Health Services Block Grant Augmented Family Support Services	93.958	30209	436,077
U.S. Department of Health and Human Services Passed through County of Essex Division of Aging Older Americans Act Grant	93.044		46,662
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, 2010

<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:			
Supported Employment Program			
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	4,005,291
State of New Jersey Department of Community Affairs		2010-02110-0165-00	83,500
State of New Jersey Division of Mental Health Services:			
Passed through University Behavioral Health Care Jail Diversion Services Program		30209	220,000
State of New Jersey Department of Children and Families:			
Passed through Partnership for Children of Essex		10APGR	<u>451,611</u>
Total Expenditures of Federal and State Awards			<u>\$ 5,368,932</u>

