

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2011 AND 2010

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

JUNE 30, 2011 AND 2010

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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, 2011, and the related statements of activities and changes in net assets, 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 financial statements of Mental Health Association of Essex County, Inc. as of June 30, 2010 and for the year then ended, were audited by other auditors whose report dated October 25, 2010, expressed an unqualified opinion on those financial statements. The prior year summarized comparative information has been derived from Mental Health Association of Essex County, Inc.'s 2010 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 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 New Jersey, Inc. as of June 30, 2011, and the changes in its net assets and in its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note 2 to the financial statements, errors resulting in understatement of previously reported unrestricted net assets, and understatement of changes in net assets as of June 30, 2010 were discovered during the current year. Accordingly, the 2010 financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011 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 should be considered in 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 on pages 27 and 28 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.


Certified Public Accountants

Livingston, New Jersey
October 28, 2011

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

	June 30,	
	2011	2010*
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 104,790	\$ 45,529
Escrow and security deposits	183,534	164,574
Investments, current portion	1,405,023	1,149,281
Accounts receivable, net	84,017	152,902
Grants and contracts receivable	70,648	24,436
Pledges receivable, net	65,393	177,893
United Way receivable	-	527
Prepaid expenses	25,053	64,876
Total Current Assets	1,938,458	1,780,018
PROPERTY AND EQUIPMENT, Net	3,510,854	3,697,848
OTHER ASSETS:		
Intangible assets, net	4,667	9,778
Deferred financing costs, net	115,762	120,985
Construction in progress	165,989	114,865
Total Other Assets	286,418	245,628
Total Assets	\$ 5,735,730	\$ 5,723,494
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 68,592	\$ 28,592
Accounts payable and accrued expenses	165,682	179,312
Accrued payroll and related liabilities	355,163	302,837
Deferred revenue	-	24,000
Total Current Liabilities	589,437	534,741
LONG-TERM DEBT - Mortgages	2,583,246	2,611,838
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Board designated	246,731	246,731
Available for operations	1,692,716	1,754,527
Temporarily restricted:		
Donor restricted	495,942	425,857
DMHS Operational Incentives Reserve	57,158	79,300
Permanently restricted	70,500	70,500
Total Net Assets	2,563,047	2,576,915
Total Liabilities and Net Assets	\$ 5,735,730	\$ 5,723,494

* Restated - See Note 2.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	2011			2010*	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES, GAINS, AND SUPPORT					
Government grants and contracts:					
NJ Division of Mental Health Services	\$ 4,444,758	\$ -	\$ -	\$ 4,444,758	\$ 4,767,159
NJ Department of Community Affairs	42,537	-	-	42,537	173,752
Nutrition program	43,892	-	-	43,892	38,500
NJ Child Assault Prevention Programs	216,130	-	-	216,130	239,698
NJ Division of Children and Family Services	450,778	-	-	450,778	451,626
Essex County Office of Aging	54,162	-	-	54,162	48,053
Livingston Township	-	-	-	-	80,782
Essex County Housing and Community Development	9,500	-	-	9,500	9,550
East Orange Teens programs and CDBG	30,000	-	-	30,000	29,040
Total Support	5,291,757	-	-	5,291,757	5,838,160
Revenues:					
Medicaid, Medicare, Welfare and private insurance	1,847,351	-	-	1,847,351	1,835,650
Fees for service	64,105	-	-	64,105	29,129
Net realized and unrealized gains on investments	121,254	6,382	-	127,636	69,291
Interest and dividends	29,742	1,565	-	31,307	29,568
Rental income	46,556	-	-	46,556	13,800
Amortized income on mortgages	28,592	-	-	28,592	28,592
Other revenue	32,013	-	-	32,013	27,575
Total Revenues	2,169,613	7,947	-	2,177,560	2,033,605
Public Support:					
Contributions, membership dues, and bequests	18,876	198,356	-	217,232	172,460
Grants	-	-	-	-	19,000
United Way	25,361	-	-	25,361	18,625
Special events	183,677	-	-	183,677	195,213
Total Public Support	227,914	198,356	-	426,270	405,298
Net assets released from restrictions	158,360	(158,360)	-	-	-
Total Revenues, Gains and Support	7,689,284	47,943	-	7,895,587	8,277,063
EXPENSES:					
Program services	6,532,102	-	-	6,532,102	6,761,436
Supporting services:					
General and administrative	1,183,355	-	-	1,183,355	1,200,973
Fundraising	193,998	-	-	193,998	157,455
Total Expenses	7,909,455	-	-	7,909,455	8,119,864
CHANGES IN NET ASSETS	(61,811)	47,943	-	(13,868)	157,199
NET ASSETS - Beginning of year	2,001,258	505,157	70,500	2,576,915	2,419,716
NET ASSETS - End of year	\$ 1,939,447	\$ 553,100	\$ 70,500	\$ 2,563,047	\$ 2,576,915

* Restated - See Note 2.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	2011											2010*		
	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				
Salaries and wages	\$ 1,182,329	\$ 1,019,062	\$ 205,428	\$ 240,878	\$ 303,464	\$ 192,095	\$ 276,801	\$ 307,984	\$ 260,239	\$ 3,988,280	\$ 791,529	\$ 81,768	\$ 4,861,577	\$ 4,933,413
Payroll taxes and employee benefits	283,256	244,140	49,213	57,708	70,584	44,937	66,316	100,131	62,350	978,635	165,981	19,591	1,164,207	1,215,946
Therapists/consultants	-	91,129	-	-	-	206,819	-	7,150	3,400	308,498	-	-	308,498	202,011
Joint program consultants (UBHC)	-	-	-	-	-	-	-	-	-	-	-	-	-	221,263
Occupancy	66,043	99,347	8,326	11,822	-	4,920	14,030	166,338	9,706	380,532	28,612	-	409,144	443,076
Equipment rental and maintenance	4,951	21,740	6,337	4,077	-	4,077	-	952	4,226	46,360	14,781	-	61,141	174,064
Telephone	28,724	16,393	4,708	4,318	5,351	4,136	4,036	17,968	1,593	87,227	8,201	-	95,428	102,388
Supplies	8,218	25,227	3,506	5,397	-	4,734	3,754	48,643	3,588	103,067	9,698	2,816	115,581	91,382
Travel, transportation and conference	48,147	28,453	3,461	5,269	720	1,686	3,938	20,802	1,372	113,848	34,877	4,255	152,980	123,676
Insurance	30,985	18,474	5,895	7,142	-	2,344	13,038	5,850	1,836	85,564	13,322	-	98,886	105,461
Advertising and promotion	399	1,426	-	-	-	-	125	1,322	-	3,272	2,400	-	5,672	3,484
Professional fees	14,580	12,889	2,470	2,870	935	1,080	3,157	12,430	2,770	53,181	25,930	-	79,111	69,925
Food	-	60,127	-	-	-	-	-	-	-	60,127	-	-	60,127	54,588
Postage and printing	1,300	312	254	823	-	1,231	-	70	671	4,661	2,338	888	7,887	10,117
Subscriptions and publications	50	1,000	-	-	-	-	-	-	-	1,050	17,915	325	19,290	2,300
Data processing	12,896	15,453	3,641	1,527	-	5,571	1,547	7,322	1,253	49,210	15,485	2,030	66,725	25,594
Mental Health Association dues	-	-	-	-	-	-	-	-	-	-	13,887	-	13,887	9,357
Consumer assistance	8,832	9,013	1,276	1,319	170	-	2,340	2,833	-	25,783	-	-	25,783	24,056
Public awareness	1,863	1,863	1,863	1,863	-	1,863	-	-	1,862	11,177	-	-	11,177	13,911
Special events	810	810	810	810	-	810	810	810	810	6,480	-	81,125	87,605	95,207
Depreciation and amortization	37,880	55,930	3,642	7,507	-	3,808	6,888	95,247	3,808	214,710	24,761	-	239,471	189,378
Bad debts	2,500	2,500	-	-	-	-	-	-	-	5,000	-	-	5,000	9,267
Miscellaneous	3,689	629	-	-	-	-	-	1,026	96	5,440	13,638	1,200	20,278	-
Total Operating Expenses	\$ 1,737,452	\$ 1,725,917	\$ 300,830	\$ 353,330	\$ 381,224	\$ 480,111	\$ 396,780	\$ 796,878	\$ 359,580	\$ 6,532,102	\$ 1,183,355	\$ 193,998	\$ 7,909,455	\$ 8,119,864

* Restated - See Note 2.

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

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

	Year Ended June 30,	
	2011	2010*
CASH FLOWS PROVIDED BY (USED FOR):		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (13,868)	\$ 157,199
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	239,471	196,543
Reserves for bad debts	5,000	9,267
Net realized and unrealized gain on investments	(127,636)	(69,291)
Amortization of discounts on mortgages	(28,592)	-
Changes in certain assets and liabilities:		
Escrow and security deposits	(18,960)	(148,273)
Accounts receivable	63,885	(51,753)
Grants and contracts receivable	(46,212)	105,026
Pledges receivable	112,500	(223)
United Way receivable	527	15,266
Prepaid expenses	39,823	23,740
Deferred financing costs	-	(120,985)
Construction in progress	(51,124)	(114,865)
Accounts payable and accrued expenses	(13,627)	(133,492)
Accrued payroll and related liabilities	52,326	4,458
Deferred revenue	(24,000)	(18,128)
Net Cash Provided by (Used for) Operating Activities	<u>189,513</u>	<u>(145,511)</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	(42,146)	(683,190)
Proceeds from sale of investments	228,613	538,638
Purchases of investments	(356,719)	(554,234)
Net Cash Used for Investing Activities	<u>(170,252)</u>	<u>(698,786)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds of long-term debt	40,000	1,868,304
Repayment of long-term debt	-	(1,106,000)
Net Cash Provided by Financing Activities	<u>40,000</u>	<u>762,304</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,261	(81,993)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>45,529</u>	<u>127,522</u>
End of year	<u>\$ 104,790</u>	<u>\$ 45,529</u>

* Restated - See Note 2.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 - NATURE OF BUSINESS:

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 - RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS:

During the year ended June 30, 2011, the Association's management determined that they had not properly recorded capitalization of certain prior years' costs in connection with an ongoing capital project. Accordingly, net assets at July 1, 2009 have been adjusted to apply the corrections retrospectively.

The effect of the correction of net assets as of July 1, 2009 is as follows:

Net assets as previously reported, July 1, 2009	\$ 2,335,423
Adjustment to property and equipment	84,293
Net Assets as Restated, July 1, 2009	<u>\$ 2,419,716</u>

In addition, the Association has restated its previously issued financial statements for 2010 to reflect the correction of errors related to the treatment of (1) capitalization of certain expenses; and (2) amortization of mortgages that are forgivable at maturity.

The following reflects the changes to the financial statement line items:

	June 30, 2010	
	As Previously Reported	As Restated
Statement of Financial Position:		
Total Current Assets	\$1,796,499	\$1,709,518
Total Other Assets	80,278	245,628
Total Assets	5,607,842	5,723,494
Unrestricted Net Assets: Available for Operations	1,517,188	1,754,527
Total Net Assets	2,339,576	2,576,915
Total Liabilities and Net Assets	5,607,842	5,723,494

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 - RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS: (Continued)

	June 30, 2010	
	As	
	Previously	
	Reported	As Restated
<u>Statement of Activities and Changes in Net Assets:</u>		
Total Support and Revenue	\$8,248,471	\$8,277,063
Total Expenses	8,244,318	8,119,864
Changes in Net Assets	4,153	157,199
Net Assets, End of year	2,339,576	2,576,915
<u>Statement of Functional Expenses:</u>		
Total Operating Expenses	\$8,244,318	\$8,119,864
<u>Statement of Cash Flow:</u>		
Changes in Net Assets	\$ 4,153	\$ 157,199
Net Cash Used for Operating Activities	(173,154)	(145,511)
Net Cash Used for Investing Activities	(792,830)	(698,786)
Net Cash Provided by Financing Activities	883,991	762,304
Supplemental Disclosure:		
Cash paid during the year for interest	26,469	-

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Statement Presentation: (Continued)

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.

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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fair Value: (Continued)

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.

Accounts Receivable:

Accounts receivable represent amounts due from Medicaid. The amounts 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 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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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.

Property and Equipment:

Fixed assets are recorded at cost on the date of acquisition, or at the fair market value of the asset using Level 2 inputs, 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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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 \$12,388 and \$7,166 at June 31, 2011 and 2010, 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.

Advertising:

The Association expenses advertising costs as incurred. The purpose of advertising is to raise public awareness of mental health issues.

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.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes: (Continued)

The Association follows accounting 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 financial statement 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. No interest and penalties were recorded during the fiscal years ended 2011 and 2010. The tax years subject to audit by federal and state jurisdictions are the years ended June 30, 2008 and forward. At June 30, 2011 and 2010, there are no significant income tax uncertainties that are expected to have a material impact on the Association's financial statements.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2010 from which the summarized information was derived. See Note 2 for restatement of 2010 financial information.

Reclassifications:

Certain reclassifications have been made to the 2010 financial statements in order for them to conform to the 2011 financial statement presentation.

Subsequent Events:

The Association has evaluated events subsequent to the statement of financial position date as of June 30, 2011 through October 28, 2011, the date that the financial statements were available to be issued. The Association is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 4 - INVESTMENTS:

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.

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, 2011

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Money Market	\$ 169,255	\$ -	\$ -	\$ 169,255
Certificates of Deposit	-	265,939	-	265,939
Mutual Funds	609,618	-	-	609,618
Corporate Bonds	360,211	-	-	360,211
Investments at Fair Value	\$ 1,139,084	\$ 265,939	\$ -	\$ 1,405,023

FAIR VALUE MEASUREMENTS
AS OF JUNE 30, 2010

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Money Market	\$ 98,484	\$ -	\$ -	\$ 98,484
Mutual Funds	365,563	-	-	365,563
Corporate Bonds	685,234	-	-	685,234
Investments at Fair Value	\$ 1,149,281	\$ -	\$ -	\$ 1,149,281

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 4 - INVESTMENTS: (Continued)

The following schedule summarizes the mutual funds by strategy as of June 30, 2011:

Mutual Funds:	
Small & Large Value	54%
Large Growth	24%
Mid-Cap Growth	17%
US REIT Funds	5%
Total Mutual Funds	<u>100%</u>

NOTE 5 - PLEDGES RECEIVABLE:

Pledges receivable are as follows at June 30:

	<u>2011</u>	<u>2010</u>
Receivable in one year	\$ 85,393	\$ 192,893
Less: allowance for doubtful accounts and discount to net present value	<u>(20,000)</u>	<u>(15,000)</u>
Pledges Receivable, Net	<u>\$ 65,393</u>	<u>\$ 177,893</u>

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT:

Property and equipment are as follows at June 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,097,492	\$ 1,097,492
Building and improvements	2,987,573	2,987,572
Furniture and fixtures	179,522	157,380
Transportation equipment	513,689	493,689
Computer equipment	<u>82,624</u>	<u>82,624</u>
	4,860,900	4,818,757
Less: Accumulated depreciation	<u>1,350,046</u>	<u>1,120,909</u>
Property and Equipment, Net	<u>\$ 3,510,854</u>	<u>\$ 3,697,848</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$229,137 and \$189,156, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 7 - INTANGIBLE ASSETS:

Intangible assets are as follows at June 30:

	2011	2010
Computer Software	\$ 14,696	\$ 14,696
Less: Accumulated amortization	10,029	4,918
Total Intangible Assets	<u>\$ 4,667</u>	<u>\$ 9,778</u>

Amortization expense for the years ended June 30, 2011 and 2010 was \$5,111 and \$222 respectively.

NOTE 8 - LONG TERM DEBT:

Long-term debt is comprised of the following:

	June 30,	
	2011	2010
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.	153,040	162,132
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.	252,000	266,000

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 8 - LONG-TERM DEBT: (Continued)

	June 30,	
	2011	2010
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
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.	97,625	103,125
Mortgage note payable to the Corporation for Supportive Housing, bears interest at 6% and matures on October 31, 2011.	40,000	-
Total Long-Term Debt	2,651,838	2,640,430
Less: Current Maturities	68,592	28,592
Long-Term Debt, Net of Current Maturities	<u>\$ 2,583,246</u>	<u>\$ 2,611,838</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 8 - LONG-TERM DEBT: (Continued)

At June 30, 2011, the aggregate maturities of long-term debt are as follows:

<u>Year</u>	<u>Amount</u>
Amounts to be repaid in cash:	
2012	\$ 40,000
2013	-
2014	-
2015	-
2016	-
Thereafter	2,109,173
Debt to be forgiven over lives of loans	502,665
Total	<u>\$ 2,651,838</u>

NOTE 9 - 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 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, 2011 AND 2010

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are as follows at June 30:

	2011	2010
Prospect House deficit funding	\$ 250,558	\$ 278,833
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	54,086
Children psychiatric services	98,360	-
DMHS Operational Incentives Reserve	57,158	79,300
Total Temporarily Restricted Net Assets	<u>\$ 553,100</u>	<u>\$ 505,157</u>

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS:

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

	June 30,	
	2011	2010
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 12 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the years ended June 30, 2011 and 2010 as follows:

	2011	2010
Prospect House deficit funding	\$ 28,275	\$ 50,000
Supportive Housing (Drill Endowment)	-	39,000
School based/Safety net	99,996	-
Investment income (Endowment)	7,947	-
DMHS Operational Incentives Reserve	22,142	98,082
Total Program Restrictions	<u>\$ 158,360</u>	<u>\$ 187,082</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 13 - ENDOWMENT FUNDS:

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, 2011 AND 2010

NOTE 13 - 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, 2011 and 2010 are as follows:

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

	2010		Total Net Endowment Assets
	Unrestricted	Permanently Restricted	
Donor-Restricted Endowment Fund	\$ -	\$ 70,500	\$ 70,500

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 13 - ENDOWMENT FUNDS: (Continued)

Changes in Endowment Net Assets:

For the fiscal year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

For the fiscal year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 70,500	\$ 70,500
Investment return:				
Investment income	-	1,745	-	8,671
Net appreciation (realized and unrealized)	-	4,141	-	16,636
Total Investment Return	-	5,886	-	25,307
Contributions	-	-	-	-
Appropriation for expenditure	-	(5,886)	-	-
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, 2011 AND 2010

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 up to 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, 2011 and 2010 was \$137,587 and \$143,018, respectively.

NOTE 15 - 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 \$202,468 and \$221,629, 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 16 - JAIL DIVERSION SERVICES PROGRAM:

The Association began working in the Essex County Jail in fiscal year 2006. The Association receives payment from the State of New Jersey Department of Human Services, Division of Mental Health Services and subcontracted psychiatric screening services at the jail to University Behavioral Healthcare. The purpose of the screening was to identify misdemeanor offenders who would benefit from mental health services as opposed to incarceration.

The funding for this program was partially cut for fiscal 2011 and the Association ended its relationship with University Behavioral Healthcare as of June 30, 2010.

The Association continues to have its staff at the Essex County Jail to work with incarcerated individuals in order to get them necessary treatment. Upon discharge, our staff works to get them linked to both housing and mental health services in order to reduce the rate of recidivism. The Association received \$441,391 and \$594,304 in fiscal years 2011 and 2010, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 17 - 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 \$450,778 and \$451,626 in fiscal years 2011 and 2010, respectively, from PCE, which is included in support.

NOTE 18 - CONCENTRATIONS OF RISKS:

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% and 71% of the Association's revenue for the years ended June 30, 2011 and 2010, respectively, 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, 2011 AND 2010

NOTE 19 - COMMITMENTS AND CONTINGENCIES:

The Association is involved with certain claims 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 \$7,116 and \$6,819 for the years ended June 30, 2011 and 2010, respectively.

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. 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 this lease, the Association is charged a base rent of approximately \$800 a month. The Association is also responsible 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>	
2012	\$ 128,784
2013	98,619
2014	10,112
2015	2,940
	<u>\$ 240,455</u>

Rent expense for facilities for the years ended June 30, 2011 and 2010 totaled \$179,787 and \$170,272, respectively. Equipment rental expense for fiscal 2011 and 2010 totaled \$63,321 and \$82,225, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 20 - LINE OF CREDIT:

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, 2011 and 2010, 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, 2011.)

NOTE 21 - TAX RETURNS:

At June 30, 2011 and 2010, all required tax returns have been filed.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
SCHEDULE OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Award Period	Program Award Amount	Outstanding Loan Balance	Expenditures
<u>Federal Awards</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	7/1/10 - 6/30/11	\$ 64,791	-	\$ 64,791
U.S. Department of Housing and Urban Development Passed through City of East Orange Community Development Block Grant	14.218		7/1/10 - 6/30/11	30,000	-	30,000
Passed through County of Essex		B-10-UC-34-0101	7/1/10 - 6/30/11	9,500	-	9,500
U.S. Department of Health and Human Services Passed through County of Essex Division of Aging Older Americans Act	93.044		1/1/10 - 12/31/10 1/1/11 - 12/31/11	54,162 54,162	- -	27,081 27,081
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	7/1/10 - 6/30/11	399,594	-	399,594 *
Total Federal Awards				612,209	-	558,047

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
SCHEDULE OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Award Period	Program Award Amount	Outstanding Loan Balance	Expenditures
<u>State Awards</u>						
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	7/1/10 - 6/30/11	4,010,373	-	4,010,373 *
New Jersey Department of Children and Families						
Passed through Partnership for Children of Essex	N/A	11APGR	7/1/10 - 6/30/11	450,778	-	450,778 *
Passed through New Jersey Child Assault Prevention			7/1/10 - 6/30/11	216,130	-	216,130
New Jersey Department of Community Affairs						
HUD Shelter Plus Care	N/A		7/1/10 - 6/30/11	42,537	-	42,537
New Jersey Division of Food and Nutrition						
Adult Care Food				43,892	-	43,892
New Jersey Housing & Mortgage Finance Agency						
NJHMFA	N/A		11/24/08 - 6/30/11	2,190,287	2,190,287	14,693
Total State Awards				6,953,997	2,190,287	4,778,403
Total Federal and State Awards				\$ 7,566,206	\$ 2,190,287	\$ 5,336,450

* 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, 2011

NOTE 1 - BASIS OF PRESENTATION:

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 OMB 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.

INDEPENDENT AUDITORS REPORT 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
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, 2011, and have issued our report thereon dated October 28, 2011. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness. A material weakness (Item 11-01) is described in the accompanying schedule of findings and questioned costs and is presented on Page 36.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. Material weakness (Item 11-01) is described in the accompanying schedule of findings and questioned costs and is presented on Page 36.

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*.

We noted certain matters that we reported to management of the Association in a separate letter dated October 28, 2011.

The Association's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Board of Directors, Management 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 28, 2011

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

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

Compliance

We have audited Mental Health Association of Essex County, Inc.'s (the "Association") compliance 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 are applicable to each of its major federal and state programs for the year ended June 30, 2011. The Association'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 referred to above 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; 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 04-04. Those standards and OMB Circular A-133 and NJOMB Circular 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 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2011.

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 grant 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 a major federal or state program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and NJOMB Circular 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 over compliance 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 federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal and state 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 that might be deficiencies, 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, 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 28, 2011

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

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? X Yes 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
JUNE 30, 2011

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

No

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

A financial statement finding is noted in the Schedule of Findings and Questioned Costs as Item 11-01 on Page 36.

III. STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Item 10-1 Financial Statements

Condition identified: The Association did not properly record a complex financial transaction during the 2010 fiscal year.

Current status: Corrective action plan was not prepared in prior year. A similar finding Item 11-01 was noted in current audit.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

FINDING - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

11-01 Correction of Account Errors

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

Cause: Management does not have an adequate level of accounting expertise to properly ensure that difficult and complex accounting transactions are properly recorded.

Recommendation: We recommend management to consult with outside consultants to ensure difficult and complex transactions are recorded properly.

Auditee Response
And Corrective

Action Plan: Management will consult with the audit firm on the proper recording of any complex financial transaction(s) prior to the issuance of financial statements.