

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

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2016 AND 2015



**SOBEL & CO. LLC**

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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

JUNE 30, 2016 AND 2015

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Mental Health Association of Essex County, Inc. ("Association"), a New Jersey nonprofit organization, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 of America. These 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditors consider internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## ***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, 2016, 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.

## ***Report on Summarized Comparative Information***

We have previously audited the Association's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Other Matters***

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, shown on pages 28 and 29, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Association's internal control over financial reporting and compliance.

  
Certified Public Accountants

Livingston, New Jersey  
October 24, 2016

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
(With Comparative Amounts for June 30, 2015)

	June 30,	
	2016	2015
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 62,085	\$ 47,031
Escrow and security deposits	361,274	349,464
Investments	765,148	1,121,783
Accounts receivable	173,422	182,199
Grants and contracts receivable	54,388	38,346
Pledges receivable, net	69,293	28,839
Prepaid expenses	59,016	31,664
Total Current Assets	<u>1,544,626</u>	<u>1,799,326</u>
PROPERTY AND EQUIPMENT, Net	<u>6,793,502</u>	<u>6,861,083</u>
OTHER ASSETS:		
Intangible assets, net	7,212	11,397
Deferred financing costs, net	178,191	186,753
Total Other Assets	<u>185,403</u>	<u>198,150</u>
Total Assets	<u>\$ 8,523,531</u>	<u>\$ 8,858,559</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 115,360	\$ 115,360
Accounts payable and accrued expenses	473,233	336,877
Accrued payroll and related liabilities	309,977	446,573
Line of credit	246,000	150,000
Deferred revenue	4,716	-
Total Current Liabilities	<u>1,149,286</u>	<u>1,048,810</u>
LONG-TERM DEBT - Mortgages	<u>5,470,759</u>	<u>5,586,117</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Board-designated	246,731	246,731
Available for operations	1,356,070	1,631,299
Temporarily restricted:		
Donor-restricted	230,185	275,102
Permanently restricted	70,500	70,500
Total Net Assets	<u>1,903,486</u>	<u>2,223,632</u>
Total Liabilities and Net Assets	<u>\$ 8,523,531</u>	<u>\$ 8,858,559</u>

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

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2016**  
(With Summarized Comparative Totals for the Year Ended June 30, 2015)

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2016 Total</b>	<b>2015 Total</b>
<b>REVENUES, GAINS, AND SUPPORT:</b>					
Government grants and contracts:					
NJ Division of Mental Health Services	\$ 4,340,246	\$ -	\$ -	\$ 4,340,246	\$ 4,619,083
Nutrition Program	51,907	-	-	51,907	52,508
NJ Child Assault Prevention Program	82,652	-	-	82,652	188,115
Essex County Housing and Community Development	9,875	-	-	9,875	9,875
Community Development Block Grant	10,000	-	-	10,000	10,000
Total Support	4,494,680	-	-	4,494,680	4,879,581
Revenues:					
Medicaid, Medicare, Welfare and private insurance	2,482,270	-	-	2,482,270	2,491,081
Fees for service	23,735	-	-	23,735	25,491
Net realized and unrealized loss on investments	(29,929)	(99)	-	(30,028)	(14,916)
Interest and dividends	25,141	3,144	-	28,285	33,158
Rental income	221,359	-	-	221,359	190,271
Amortized income on mortgages	111,096	-	-	111,096	111,096
Other revenue	37,242	1,000	-	38,242	74,720
Total Revenues	2,870,914	4,045	-	2,874,959	2,910,901
Public Support:					
Contributions, membership dues, and bequests	20,963	73,196	-	94,159	120,303
Grants	13,223	298,982	-	312,205	79,243
United Way	3,991	-	-	3,991	26,560
Special events	164,920	3,825	-	168,745	163,319
Total Public Support	203,097	376,003	-	579,100	389,425
Net assets released from restrictions	424,965	(424,965)	-	-	-
Total Revenues, Gains and Support	7,993,656	(44,917)	-	7,948,739	8,179,907

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

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)**  
**YEAR ENDED JUNE 30, 2016**  
**(With Summarized Comparative Totals for the Year Ended June 30, 2015)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2016 Total</b>	<b>2015 Total</b>
EXPENSES:					
Program services	6,915,009	-	-	6,915,009	6,830,256
Supporting services:					
Management and general	1,145,473	-	-	1,145,473	1,249,463
Fundraising	208,403	-	-	208,403	207,934
Total Expenses	<u>8,268,885</u>	<u>-</u>	<u>-</u>	<u>8,268,885</u>	<u>8,287,653</u>
CHANGES IN NET ASSETS	(275,229)	(44,917)	-	(320,146)	(107,746)
NET ASSETS - Beginning of year	<u>1,878,030</u>	<u>275,102</u>	<u>70,500</u>	<u>2,223,632</u>	<u>2,331,378</u>
NET ASSETS - End of year	<u>\$ 1,602,801</u>	<u>\$ 230,185</u>	<u>\$ 70,500</u>	<u>\$ 1,903,486</u>	<u>\$ 2,223,632</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2016**  
**(With Summarized Comparative Totals for the Year Ended June 30, 2015)**

	Program Services											Management and General	Fundraising	2016 Total	2015 Total
	Integrated Case Management Service Program	Prospect House Program	Supported Employment Programs	Family Support Programs	Youth Programs	Criminal Justice/ Jail Diversion Program	Supportive Living Services	Center for Low Cost Psychotherapy	RCC	AOTS	Total Program Services				
Salaries and wages	\$ 910,014	\$ 1,047,137	\$ 180,257	\$ 221,193	\$ 130,570	\$ 249,020	\$ 705,761	\$ 333,686	\$ 139,542	\$ 368,442	\$ 4,285,622	\$ 728,559	\$ 95,966	\$ 5,110,147	\$ 4,771,362
Payroll taxes and employee benefits	224,689	258,545	44,507	54,614	32,239	61,485	174,257	82,390	34,454	90,970	1,058,150	179,886	23,695	1,261,731	1,274,962
Therapists/consultants	-	93,981	-	-	78,187	-	7,838	6,540	-	-	186,546	-	-	186,546	280,625
Occupancy	73,790	77,708	8,302	9,449	4,573	-	129,058	11,942	-	23,633	338,455	26,514	-	364,969	559,121
Equipment rental and maintenance	7,181	14,057	5,852	5,882	404	5,434	6,267	5,420	-	5,975	56,472	6,428	-	62,900	61,047
Telephone	22,937	15,092	4,339	4,424	1,559	4,677	22,238	2,672	-	7,130	85,068	8,457	-	93,525	87,370
Supplies	10,336	49,360	2,864	11,068	4,331	5,080	34,751	7,820	3,592	7,255	136,457	20,910	3,850	161,217	137,547
Travel, transportation and conference	31,169	33,089	3,138	3,132	2,314	9,932	24,318	1,209	-	11,825	120,126	27,007	6,948	154,081	176,880
Insurance	42,617	27,675	6,506	8,293	3,361	6,506	10,875	2,646	-	6,533	115,012	22,504	-	137,516	129,083
Advertising and promotion	293	624	-	-	-	-	1,016	-	-	118	2,051	1,500	-	3,551	6,792
Professional fees	13,689	16,937	2,757	2,626	7,961	3,283	7,861	4,923	-	3,283	63,320	13,392	-	76,712	165,940
Food	-	83,820	-	-	-	-	-	-	-	-	83,820	-	-	83,820	86,160
Postage and printing	900	800	-	588	1,028	-	82	606	-	-	4,004	2,224	320	6,548	7,143
Subscriptions and publications	432	1,432	777	377	-	-	487	513	-	411	4,429	5,565	380	10,374	14,009
Information technology	13,440	19,005	2,585	1,494	6,274	1,669	9,745	2,622	-	2,304	59,138	31,260	6,376	96,774	95,580
Mental Health Association dues	-	-	-	-	-	-	-	-	-	-	-	9,620	-	9,620	9,618
Consumer assistance	5,566	9,155	200	624	-	1,093	6,258	-	-	7,660	30,556	-	-	30,556	34,925
Public awareness	3,352	3,352	3,351	3,351	3,351	3,351	3,352	3,351	3,351	3,351	33,513	-	186	33,699	34,394
Special events	-	-	-	-	-	-	-	-	-	-	-	-	70,642	70,642	69,258
Depreciation and amortization	25,078	35,952	4,691	4,691	1,294	5,174	154,243	1,294	1,686	9,899	244,002	38,088	-	282,090	263,341
Minor equipment	-	-	-	-	-	-	1,605	338	-	68	2,011	494	-	2,505	1,028
Interest	-	-	-	-	-	-	-	-	-	-	-	8,519	-	8,519	7,035
Miscellaneous	60	1,122	14	862	20	-	2,675	1,150	-	354	6,257	14,546	40	20,843	14,433
<b>Total Operating Expenses</b>	<b>\$ 1,385,543</b>	<b>\$ 1,788,843</b>	<b>\$ 270,140</b>	<b>\$ 332,668</b>	<b>\$ 277,466</b>	<b>\$ 356,704</b>	<b>\$ 1,302,687</b>	<b>\$ 469,122</b>	<b>\$ 182,625</b>	<b>\$ 549,211</b>	<b>\$ 6,915,009</b>	<b>\$ 1,145,473</b>	<b>\$ 208,403</b>	<b>\$ 8,268,885</b>	<b>\$ 8,287,653</b>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS**  
(With Comparative Amounts for June 30, 2015)

	<b>Year Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS (USED FOR) PROVIDED BY:</b>		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (320,146)	\$ (107,746)
Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	282,090	263,341
Net realized and unrealized loss on investments	30,028	14,916
Loss on sale of fixed assets	11,896	3,984
Amortized income on mortgages	(111,096)	(111,096)
Changes in certain assets and liabilities:		
Escrow and security deposits	(11,810)	6,104
Accounts receivable	8,777	(37,816)
Grants and contracts receivable	(16,042)	122,194
Pledges receivable	(40,454)	18,111
Prepaid expenses	(27,352)	(5,381)
Accounts payable and accrued expenses	136,356	5,053
Accrued payroll and related liabilities	(136,596)	(3,460)
Deferred revenue	4,716	(4,091)
Net Cash (Used For) Provided by Operating Activities	<u>(189,633)</u>	<u>164,113</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	(213,658)	(202,879)
Proceeds from sale of investments	618,355	221,444
Purchases of investments	(291,748)	(133,432)
Net Cash Provided by (Used for) Investing Activities	<u>112,949</u>	<u>(114,867)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds from line of credit	396,000	150,000
Repayment of line of credit	(300,000)	(545,000)
Proceeds from long-term debt	-	150,295
Repayment of long-term debt	(4,262)	(1,068)
Net Cash Provided by (Used for) Financing Activities	<u>91,738</u>	<u>(245,773)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>15,054</b>	<b>(196,527)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>47,031</u>	<u>243,558</u>
End of year	<u>\$ 62,085</u>	<u>\$ 47,031</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash paid for interest	<u>\$ 8,519</u>	<u>\$ 7,035</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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**NOTE 1 - NATURE OF ORGANIZATION:**

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

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

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***Basis of Accounting:***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

***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 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 the Association and include those expendable resources which have been designated for special use by the Board of Directors.

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

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

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

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

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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***Cash and Cash Equivalents:***

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

***Fair Value:***

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

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3:** Valuations based on unobservable inputs used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

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

The fair value of investments is summarized as follows:

Mutual funds – valued at the net asset value of shares held by the Association at year-end.

Fixed income funds – valued at closing price reported in the active or inactive market in which the bond or fund is traded.

Certificates of deposit – estimated using rates currently offered for deposits of similar remaining maturities.

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.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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***Investments:***

Investment income is presented net of investment advisory/management fees and is reflected as realized and unrealized loss on investments in the accompanying 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.

Investment expenses of \$4,405 and \$5,785 for the years ended June 30, 2016 and 2015, respectively, are shown net of unrealized and realized loss in the accompanying statements of activities and changes in net assets.

***Accounts Receivable:***

Accounts receivable represents amounts due from Medicaid. The amounts are stated at the amount management expects to collect from outstanding balances based on historical trends. The Association charges uncollectible accounts receivable to operations when determined to be uncollectible.

***Grants and Contracts Receivable:***

Grants and contracts receivable is stated at the amount management expects to collect from outstanding balances. The Association charges uncollectible accounts receivable to operations when determined to be uncollectible.

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

***Pledges Receivable:***

Unconditional contributions pledged over more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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***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 government 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 noninterest-bearing or below-market-rate loans from government 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, 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 that increase the useful life of the assets are capitalized.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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***Advance for Improvements:***

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

***Deferred Financing Costs:***

Deferred financing costs represent costs incurred to obtain financing of certain properties. Amortization of those costs is provided using the straight-line method over the remaining term of the applicable indebtedness. Accumulated amortization amounted to \$50,192 and \$41,629 at June 30, 2016 and 2015, respectively.

***Revenue Recognition:***

Funds received from various federal, state and local agencies represent grants awarded to the Association 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 and included in accounts payable and accrued expenses.

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.

***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 allocates management and general expenses based upon analysis of time expended on various grants.

***Advertising:***

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

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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***Income Taxes:***

The Association is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Association follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Association's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Association's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the fiscal years ended 2015 and 2014. The tax years subject to audit by federal and state jurisdictions are the years ended June 30, 2013, and forward. At June 30, 2016 and 2015, there are no significant income tax uncertainties.

***Use of Estimates:***

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

***Endowment Funds:***

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

***Summarized Comparative Information:***

The financial statements include certain prior-year, summarized, comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2015, from which the summarized information was derived. In our report dated October 22, 2015, we expressed an unmodified opinion on those financial statements.

***Subsequent Events:***

The Association has evaluated events subsequent to the statement of financial position date as of June 30, 2016 through October 24, 2016, the date that the financial statements were available to be issued.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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**NOTE 3 - INVESTMENTS:**

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

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 funds, certificates of deposit, 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, 2016**

	<b><u>LEVEL 1</u></b>	<b><u>LEVEL 2</u></b>	<b><u>LEVEL 3</u></b>	<b><u>TOTAL</u></b>
Cash and cash equivalents	\$ 69,019	\$ -	\$ -	\$ 69,019
Certificates of deposit	-	320,931	-	320,931
Mutual funds	375,198	-	-	375,198
Investments at Fair Value	<u>\$ 444,217</u>	<u>\$ 320,931</u>	<u>\$ -</u>	<u>\$ 765,148</u>

**FAIR VALUE MEASUREMENTS**  
**AS OF JUNE 30, 2015**

	<b><u>LEVEL 1</u></b>	<b><u>LEVEL 2</u></b>	<b><u>LEVEL 3</u></b>	<b><u>TOTAL</u></b>
Cash and cash equivalents	\$ 125,552	\$ -	\$ -	\$ 125,552
Certificates of deposit	-	558,315	-	558,315
Mutual funds	437,916	-	-	437,916
Investments at Fair Value	<u>\$ 563,468</u>	<u>\$ 558,315</u>	<u>\$ -</u>	<u>\$ 1,121,783</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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Breakout of mutual funds by strategy or sector is as follows:

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Mutual funds:		
Small value	18%	22%
Large value	14%	17%
Foreign large value	9%	11%
Large blend	11%	13%
Small blend	8%	8%
World bond	21%	8%
Foreign small/mid-value	6%	7%
Other	13%	14%
Total	<u>100%</u>	<u>100%</u>

**NOTE 4 - PLEDGES RECEIVABLE:**

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	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Gross pledges receivable	\$ 70,000	\$ 30,000
Less: Discount	(707)	(1,161)
Net Pledges Receivable	<u>\$ 69,293</u>	<u>\$ 28,839</u>
Amounts due in:		
Less than one year	\$ 30,000	\$ 10,000
One to five years	39,293	18,839
Total Pledges Receivable	<u>\$ 69,293</u>	<u>\$ 28,839</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Land	\$ 2,073,191	\$ 2,073,191
Building and improvements	5,950,780	5,912,822
Furniture and fixtures	233,639	233,639
Transportation equipment	731,401	681,742
Computer equipment	91,083	91,083
	<u>9,080,094</u>	<u>8,992,477</u>
Less: Accumulated depreciation	2,286,592	2,131,394
Property and Equipment, Net	<u>\$ 6,793,502</u>	<u>\$ 6,861,083</u>

Depreciation expense for the years ended June 30, 2016 and 2015, was \$269,342 and \$250,593, respectively.

**NOTE 6 - INTANGIBLE ASSETS:**

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	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Computer software	\$ 35,620	\$ 35,620
Less: Accumulated amortization	28,408	24,223
Total Intangible Assets	<u>\$ 7,212</u>	<u>\$ 11,397</u>

Amortization expense for the years ended June 30, 2016 and 2015, was \$4,185 and \$4,185, respectively.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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**NOTE 7 - LONG-TERM DEBT:**

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	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Mortgage payable to New Jersey Housing and Mortgage Finance Agency (“NJHMFA”) due November 2023, bearing no interest. Principal to be repaid with 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 on Bay Avenue 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 on Bay Avenue in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven over the 20-year compliance period; scheduled to be completely forgiven at maturity.	107,562	116,658
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.	181,982	195,986
Mortgage payable to NJHMFA due October 2039, bearing no interest. Principal to be repaid with 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 on 16 <sup>th</sup> Street in Bloomfield, New Jersey, and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms.	528,377	528,377

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Mortgage payable to NJHMFA due October 2039, bearing no interest. Principal to be repaid with 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 on 16 <sup>th</sup> Street in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven in full over the 20-year compliance period.	70,143	75,639
Mortgage payable to NJHMFA due August 2042, bearing no interest. Principal to be repaid with 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 Montclair, New Jersey, and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms.	1,616,211	1,616,211
Mortgage payable to the Department of Housing and Urban Development due November 2030, bearing no interest. The note is collateralized by land and building in Montclair, New Jersey. The mortgage is scheduled to be forgiven over the 20-year compliance period; scheduled to be completely forgiven at maturity.	720,000	760,000
Mortgage payable to the county of Essex due July 2029, bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven over the 20-year compliance period; scheduled to be completely forgiven at maturity.	765,000	807,500

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Note payable to an auto finance agency, payments of \$355 per month, due March 2020, bearing no interest. The note is collateralized by a vehicle, with a net book value of approximately \$19,000. Imputed interest has not been calculated since, in the opinion of the Association's management, it is not material to these financial statements.	16,048	20,310
Total Long-term Debt	5,586,119	5,701,477
Less: Current maturities	115,360	115,360
Long-term Debt, Net of Current Maturities	<u>\$ 5,470,759</u>	<u>\$ 5,586,117</u>

At June 30, 2016, the aggregate maturities of long-term debt are as follows:

	<b>Year</b>	<b>Amount</b>
Amounts to be repaid:	2017	\$ 4,264
	2018	-
	2019	-
	2020	-
	2021	-
	Thereafter	<u>3,737,168</u>
Debt to be forgiven over lives of loans		<u>1,844,687</u>
Total		<u>\$ 5,586,119</u>

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Prospect House deficit funding	\$ 31,777	\$ 73,446
Mental health in "The School Program"	701	701
Educational activities	4,841	1,796
Prospect House consumer trips	47,851	60,441
Supportive housing	59,505	50,005
Children psychiatric services	65,510	58,713
Prospect House, partial care program	20,000	30,000
Total Temporarily Restricted Net Assets	<u>\$ 230,185</u>	<u>\$ 275,102</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Educational activities	\$ 25,000	\$ 25,000
General purposes	45,500	45,500
Total Permanently Restricted Net Assets	<u>\$ 70,500</u>	<u>\$ 70,500</u>

**NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS:**

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	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Prospect House deficit funding	\$ 41,669	\$ 36,881
Prospect House consumer trips	12,590	-
Investment income (endowment)	-	14
Mental health in "The School Program"	-	10,000
Children psychiatric services	61,724	57,017
Partners for Health Foundation	5,000	-
Educational activities	-	5,000
Prospect House, partial care programs	10,000	20,000
Vehicle purchases	-	30,000
Public awareness	-	10,000
Collaborative support programs	67,513	17,623
Child development	226,469	27,660
Total Program Restrictions	<u>\$ 424,965</u>	<u>\$ 214,195</u>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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**NOTE 11 - ENDOWMENT FUNDS:**

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**Donor-designated Endowment**

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

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 organization'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, 2016 AND 2015**

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**NOTE 11 - ENDOWMENT FUNDS: (Continued)**

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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's investment assets and allocation between asset classes. Strategies are managed so as not to expose the fund to unacceptable levels of risk.

Spending Policy

The Association has a policy of each year appropriating for distribution 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, 2016 and 2015, are as follows:

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total Net Endowment Assets</b>
Donor-restricted Endowment Fund	\$ -	\$ 70,500	\$ 70,500

  

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total Net Endowment Assets</b>
Donor-restricted Endowment Fund	\$ -	\$ 70,500	\$ 70,500

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 11 - ENDOWMENT FUNDS: (Continued)**

Changes in endowment net assets:

*For the fiscal year ended June 30, 2016:*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 70,500	\$ 70,500
Investment return:				
Investment income	-	3,144	-	3,144
Net depreciation (realized and unrealized)	-	(99)	-	(99)
Total Investment Return	(3,045)	3,045	-	-
Contributions	-	-	-	-
Appropriation for expenditure	3,045	(3,045)	-	-
Endowment Net Assets, End of year	\$ -	\$ -	\$ 70,500	\$ 70,500

*For the fiscal year ended June 30, 2015:*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 70,500	\$ 70,500
Investment return:				
Investment income	-	2,494	-	2,494
Net depreciation (realized and unrealized)	-	(2,480)	-	(2,480)
Total Investment Return	(14)	14	-	-
Contributions	-	-	-	-
Appropriation for expenditure	14	(14)	-	-
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, 2016 AND 2015**

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**NOTE 12 - PENSION PLANS:**

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The Association currently maintains a defined contribution profit-sharing plan. The Plan is open to all employees who meet certain eligibility requirements. Effective January 1, 2012, the Plan was changed to a Safe Harbor Plan. The Safe Harbor Plan provides up to a 4% match and discretionary employer contributions to be determined at year-end by the Board. Contribution expense for the fiscal years ended June 30, 2016 and 2015, was \$236,146 and \$223,158, respectively.

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**NOTE 13 - NEW JERSEY CHILD ASSAULT PREVENTION PROGRAM:**

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As a participant in the New Jersey Child Assault Prevention Program (“NJCAP”), the Association receives the funds necessary to pay staff stipends and other expenses associated with the program. Advances are included in support, and disbursements are included in program expenses, currently \$78,081 and \$179,007, 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, a separate bank account is maintained for all program receipts and disbursements.

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**NOTE 14 - CONCENTRATIONS OF RISKS:**

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

The Association receives the majority of its funding from various federal, state and local governmental agencies. The operations of the Association are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to changes that may occur because of inadequate funding with little notice to pay for the related costs, including the additional administrative burden, to comply with a change. In addition, under the terms of certain state of New Jersey grants, periodic audits of the grants are required. Such audits could result in claims against the Association for disallowed costs or noncompliance 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.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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**NOTE 14 - CONCENTRATIONS OF RISKS: (Continued)**

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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 does not expect that its support will be materially reduced.

Approximately 57% and 60% of the Association's revenue for the years ended June 30, 2016 and 2015, respectively, is from government grants and contracts.

The Association's receivables are concentrated with Medicaid and a significant amount of its debt financing is concentrated with governmental agencies. A considerable balance of the Association's investments is concentrated in mutual funds and certificates of deposit. The Association's exposure to concentrations of credit risk is limited by its policy of investing in diverse investments which can be easily converted to cash.

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**NOTE 15 - COMMITMENTS AND CONTINGENCIES:**

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***Legal:***

During fiscal 2015, the Association settled an employment issue arising in the normal course of operations in prior years. The outcome of such matter did not have a material adverse effect on the Association's financial position or results of operations.

***Contributions:***

The Association is committed to contributing to the support of the State and National Mental Health Associations. The Association has paid or accrued its commitment of \$9,600 for the years ended June 30, 2016 and 2015, respectively.

***Leases:***

The Association has a lease agreement for a facility located in East Orange, New Jersey, through May 31, 2019. 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, New Jersey, under month-to-month leases. Under these leases, the Association is charged base rent of approximately \$800, \$1,200 and \$1,400 a month for each lease. The Association is also responsible for security expenses and for all utilities metered to this rental space.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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**NOTE 15 - COMMITMENTS AND CONTINGENCIES: (Continued)**

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

Future minimum payments on these leases are as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2017	\$ 111,095
2018	66,743
2019	62,580
	<u>\$ 240,418</u>

Rent expense for facilities for the years ended June 30, 2016 and 2015, totaled \$157,430 and \$355,139, respectively. Equipment rental expense for fiscal 2016 and 2015, totaled \$62,900 and \$61,047, respectively.

**Grant Advances:**

The expenditures submitted under the state grants for 2012 through 2015 were reviewed by the New Jersey Division of Mental Health and Addiction Services who deemed amounts were overpaid at the end of the applicable contract year, and the Association was required to pay \$58,766, \$8,430, and \$106,240 for the years ended June 30, 2013, 2014, and 2015, respectively. These amounts were remitted during the year ended June 30, 2016 and reduced NJ Division of Mental Health Services revenues during the year ended June 30, 2016, in the accompanying statements of activities and changes in net assets.

In addition, the Association was notified in July 2016 that \$196,686 is due back to the state for the year ended June 30, 2012. This amount is accrued in accounts payable and accrued expenses as of June 30, 2016 and 2015, and did not affect revenue for the year ended June 30, 2016.

The Association has also estimated that approximately \$153,000 will be due back to the state for the year ended June 30, 2016, and they have included this accrual in accounts payable and accrued expenses in the accompanying statements of financial position. This amount has reduced NJ Division of Mental Health Services revenues for the year ended June 30, 2016, in the accompanying statements of activities and changes in net assets.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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**NOTE 16 - LINE OF CREDIT:**

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The Association has a revolving line of credit with a bank to fund temporary deficits in its working capital. On January 30, 2015, the available balance on this line of credit was increased from \$500,000 to \$750,000. The revolving line of credit renews annually. At June 30, 2016 and 2015, the Association has borrowings of \$246,000 and \$150,000 under the line, respectively. Interest on the line of credit is payable based on the prime rate as published by the financial institution, not to fall below 5%.

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**NOTE 17 - TAX RETURNS:**

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At June 30, 2016 and 2015, all required tax returns have been filed.

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED JUNE 30, 2016**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award Period	Program Award or Loan Amount	Loan Balance at Beginning of Year	Expenditures
<b><u>Federal Awards</u></b>						
U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration:						
Passed through state of New Jersey						
Department of Human Services						
Division of Mental Health and Addiction Services						
Block Grants for Community Mental Health Services	93.958	30209	7/1/15 - 6/30/16	\$ 453,590	\$ -	\$ 453,590
U.S. Department of Housing and Urban Development						
Supportive Housing	N/A		N/A	829,000	760,000	-
Passed through Essex County, New Jersey, Community						
Development Block Grant		R-2013-0076S	N/A	9,875	-	9,875
Passed through city of East Orange, Community						
Development Block Grant		N/A	N/A	10,000	-	10,000
<b>Total Federal Awards</b>				<b>\$ 1,302,465</b>	<b>\$ 760,000</b>	<b>\$ 473,465</b>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)**  
**YEAR ENDED JUNE 30, 2016**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award Period	Program Award or Loan Amount	Loan Balance at Beginning of Year	Expenditures
<b><u>State Awards</u></b>						
State of New Jersey - Division of Mental Health and Addiction Services:						
Supported Employment Program						
Involuntary Outpatient Commitment						
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	7/1/15 - 6/30/16	\$ 4,239,436	\$ -	\$ 4,056,276
Passed through New Jersey Child Assault Prevention			7/1/15 - 6/30/16	78,081	-	78,081
New Jersey Department of Community Affairs						
SRAP (State Rental Assistance Program)	N/A		7/1/15 - 6/30/16	123,508	-	123,508
New Jersey Housing and Mortgage Finance Agency						
SRAP (State Rental Assistance Program)	N/A		7/1/15 - 6/30/16	34,508	-	34,508
New Jersey Division of Food and Nutrition						
Adult Care Food	N/A		7/1/15 - 6/30/16	51,228	-	51,228
New Jersey Housing and Mortgage Finance Agency						
NJHMFA	N/A		11/24/08 - 6/30/16	3,725,384	3,725,384	-
<b>Total State Awards</b>				<b>8,252,145</b>	<b>3,725,384</b>	<b>4,343,601</b>
<b>Total Federal and State Awards</b>				<b>\$ 9,554,610</b>	<b>\$ 4,485,384</b>	<b>\$ 4,817,066</b>

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AND STATE AWARDS**  
**YEAR ENDED JUNE 30, 2016**

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**NOTE 1 - BASIS OF PRESENTATION:**

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The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2 - SUBRECIPIENTS:**

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During the year ended June 30, 2016, the Association did not provide any funds relating to their federal or state programs to subrecipients.

**NOTE 3 - INDIRECT COSTS:**

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During the year ended June 30, 2016, the Association did not elect to use the de minimis cost rate when allocating indirect costs to its federal or state programs.

**NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:**

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As of June 30, 2016, \$720,000 was outstanding on the federal loan program. As of June 30, 2016, \$3,725,384 was outstanding on the state loan program.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Mental Health Association of Essex County, Inc. ("Association"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 24, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Association's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and on compliance and other matters, and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting, compliance, and other matters. Accordingly, this communication is not suitable for any other purpose.

  
Certified Public Accountants

Livingston, New Jersey  
October 24, 2016



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

### **Report on Compliance for Each Major Federal Program**

We have audited Mental Health Association of Essex County, Inc.'s ("Association") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* and the New Jersey Office of Management and Budget ("NJOMB") Circular Letter 15-08 that could have a direct and material effect on each of the Association's major federal and state programs for the year ended June 30, 2016. The Association's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Association's major programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and NJOMB Circular Letter 15-08. Those standards, the Uniform Guidance, and NJOMB Circular Letter 15-08 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 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 on compliance for each major program. However, our audit does not provide a legal determination of the Association's compliance.

### ***Opinion on Each Major Federal and State Program***

In our opinion, the Association complied, in all material respects, with the types of 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, 2016.

### ***Report on Internal Control Over Compliance***

Management of the Association is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and NJOMB Circular Letter 15-08, 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 and compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and NJOMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

  
Certified Public Accountants

Livingston, New Jersey  
October 24, 2016

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

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**I. Summary of Auditors' Results**

**Financial Statements**

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

Internal control over financial reporting:

- Material weaknesses identified? \_\_\_\_\_ Yes        X   No
- Significant deficiencies identified? \_\_\_\_\_ Yes        X   No

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

***Major Federal and State Awards***

Internal control over the major federal and state programs:

- Material weaknesses identified? \_\_\_\_\_ Yes        X   No
- Significant deficiencies identified? \_\_\_\_\_ Yes        X   No

Type of auditors' report issued on compliance for the major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance and NJOMB Circular Letter OMB 15-08? \_\_\_\_\_ 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 Health and Human Services, Substance Abuse and Mental Health Services Administration, passed through state of New Jersey Department of Human Services, Division of Mental Health and Addiction Services

Dollar threshold used to distinguish between type A and type B programs: \$750,000

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

**MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**YEAR ENDED JUNE 30, 2016**

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**II. Financial Statement Findings** NONE

**III. Compliance Findings** NONE

**IV. Follow-up of Prior-year Audit Findings** NONE