

**MENTAL HEALTH ASSOCIATION
OF ESSEX AND MORRIS, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2022
(With Comparative Totals for 2021)**



SobelCo
Certified Public Accountants & Advisors

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

JUNE 30, 2022 AND 2021

CONTENTS

| | <u>Page</u> |
|---|--------------------|
| Independent Auditors' Report | 1-3 |
| Financial Statements: | |
| Statements of Financial Position | 4 |
| Statement of Activities and Changes in Net Assets | 5 |
| Statement of Functional Expenses | 6 |
| Statements of Cash Flows | 7 |
| Notes to Financial Statements | 8-27 |
| Supplementary Information: | |
| Schedule of Expenditures of Federal and State Awards | 28-29 |
| Notes to Schedule of Expenditures of Federal and State Awards | 30 |
| 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 <i>Government Auditing Standards</i> | 31-32 |
| Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and New Jersey Office of Management and Budget Circular Letter 15-08 | 33-35 |
| Schedule of Findings and Questioned Costs | 36-37 |

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Mental Health Association of Essex and Morris, Inc. ("Association"), a New Jersey nonprofit organization, which comprise the statements of financial position as of June 30, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mental Health Association of Essex and Morris, Inc. as of June 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary 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 awards, shown on pages 29 and 30, 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 schedule of expenditures of federal awards 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, 2022, 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, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Association's 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.

Report on Summarized Comparative Information

We have previously audited the Association's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

Livingston, New Jersey
October 24, 2022

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
STATEMENTS OF FINANCIAL POSITION

| | June 30, | |
|---|----------------------|----------------------|
| | 2022 | 2021 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 3,142,555 | \$ 3,485,561 |
| Escrow and security deposits | 529,598 | 457,673 |
| Investments | 4,443,045 | 4,319,472 |
| Accounts receivable | 367,738 | 329,824 |
| Grants and contracts receivable | 1,396,583 | 379,724 |
| Charitable lead annuity trusts, current | 30,720 | 30,720 |
| Prepaid expenses and other assets | 201,113 | 210,884 |
| Total Current Assets | <u>10,111,352</u> | <u>9,213,858</u> |
| PROPERTY AND EQUIPMENT, Net | <u>6,658,467</u> | <u>6,595,477</u> |
| NONCURRENT ASSETS: | | |
| Charitable lead annuity trusts, noncurrent, net | 12,238 | 37,504 |
| Intangible assets, net | 56,630 | 57,558 |
| Total Noncurrent Assets | <u>68,868</u> | <u>95,062</u> |
| Total Assets | <u>\$ 16,838,687</u> | <u>\$ 15,904,397</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 122,652 | \$ 121,746 |
| Accounts payable and accrued expenses | 221,710 | 257,015 |
| Accrued payroll and related liabilities | 619,914 | 617,053 |
| State advances payable | 3,113,782 | 1,899,952 |
| Deferred revenue | 758,940 | 845,290 |
| Total Current Liabilities | <u>4,836,998</u> | <u>3,741,056</u> |
| LONG-TERM DEBT - Mortgages | | |
| Principal amount | 4,750,513 | 4,873,358 |
| Less: Unamortized debt issuance costs | 126,783 | 135,351 |
| Mortgage Notes Payable Less Unamortized Debt Issuance Costs | <u>4,623,730</u> | <u>4,738,007</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS: | | |
| Without donor-restrictions: | | |
| Available for operations | 6,879,875 | 6,878,598 |
| With donor-restrictions | 498,084 | 546,736 |
| Total Net Assets | <u>7,377,959</u> | <u>7,425,334</u> |
| Total Liabilities and Net Assets | <u>\$ 16,838,687</u> | <u>\$ 15,904,397</u> |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2022
(With Summarized, Comparative Totals for the Year Ended June 30, 2021)

| | Without Donor Restrictions | With Donor Restrictions | 2022 Total | 2021 Total |
|--|-------------------------------|----------------------------|---------------------|---------------------|
| REVENUES, GAINS, AND SUPPORT: | | | | |
| Government grants and contracts: | | | | |
| NJ Division of Mental Health Services and Other Government Support | \$ 6,834,240 | \$ - | \$ 6,834,240 | \$ 5,195,453 |
| Nutrition Program | 55,589 | - | 55,589 | 18,891 |
| NJ Child Assault Prevention Program | 108,159 | - | 108,159 | 73,922 |
| Essex County Housing and Community Development | 29,000 | - | 29,000 | 28,679 |
| Community Development Block Grant | 31,378 | - | 31,378 | 14,327 |
| Total Support | <u>7,058,366</u> | <u>-</u> | <u>7,058,366</u> | <u>5,331,272</u> |
| Revenues: | | | | |
| Medicaid, Medicare, Welfare and private insurance | 5,250,583 | - | 5,250,583 | 5,619,978 |
| Non-Medicaid (fee for service) | 1,394,515 | - | 1,394,515 | 1,591,547 |
| Managed Care Organization | 332,770 | - | 332,770 | 284,895 |
| Fees for service | 1,933 | - | 1,933 | 1,365 |
| Net realized and unrealized (loss) gain on investments | (510,246) | (60,412) | (570,658) | 339,134 |
| Interest and dividends | 182,872 | 16,475 | 199,347 | 51,675 |
| Rental income | 218,814 | - | 218,814 | 205,107 |
| Amortized income on mortgages | 111,096 | - | 111,096 | 111,096 |
| Other revenue | 41,644 | - | 41,644 | 1,840,113 |
| Total Revenues | <u>7,023,981</u> | <u>(43,937)</u> | <u>6,980,044</u> | <u>10,044,910</u> |
| Public Support: | | | | |
| Contributions and membership dues | 49,854 | - | 49,854 | 140,783 |
| Bequests and annuities | - | - | - | 1,196,300 |
| Grants | 563,857 | 132,833 | 696,690 | 799,314 |
| Special events | 165,345 | - | 165,345 | 87,086 |
| Total Public Support | <u>779,056</u> | <u>132,833</u> | <u>911,889</u> | <u>2,223,483</u> |
| Net assets released from restrictions | <u>137,548</u> | <u>(137,548)</u> | <u>-</u> | <u>-</u> |
| Total Revenues, Gains (Losses) and Support | <u>14,998,951</u> | <u>(48,652)</u> | <u>14,950,299</u> | <u>17,599,665</u> |
| EXPENSES: | | | | |
| Program services | 12,465,846 | - | 12,465,846 | 11,889,813 |
| Supporting services: | | | | |
| Management and general | 2,234,746 | - | 2,234,746 | 2,217,906 |
| Fundraising | 297,082 | - | 297,082 | 235,712 |
| Total Expenses | <u>14,997,674</u> | <u>-</u> | <u>14,997,674</u> | <u>14,343,431</u> |
| CHANGES IN NET ASSETS | 1,277 | (48,652) | (47,375) | 3,256,234 |
| NET ASSETS - Beginning of year | <u>6,878,598</u> | <u>546,736</u> | <u>7,425,334</u> | <u>4,169,100</u> |
| NET ASSETS - End of year | <u>\$ 6,879,875</u> | <u>\$ 498,084</u> | <u>\$ 7,377,959</u> | <u>\$ 7,425,334</u> |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022
(With Summarized, Comparative Totals for the Year Ended June 30, 2021)

| | Program Services | | | | | | | | | | | | | | | | | | Total 2022 | Total 2021 |
|---------------------------------------|--|------------------------|-------------------------------|-------------------------|-------------------|--|----------------------------|------------------------------|-------------------|-------------------|----------------------------|-------------------|------------------|------------------------|--------------------------|------------------------|------------------------|-------------------|----------------------|----------------------|
| | Integrated Case Management Service Program | Prospect House Program | Supported Employment Programs | Family Support Programs | Youth Programs | Criminal Justice/ Jail Diversion Program | Community Support Services | Center for Behavioral Health | RCC | AOT Programs | Homeless Services Programs | CECE Programs | EISS Programs | FEMA Crisis Counseling | Substance Abuse Programs | Total Program Services | Management and General | Fundraising | | |
| Salaries and wages | \$ 1,341,176 | \$ 874,808 | \$ 135,343 | \$ 339,943 | \$ 78,474 | \$ 506,094 | \$ 1,188,068 | \$ 266,817 | \$ 139,743 | \$ 475,755 | \$ 929,191 | \$ 337,085 | \$ 8,294 | \$ 144,068 | \$ 15,427 | \$ 6,780,286 | \$ 1,362,422 | \$ 168,820 | \$ 8,311,528 | \$ 8,081,564 |
| Payroll taxes and employee benefits | 390,263 | 254,556 | 39,383 | 98,918 | 22,835 | 147,266 | 345,710 | 77,640 | 40,663 | 138,438 | 270,381 | 98,087 | 2,413 | 41,922 | 4,489 | 1,972,964 | 396,445 | 49,124 | 2,418,533 | 2,607,575 |
| Therapists/consultants | 4,156 | 108,861 | - | - | 89,221 | - | 23,772 | - | - | 78,253 | 21,230 | - | 82 | - | 123 | 325,698 | - | - | 325,698 | 304,292 |
| Occupancy | 179,643 | 108,601 | 16,128 | 19,530 | 6,811 | 50,011 | 292,466 | 10,078 | - | 52,512 | 88,775 | 29,110 | 10,766 | - | - | 864,431 | 100,379 | 609 | 965,419 | 880,231 |
| Equipment rental and maintenance | 14,398 | 14,174 | 253 | 8,831 | 509 | 8,410 | 14,443 | 5,898 | - | 9,093 | 9,051 | 1,724 | 241 | - | - | 87,025 | 9,352 | - | 96,377 | 89,331 |
| Telephone | 33,198 | 16,542 | 2,857 | 12,037 | 1,827 | 6,729 | 41,568 | 7,043 | 888 | 14,080 | 18,946 | 5,144 | - | 120 | 125 | 161,104 | 22,050 | - | 183,154 | 215,466 |
| Supplies | 26,963 | 49,444 | 1,402 | 11,077 | 5,210 | 20,726 | 89,079 | 8,047 | 640 | 12,477 | 15,055 | 14,963 | - | 584 | 1,153 | 256,820 | 34,237 | 8,054 | 299,111 | 215,531 |
| Travel, transportation and conference | 75,766 | 41,894 | 3,710 | 3,348 | 884 | 20,981 | 82,117 | 1,016 | - | 20,754 | 41,597 | 23,815 | 130 | 473 | 419 | 316,904 | 39,031 | 3,269 | 359,204 | 325,281 |
| Insurance | 69,936 | 38,438 | 4,930 | 11,151 | 6,758 | 16,475 | 72,114 | 5,422 | - | 22,012 | 32,744 | 13,452 | - | - | - | 293,432 | 33,050 | - | 326,482 | 299,081 |
| Advertising and promotion | 6,925 | 2,562 | 563 | 112 | 787 | 4,821 | 4,708 | 1,644 | - | 5,259 | 8,813 | 3,162 | 1,182 | 55 | 1,267 | 41,860 | 994 | - | 42,854 | 11,496 |
| Professional fees | 23,223 | 32,969 | 2,780 | 7,467 | 44,060 | 10,513 | 20,496 | 7,256 | 32 | 10,534 | 15,384 | 90,612 | 1,265 | - | 20 | 266,611 | 41,665 | - | 308,276 | 225,010 |
| Food | - | 33,192 | - | - | - | - | - | - | - | - | - | - | - | - | - | 33,192 | - | - | 33,192 | 32,181 |
| Postage and printing | 670 | 1,464 | 42 | 337 | 382 | 353 | 672 | 328 | - | 246 | 339 | 272 | - | - | - | 5,105 | 1,540 | 769 | 7,414 | 5,700 |
| Subscriptions and publications | 1,067 | 2,400 | 52 | 260 | 150 | 481 | 2,940 | 1,260 | - | 1,251 | 727 | 745 | 630 | - | 1,318 | 13,281 | 11,443 | 710 | 25,434 | 23,057 |
| Information technology | 35,535 | 31,292 | 2,157 | 13,140 | 7,702 | 21,631 | 28,828 | 10,944 | 6 | 16,338 | 19,609 | 7,293 | 2,867 | - | 4 | 197,346 | 67,962 | 17,400 | 282,708 | 174,803 |
| Mental Health Association dues | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 12,368 | - | 12,368 | 12,110 |
| Consumer assistance | 9,739 | 9,859 | 2,023 | 667 | - | 5,566 | 65,564 | 534 | - | 7,155 | 118,736 | 2,480 | - | - | 26 | 222,349 | - | - | 222,349 | 174,269 |
| Public awareness | 4,502 | 4,502 | 4,502 | 4,502 | 4,502 | 4,502 | 4,502 | 4,502 | 5,007 | 4,502 | 4,502 | 108,860 | - | 53,477 | 297 | 212,661 | - | - | 212,661 | 199,498 |
| Special events | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 48,327 | 48,327 | 3,031 |
| Depreciation and amortization | 37,369 | 56,054 | 4,671 | 4,671 | 1,868 | 4,671 | 247,572 | 1,401 | 2,803 | 14,948 | 23,356 | 4,671 | - | - | - | 404,055 | 63,061 | - | 467,116 | 435,940 |
| Minor equipment | 2,790 | 84 | 607 | 881 | - | 936 | 386 | 797 | - | 905 | 252 | 84 | - | - | - | 7,722 | 1,299 | - | 9,021 | 3,822 |
| Interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 9,501 | - | 9,501 | 10,437 |
| Miscellaneous | 432 | 163 | 163 | 319 | - | 325 | 326 | 163 | - | 493 | 353 | 263 | - | - | - | 3,000 | 27,947 | - | 30,947 | 13,725 |
| Total Operating Expenses | \$ 2,257,751 | \$ 1,681,859 | \$ 221,566 | \$ 537,191 | \$ 271,980 | \$ 830,491 | \$ 2,525,331 | \$ 410,790 | \$ 189,782 | \$ 885,005 | \$ 1,619,041 | \$ 741,822 | \$ 27,870 | \$ 240,699 | \$ 24,668 | \$ 12,465,846 | \$ 2,234,746 | \$ 297,082 | \$ 14,997,674 | \$ 14,343,431 |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
STATEMENTS OF CASH FLOWS

| | Year Ended June 30, | |
|--|----------------------------|---------------------|
| | 2022 | 2021 |
| CASH FLOWS PROVIDED BY: | | |
| OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ (47,375) | \$ 3,256,234 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 467,116 | 435,941 |
| Noncash interest expense (amortization of debt issuance costs) | 8,568 | 8,568 |
| Net realized and unrealized losses (gains) on investments | 570,658 | (339,134) |
| Loss on disposal of fixed assets | 6,388 | - |
| Amortized income on mortgages | (111,096) | (111,096) |
| Changes in certain assets and liabilities: | | |
| Escrow and security deposits | (71,925) | (1,262) |
| Accounts receivable | (37,914) | 81,087 |
| Grants and contracts receivable | (1,016,859) | (138,331) |
| Charitable lead annuity trusts | 25,266 | 22,831 |
| Prepaid expenses | 9,771 | 4,908 |
| Accounts payable and accrued expenses | (35,305) | 12,933 |
| Accrued payroll and related liabilities | 2,861 | 80,863 |
| State advances payables | 1,213,830 | (607,858) |
| Refundable advance | - | (1,813,667) |
| Deferred revenue | (86,350) | 637,061 |
| Net Cash Provided by Operating Activities | <u>897,634</u> | <u>1,529,078</u> |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (535,566) | (369,932) |
| Proceeds from sale of investments | 10,316 | 566,977 |
| Purchases of investments | (704,547) | (2,641,383) |
| Net Cash Used for Investing Activities | <u>(1,229,797)</u> | <u>(2,444,338)</u> |
| FINANCING ACTIVITIES: | | |
| Payments on long term debt | (10,843) | (10,451) |
| Net Cash Used for Financing Activities | <u>(10,843)</u> | <u>(10,451)</u> |
| NET DECREASE IN CASH | (343,006) | (925,711) |
| CASH | | |
| Beginning of year | <u>3,485,561</u> | <u>4,411,272</u> |
| End of year | <u>\$ 3,142,555</u> | <u>\$ 3,485,561</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION: | | |
| Cash paid for interest | <u>\$ 9,501</u> | <u>\$ 10,437</u> |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 - NATURE OF ORGANIZATION:

The Mental Health Association of Essex and Morris, Inc. ("Association") is a nonprofit organization serving Essex, Morris, Sussex and Passaic Counties in New Jersey, 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:

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:

Net Assets without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions - 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 and other 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

In the absence of donor restrictions, 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 AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

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.

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

Bonds – valued using pricing models maximizing the use of observable inputs for similar securities.

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 AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Investments:

Investment income is presented net of investment advisory/management fees and is reflected as realized and unrealized gain (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.

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.

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 and changes in net assets 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.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

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 \$7,500 that increase the useful life of the assets are capitalized.

Although the title to all property and equipment is held by the Association, state funding sources may maintain an equitable interest in the property purchased with grant monies, as well as the right to determine the use of proceeds from the sale of those assets.

State Advances Payable:

State advances payable represents amounts due back to the state due to underspending on certain programs. The amount owed to the state as of June 30, 2022 and 2021, is \$3,113,782 and \$1,899,952, respectively, and is included on the accompanying statements of financial position.

Debt Issuance Costs:

Debt issuance costs are reported on the statement of financial position as a direct deduction from the face amount of the debt. The debt issuance costs are being amortized over the term of the debt on a method that approximates the interest method. The Association reflects amortization of debt issuance costs within interest expense.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

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 incurred expenditures are recorded as refundable advances, included in accounts payable and accrued expenses on the statements of financial position.

The Association also derives its revenue from Medicaid, Medicare, Welfare and private insurance, subject to the rules and regulations of the programs. Revenues are recognized when services are transferred to the Association's clients in an amount that reflects the consideration the Association expects to be entitled to in exchange for those services. For the performance obligation relating to Medicaid, Medicare, Welfare and private insurance, control transfers to the client over time as the services are provided to the client. Revenue under direct receipts for services are recognized based on agreed-upon hourly rates. There are no significant financing components or variable considerations provided to clients.

Functional Allocation of Expenses:

Program services, management and general, and fundraising expenses have been recorded in the statement of activities and changes in net assets and on the statement 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.

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.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Income Taxes: (Continued)

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 June 30, 2022 and 2021. There are no significant income tax uncertainties at June 30, 2022 and 2021.

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.

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.

Prior Year Summarized Comparative Information:

The financial statements include certain prior-year, summarized, comparative information in total, but not by net asset class or functional area. 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 fiscal year ended **June 30, 2021**, from which the summarized information was derived.

Recent Accounting Pronouncements:

The Financial Accounting Standards Board issued an accounting pronouncement, *Leases*, which requires lessees to recognize a right-of-use asset and lease liability on the statements of financial position for all leases with a term longer than 12 months. Under this new pronouncement, a modified retrospective transition approach or a cumulative-effect adjustment transition approach may be used, and the new standard is applied to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date, or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The standard is effective for annual periods beginning after December 15, 2021. The Organization is currently evaluating the effect the new standard will have on the financial statements.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Subsequent Events:

The Association has evaluated events subsequent to the statement of financial position date as of June 30, 2022 through October 24, 2022, the date that the financial statements were available to be issued.

Reclassification:

Certain amounts have been reclassified in the 2021 financial statements to conform to the 2022 presentation.

NOTE 3 - 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 permanently restricted net assets. 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.

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 MEASUREMENTS
AS OF June 30, 2022

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---------------------------|---------------------|---------------------|----------------|---------------------|
| Cash and cash equivalents | \$ 169,966 | \$ - | \$ - | \$ 169,966 |
| Certificates of deposit | - | 909,003 | - | 909,003 |
| Bonds | - | 1,260,297 | - | 1,260,297 |
| Mutual funds | 2,103,779 | - | - | 2,103,779 |
| Investments at Fair Value | <u>\$ 2,273,745</u> | <u>\$ 2,169,299</u> | <u>\$ -</u> | <u>\$ 4,443,045</u> |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 3 - INVESTMENTS: (Continued)

FAIR VALUE MEASUREMENTS
AS OF June 30, 2021

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---------------------------|---------------------|---------------------|----------------|---------------------|
| Cash and cash equivalents | \$ 424,731 | \$ - | \$ - | \$ 424,731 |
| Certificates of deposit | - | 636,921 | - | 636,921 |
| Bonds | - | 1,324,690 | - | 1,324,690 |
| Mutual funds | 1,933,130 | - | - | 1,933,130 |
| Investments at Fair Value | <u>\$ 2,357,861</u> | <u>\$ 1,961,611</u> | <u>\$ -</u> | <u>\$ 4,319,472</u> |

NOTE 4 - CHARITABLE LEAD ANNUITY TRUSTS:

In December 2016, the Association received two charitable lead annuity trusts. Under the 2016 agreements, the Association will receive monthly installments over a seven-year period. The present value of the Association's future interest in its charitable lead annuity trusts is summarized as follows as of June 30, 2022 and 2021:

| | 2022 | 2021 |
|--|------------------|------------------|
| Fair market value of assets to be received in less than one year | \$ 30,720 | \$ 30,720 |
| Fair market value of assets to be received in one to three years | 15,360 | 46,098 |
| Less: Discount to present value | (3,122) | (8,594) |
| Present Value of Future Interest | <u>\$ 42,958</u> | <u>\$ 68,224</u> |

The present value of the estimated future interest is calculated using the discount rate of 0.84% for June 30, 2022 and 2021, and applicable life expectancy tables. The present value of the charitable lead annuity trusts is included in the accompanying statements of financial position.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

| | June 30, | |
|--------------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Land | \$ 2,073,191 | \$ 2,073,191 |
| Building and improvements | 6,707,599 | 6,533,796 |
| Furniture and fixtures | 332,820 | 332,820 |
| Transportation equipment | 2,096,568 | 1,925,453 |
| Computer equipment | 104,013 | 104,013 |
| | <u>11,314,191</u> | <u>10,969,273</u> |
| Less: Accumulated depreciation | <u>4,655,724</u> | <u>4,373,796</u> |
| Property and Equipment, Net | <u>\$ 6,658,467</u> | <u>\$ 6,595,477</u> |

Depreciation expense for the years ended June 30, 2022 and 2021 was \$460,577 and \$433,397, respectively.

NOTE 6 - LONG-TERM DEBT:

| | June 30, | |
|---|-----------------|-------------|
| | 2022 | 2021 |
| 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. The loan is shown net of unamortized debt issuance costs of \$1,927 at June 30, 2022. | \$ 361,965 | \$ 360,069 |
| 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. | 52,986 | 62,082 |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 - LONG-TERM DEBT: (Continued)

| | June 30, | |
|---|-----------------|-------------|
| | 2022 | 2021 |
| 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. | 97,958 | 111,962 |
| 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 th 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. The loan is shown net of unamortized debt issuance costs of \$17,182 and \$18,202 at June 30, 2022 and 2021 , respectively. | 486,055 | 485,035 |
| 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. The loan is shown net of unamortized debt issuance costs of \$39,234 and \$41,539 at June 30, 2022 and 2021 , respectively. | 1,144,953 | 1,142,649 |
| Mortgage payable to the county of Essex due March 2029, bearing no interest. The note is collateralized by land and building on 16 th Street in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven in full over the 20-year compliance period. | 37,167 | 42,663 |
| 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. The loan is shown net of unamortized debt issuance costs of \$68,440 and \$71,787 at June 30, 2022 and 2021 , respectively. | 1,547,771 | 1,544,625 |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 - LONG-TERM DEBT: (Continued)

| | June 30, | |
|--|---------------------|---------------------|
| | 2022 | 2021 |
| 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. | 480,000 | 520,000 |
| 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. | 510,001 | 552,500 |
| Note payable to an auto finance agency, payments of \$446 per month, due June 2025, bearing no interest. The note is collateralized by a vehicle, with a net book value of approximately \$25,000. Imputed interest has not been calculated since, in the opinion of management, it is not material to these financial statements. | 16,031 | 21,398 |
| Note payable to an auto finance agency, payments of \$564 per month, due April 2024, bearing 7.34% interest. The note is collateralized by a vehicle, with a net book value of approximately \$17,000. Imputed interest has not been calculated since, in the opinion of the project's management, it is not material to these financial statements. | 11,495 | 16,770 |
| Total Long-term Debt, net of unamortized debt issuance costs | 4,746,382 | 4,859,753 |
| Less: Current maturities | 122,652 | 121,746 |
| Long-term Debt, Net of Current Maturities and Unamortized Debt Issuance Costs | <u>\$ 4,623,730</u> | <u>\$ 4,738,007</u> |

Amortization of debt issuance costs of approximately \$8,600 for the years ended June 30, 2022 and 2021, is reported on the statements of activities and changes in net assets as interest expense.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 - LONG-TERM DEBT: (Continued)

At June 30, 2022, the aggregate maturities of long-term debt are as follows:

| | <u>Year</u> | <u>Amount</u> |
|--|-------------|---------------------|
| | 2023 | \$ 122,652 |
| | 2024 | 121,728 |
| | 2025 | 116,443 |
| | 2026 | 111,096 |
| | 2027 | 111,096 |
| | Thereafter | <u>4,290,150</u> |
| | | 4,873,165 |
| Less: Unamortized debt issuance costs | | <u>126,783</u> |
| Long-term debt, net of unamortized debt issuance costs | | <u>\$ 4,746,382</u> |

NOTE 7 - REFUNDABLE ADVANCE:

The Association obtained a Paycheck Protection Program loan of \$1,813,667 in April 2020. The loan was to provide the Association with working capital for the purpose of maintaining employment levels and paying occupancy costs during a stay-at-home period ordered by the governor of New Jersey. Paycheck Protection Program loans may be forgiven in part or in whole if the borrower maintains its employee count, as well as salary levels, during a specified period.

The Association recorded the \$1,813,667 received as a conditional government grant and recognized revenue as expenses were incurred, which satisfied the conditions set forth by the U.S. Small Business Administration. The Association received forgiveness of \$1,770,253 from the Small Business Administration on February 22, 2021. This revenue is reflected within other revenue on the accompanying statement of activities and changes in net assets in 2021. The remaining amount of \$43,414 was paid back to the Small Business Administration during the year ended June 30, 2021.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS:

| | June 30, | |
|--|-------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Net Assets with Donor Restrictions: | | |
| Restricted due to time or use | \$ 435,626 | \$ 476,487 |
| Restricted in perpetuity - endowment | 62,458 | 70,249 |
| Total Net Assets with Donor Restrictions | <u>\$ 498,084</u> | <u>\$ 546,736</u> |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS: (Continued)

Net assets released from restrictions were \$137,548 and \$168,852 for the years ended June 30, 2022 and 2021, respectively.

NOTE 9 - ENDOWMENT FUNDS:

Donor-designated Endowment:

The Association's endowment consists of individual funds established for the purpose of supporting Mental Health Association of Essex and Morris, Inc.'s client programs. Its endowment includes donor-restricted funds.

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

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 - ENDOWMENT FUNDS: (Continued)

Investment Return Objectives, Risk Parameters and Strategies

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

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent, inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return exceeding the Consumer Price Index by 3% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund'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 is as follows as of June 30, 2022 and 2021:

| | 2022 | | |
|--|---------------------------------------|------------------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 70,500 | \$ 70,500 |
| Accumulated investment losses | - | 8,042 | 8,042 |
| | \$ - | \$ 62,458 | \$ 62,458 |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 - ENDOWMENT FUNDS: (Continued)

| | 2021 | | |
|--|---------------------------------------|------------------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 70,500 | \$ 70,500 |
| Accumulated investment losses | - | 251 | 251 |
| | \$ - | \$ 70,249 | \$ 70,249 |

Changes in endowment net assets for the years ended June 30, 2022 and 2021:

| | 2022 | | |
|---|---|------------------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment Net Assets, Beginning of year | \$ - | \$ 70,249 | \$ 70,249 |
| Investment return, net | - | (7,791) | (7,791) |
| Endowment Net Assets, End of year | \$ - | \$ 62,458 | \$ 62,458 |

| | 2021 | | |
|---|---|------------------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment Net Assets, Beginning of year | \$ - | \$ 70,500 | \$ 70,500 |
| Investment return, net | - | (251) | (251) |
| Endowment Net Assets, End of year | \$ - | \$ 70,249 | \$ 70,249 |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 - ENDOWMENT FUNDS: (Continued)

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 of Directors' discretion.

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or law (underwater endowments). The Association has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to permit spending from underwater endowments in accordance with prudent measures required under law.

At June 30, 2022, funds with deficiencies of \$8,042 were reported in net assets with donor restrictions.

| | <u>June 30, 2022</u> |
|---------------------------------|----------------------|
| Fair value of endowment funds | \$ 62,458 |
| Original endowment gift amount | 70,500 |
| Deficiencies of endowment funds | <u>\$ (8,042)</u> |

At **June 30, 2021**, funds with deficiencies of \$251 were reported in net assets with donor restrictions.

| | <u>June 30, 2021</u> |
|---------------------------------|----------------------|
| Fair value of endowment funds | \$ 70,249 |
| Original endowment gift amount | 70,500 |
| Deficiencies of endowment funds | <u>\$ (251)</u> |

NOTE 10 - PENSION PLANS:

The Association currently maintains a defined-contribution, safe harbor profit-sharing plan. The plan is open to all employees who meet certain eligibility requirements. The Safe Harbor Plan provides up to a 4% match and discretionary employer contributions to be determined at year-end by the Board of Directors. As of June 30, 2022 **and 2021**, there were 149 and 148 employees participating in the plan, respectively. Contribution expense for the years ended June 30, 2022 and 2021, was approximately \$478,466 and \$519,069, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 11 - NEW JERSEY CHILD ASSAULT PREVENTION PROGRAM:

As a participant in the New Jersey Child Assault Prevention Program ("NJCAP"), the Association receives the funds necessary to pay staff stipends and other expenses associated with the program. Advances of \$103,605 and \$69,368 are included in support, and disbursements of \$103,605 and \$69,480 are included in program expenses, for the years ended June 30, 2022 and 2021, 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.

NOTE 12 - 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 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.

The Association receives support and revenue primarily from grants, fees from governmental agencies, resident and private fees and special events. 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 46% and 31% of the Association's revenue for the years ended June 30, 2022 and 2021, respectively, is from government grants and contracts and fee-for-service (non-Medicaid) revenue.

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 that can be easily converted to cash.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

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 \$13,297 for the years ended June 30, 2022 and 2021.

Leases:

The Association leases a facility in Newton, New Jersey, under a month-to-month lease. The Association is responsible for security expenses and for all utilities metered to the space.

During March 2018, the Association entered into a lease for office facilities in Parsippany, New Jersey. The lease term is five years and will expire in March 2023.

During March 2019, the Association entered into a lease agreement for a facility and office space located in West Orange, New Jersey. The term of the lease is five years and ten months and will expire in May 2026.

During December 2021, the Association entered into a lease agreement for a facility and office space located in Clifton, New Jersey. The term of the lease is five years and two months and will expire in November 2026.

During December 2021, the Association entered into a lease agreement for office space located in Morristown, New Jersey. The term of the lease is three years and will expire in January 2025.

During June 2022, the Association entered into a lease agreement for additional office space located in Newton, New Jersey. The term of the lease is three years and will expire in May 2025.

Future minimum payments on these leases are as follows:

| Year Ending June 30, | Amount |
|---------------------------------|--------------------|
| 2023 | \$ 717,696 |
| 2024 | 500,994 |
| 2025 | 453,631 |
| 2026 | 293,739 |
| 2027 | 37,328 |
| | <u>\$2,003,388</u> |

Rent expense for facilities for the years ended June 30, 2022 and 2021, totaled \$517,036 and \$483,329, respectively. Equipment rental expense for the years ended June 30, 2022 and 2021, totaled \$86,353 and \$85,592, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 13 - COMMITMENTS AND CONTINGENCIES: (Continued)

Grant Advances:

During the years ended June 30, 2022 and 2021, the Association estimated that approximately \$669,000 and \$765,000, respectively, of the state contract was projected to be unused by the end of the grant years. The Association was granted the approval to use these funds by the state with a requirement to submit the purpose for the use of such funds. The amount is included in deferred revenue for the year ended June 30, 2022, in the accompanying statements of financial position.

Litigation:

The Association is involved in various claims, potential unasserted claims, employment claims, and legal actions arising in the ordinary course of business. Management does not believe any of them will have a material adverse effect on the Association's financial position and changes in net assets.

NOTE 14 - LINE OF CREDIT:

The Association has a revolving line of credit with a bank to fund temporary deficits in its working capital. The available balance on this line of credit is \$1,250,000 for the years ended June 30, 2022 and 2021. The revolving line of credit renews annually. At June 30, 2022 and 2021, 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%. The interest rate at June 30, 2022, was 5.13%. Borrowings under this line of credit are secured by all Uniform Commercial Code business assets of the Association.

NOTE 15 - TAX RETURNS:

At June 30, 2022 and 2021, all required tax returns have been filed.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 16 - LIQUIDITY AND AVAILABILITY:

The following represents the Association's financial assets at June 30, 2022 and 2021, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Cash | \$ 3,142,555 | \$3,485,561 |
| Investments (Level 1) | 2,273,745 | 2,357,862 |
| Accounts receivable | 367,738 | 329,824 |
| Grants and contracts receivable | 1,396,583 | 370,502 |
| Pledges and charity lead annuity trusts receivable, current | 30,720 | 30,720 |
| Total Financial Assets | 7,211,341 | 6,574,469 |
| Less amounts not available to be used within one year: | | |
| Net assets with donor restrictions | (505,875) | (546,736) |
| Financial assets available to meet general expenditures over the next 12 months | <u>\$ 6,705,466</u> | <u>\$ 6,027,733</u> |

The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Association has a line of credit in the amount of \$1,250,000 that is fully available to meet cash needs when necessary.

NOTE 17 - RISKS AND UNCERTAINTIES:

The Association is actively monitoring the recent COVID-19 outbreak and its potential impact on its employees, volunteers, donors, and operations. It is not known at this time how much effect the virus will have on operations and/or financial results. The potential impact of COVID-19 is not foreseeable due to various uncertainties, including the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2022

| Federal Grantor/ Pass-through Grantor/Program Title | Federal AL Number | Pass-through Grantor's Number | Award Period | Program Award or Loan Amount | Loan Balance at Beginning of Year | Expenditures |
|---|-------------------------|-------------------------------------|--------------------|---------------------------------------|--|---------------------|
| Federal Awards | | | | | | |
| 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 | 7/1/21 - 6/30/22 | \$ 729,682 | \$ - | \$ 729,682 |
| Projects for Assistance in Transition from Homelessness | 93.150 | 30209 | 7/1/21 - 6/30/22 | 267,487 | - | 267,487 |
| U.S. Department of Housing and Urban Development Supportive Housing | 14.235 | | N/A | 829,000 | 520,000 | - |
| Passed through Essex County, New Jersey, Community: Development Block Grant | 14.218 | R-2021-00122 | N/A | 29,000 | - | 29,000 |
| Passed through city of East Orange, Community Development Block Grant | 14.218 | N/A | N/A | 31,378 | - | 31,378 |
| CARES Act Community Development Block Grant Pass through the county of Morris Department of Human Services Total U.S. Department of Housing and Urban Development | 14.218 | | | 118,497 | - | 118,497 |
| | | | | | - | 178,875 |
| Continuum of Care Program: Supportive Housing Program | 14.267 | NJ0116L2F091912 | 7/1/21 - 6/30/22 | 42,633 | - | 11,599 |
| Continuum of Care Program: Passed through NJ 2-1-1 Partnership: Homeless Outreach Services Total Continuum of Care Program | 14.267 | | 7/1/21 - 6/30/22 | 20,592 | - | 8,501 |
| | | | | | - | 20,100 |
| U.S. Department of Homeland Security Federal Emergency Management Agency: Passed through state of New Jersey Department of Human Services Division of Mental Health and Addiction Services Regular Services Program, Crisis Counseling | 97.032 | 68005 | 9/22/20 - 6/21/22 | 408,584 | - | 193,490 |
| 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 Total Department of Human Services | 97.032 | 68505 | 2/01/22 - 10/31/22 | 110,581 | - | 42,713 |
| | | | | | - | 236,203 |
| U.S. Department of Homeland Security Federal Emergency Management Agency Passed through state of New Jersey New Jersey Office of Emergency Management | 97.036 | | | 160,775 | - | 160,775 |
| U.S. Department of Health and Human Services Provider Relief Fund General and Targeted Distribution Payments | 93.498 | | | 185,968 | - | 185,968 |
| USDA Food and Nutrition Service Emergency Operational Cost Program Passed through state of New Jersey Adult Care Food | 10.558 | | | 7,879 | - | 7,879 |
| Total Federal Awards | | | | \$ 2,942,056 | \$ 520,000 | \$ 1,786,969 |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
YEAR ENDED JUNE 30, 2022

| Federal Grantor/ Pass-through Grantor/Program Title | Federal AL Number | Pass-through Grantor's Number | Award Period | Program Award or Loan Amount | Loan Balance at Beginning of Year | Expenditures |
|---|-------------------------|-------------------------------------|--------------------|---------------------------------------|--|---------------------|
| State Awards | | | | | | |
| State of New Jersey - Division of Mental Health and Addiction Services: | | | | | | |
| Involuntary Outpatient Commitment | | | | | | |
| Criminal Justice Program | | | | | | |
| Collaborative Justice Services (Jail Diversion) | N/A | 30209 | 7/1/21 - 6/30/22 | \$ 5,777,987 | \$ - | \$ 4,325,015 |
| Projects for Assistance in Transition from Homelessness | N/A | 30209 | 7/1/21 - 6/30/22 | 205,156 | - | 201,678 |
| Total 30209 | | | | | | <u>4,526,693</u> |
| Passed through New Jersey Child Assault Prevention | | | 7/1/21 - 6/30/22 | 103,605 | - | 103,605 |
| State of New Jersey - Department of Children and Families: | | | | | | |
| Children's System of Care | N/A | 21CVGR | 7/1/21 - 6/30/22 | 150,000 | - | 150,000 |
| New Jersey Department of Community Affairs | | | | | | |
| SRAP (State Rental Assistance Program) | N/A | | 7/1/21 - 6/30/22 | 167,131 | - | 167,131 |
| New Jersey Division of Food and Nutrition | | | | | | |
| Adult Care Food | N/A | | | 46,066 | - | 46,066 |
| New Jersey Department of Community Affairs | | | | | | |
| Division of Housing and Community Resources | N/A | 2021-05224-0282-00 | 7/1/20 - 6/30/22 | 187,500 | - | 83,330 |
| New Jersey Housing and Mortgage Finance Agency | | | | | | |
| NJHMFA | N/A | | 11/24/08 - 6/30/22 | 3,667,528 | 3,667,528 | - |
| Total State Awards | | | | <u>10,304,973</u> | <u>3,667,528</u> | <u>5,076,825</u> |
| Total Federal and State Awards | | | | <u>\$ 13,247,029</u> | <u>\$ 4,187,528</u> | <u>\$ 6,863,794</u> |

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
JUNE 30, 2022

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 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:

During the year ended June 30, 2022, the Association did not provide any funds relating to their federal or state programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

During the year ended June 30, 2022, 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:

As of June 30, 2022, \$480,000 was outstanding on the federal loan program. As of June 30, 2022, \$3,667,528 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

To the Board of Directors
Mental Health Association of Essex and Morris, 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 and Morris, Inc. ("Association") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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, 2022

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND NEW JERSEY OFFICE OF MANAGEMENT AND BUDGET CIRCULAR LETTER 15-08

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

Report on Compliance for Each Major Federal and State Program***Opinion on Compliance for Each Major Federal and State Program***

We have audited Mental Health Association of Essex and Morris's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each major federal and state program for the year ended June 30, 2022.

In our opinion, Mental Health Association of Essex and Morris complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each major federal and state program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal and State Program

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 Award* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Mental Health Association of Essex and Morris and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of Mental Health Association of Essex and Morris' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to each major federal and state program.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Mental Health Association of Essex and Morris' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Mental Health Association of Essex and Morris' compliance with the requirements of the federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Mental Health Association of Essex and Morris' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Mental Health Association of Essex and Morris' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Mental Health Association of Essex and Morris' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 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 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 Auditors' Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants

Livingston, New Jersey
October 24, 2022

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

I. Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes No

Noncompliance material to financial statements noted? Yes No

Major Federal and State Awards

Internal control over the major federal and state programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes No

Type of auditors' report issued on compliance for the major federal and state programs:
Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance and NJOMB Circular Letter 15-08? Yes No

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

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

| <u>AL 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, Block Grants for Community Mental Health Services |
| 93.150 | 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, Projects for Assistance in Transition from Homelessness |
| | 30209 | State of New Jersey - Division of Mental Health and Addiction Services - Collaborative Justice Services (Jail Diversion): Projects for Assistance in Transition from Homelessness |

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

Federal - \$750,000

State - \$750,000

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

II. Financial Statement Findings NONE

III. Compliance Findings NONE

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