

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR YEAR ENDED JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)



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MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Mental Health Association of Essex and Morris, Inc. (the "Association"), a New Jersey Nonprofit Organization, which comprise the statement of financial position as of June 30, 2025, 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, 2025, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' 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.

Responsibilities of Management for the Financial Statements (cont'd.)

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 auditors' 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 and Government 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 and Government 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.

Report on Summarized Comparative Information

We have previously audited the Association's 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 and state awards, shown on pages 26 and 31, 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 New Jersey OMB 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 and state 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 27, 2025, 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.



MAGONE & COMPANY, P.C.

Parsippany, New Jersey
October 27, 2025

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.**Statement of Financial Position****June 30, 2025****(With Comparative Totals for June 30, 2024)**

	<u>2025</u>	<u>2024</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,529,755	\$ 3,108,819
Accounts held in escrow	202,998	201,227
Investments	4,878,730	4,495,144
Accounts receivable, net	450,212	354,798
Grants and contracts receivable	1,135,428	818,017
Prepaid expenses and other current assets	<u>344,771</u>	<u>344,003</u>
 TOTAL CURRENT ASSETS	 10,541,894	 9,322,008
 RESTRICTED INVESTMENTS	 937,947	 870,514
 PROPERTY AND EQUIPMENT, NET	 10,527,883	 10,376,898
 RIGHT-OF-USE ASSETS UNDER OPERATING LEASES	 <u>2,010,582</u>	 <u>1,007,586</u>
 TOTAL ASSETS	 <u><u>\$ 24,018,306</u></u>	 <u><u>\$ 21,577,006</u></u>

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

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.**Statement of Financial Position****June 30, 2025****(With Comparative Totals for June 30, 2024)**

	<u>2025</u>	<u>2024</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of mortgage notes payable	\$ 363,892	\$ 363,892
Current operating lease liabilities	717,843	520,562
Accounts payable and accrued expenses	307,906	377,647
Accrued payroll and related liabilities	1,238,424	1,088,915
State advances payable	4,135,624	2,474,793
Deferred revenue	<u>138,782</u>	<u>753,406</u>
TOTAL CURRENT LIABILITIES	<u>6,902,471</u>	<u>5,579,215</u>
LONG-TERM DEBT:		
Mortgage notes payable	3,303,637	3,303,637
Less unamortized debt issuance costs	<u>101,071</u>	<u>109,643</u>
Mortgage notes payable, net	3,202,566	3,193,994
Long-term operating lease liabilities	1,311,932	517,355
Forgivable loans payable	<u>2,251,000</u>	<u>2,251,000</u>
TOTAL LONG-TERM DEBT	<u>6,765,498</u>	<u>5,962,349</u>
TOTAL LIABILITIES	<u>13,667,969</u>	<u>11,541,564</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Without donor restrictions	9,376,590	9,127,064
With donor restrictions	<u>973,747</u>	<u>908,378</u>
TOTAL NET ASSETS	<u>10,350,337</u>	<u>10,035,442</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,018,306</u>	<u>\$ 21,577,006</u>

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

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.**Statement of Activities and Changes in Net Assets****For the Year Ended June 30, 2025****(With Comparative Totals for the Year Ended June 30, 2024)**

	Without Donor Restrictions	With Donor Restrictions	Total	
			2025	2024
REVENUES, GAINS AND SUPPORT:				
Government Grants and Contracts:				
Federal and state grants and contracts	\$ 14,044,101	\$ -	\$ 14,044,101	\$ 12,108,862
Morris County grants and contracts	553,072	-	553,072	489,408
Total Government Grants and Contracts	14,597,173	-	14,597,173	12,598,270
Revenues:				
Medicaid and medicare	5,163,649	-	5,163,649	5,850,813
New Jersey Mental Health Application for Payment Processing	2,446,589	-	2,446,589	2,146,368
Managed care organization	1,163,314	-	1,163,314	347,525
Fee for service	924,149	-	924,149	335,112
Rental income	273,544	-	273,544	284,037
Net realized and unrealized gain on investments	219,531	45,868	265,399	381,831
Interest and dividends	216,828	11,398	228,226	230,667
Other revenue	97,471	-	97,471	305,641
Net Assets Released from Restrictions	122,136	(122,136)	-	-
Total Revenues	10,627,211	(64,870)	10,562,341	9,881,994
Public Support:				
Contributions and membership dues	115,038	-	115,038	102,136
Grants	660,786	130,239	791,025	778,081
Special events	237,271	-	237,271	69,775
Total Public Support	1,013,095	130,239	1,143,334	949,992
TOTAL REVENUE, GAINS AND SUPPORT - BALANCE CARRIED FORWARD	\$ 26,237,479	\$ 65,369	\$ 26,302,848	\$ 23,430,256

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

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.**Statement of Activities and Changes in Net Assets****For the Year Ended June 30, 2025****(With Comparative Totals for the Year Ended June 30, 2024)**

	Without Donor Restrictions	With Donor Restrictions	Total	
			2025	2024
TOTAL REVENUE, GAINS AND SUPPORT -				
BALANCE BROUGHT FORWARD	<u>\$ 26,237,479</u>	<u>\$ 65,369</u>	<u>\$ 26,302,848</u>	<u>\$ 23,430,256</u>
EXPENDITURES:				
Program services	22,559,465	-	22,559,465	19,461,561
Management and general	3,074,418	-	3,074,418	3,019,215
Fundraising	<u>354,070</u>	<u>-</u>	<u>354,070</u>	<u>121,832</u>
TOTAL EXPENDITURES:	<u>25,987,953</u>	<u>-</u>	<u>25,987,953</u>	<u>22,602,608</u>
CHANGE IN NET ASSETS	249,526	65,369	314,895	827,648
NET ASSETS, BEGINNING	<u>9,127,064</u>	<u>908,378</u>	<u>10,035,442</u>	<u>9,207,794</u>
NET ASSETS, ENDING	<u>\$ 9,376,590</u>	<u>\$ 973,747</u>	<u>\$ 10,350,337</u>	<u>\$ 10,035,442</u>

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

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2025

(With Comparative Totals for the Year Ended June 30, 2024)

	Program Services																			Substance Abuse Program	Total Program Services	Management and General	Fundraising	Total	
	Integrated Case Management Service Program	Prospect House Programs	Supported Employment Programs	Family Support Programs	Youth Programs	Criminal Justice/jail Diversion Programs	Community Support Services	Center for Behavioral Health	Riskin Children's Center	Assisted Outpatient Treatment Programs	Homeless Services Programs	CECE Programs	Early Intervention Support Services	Co-Response Programs	NJ4S	MCORT	2025	2024							
Salaries and wages	\$ 1,896,033	\$ 1,142,634	\$ 203,006	\$ 426,423	\$ 64,127	\$ 973,629	\$ 1,473,224	\$ 324,553	\$ 161,756	\$ 678,591	\$ 1,147,023	\$ 573,538	\$ 715,331	\$ 665,711	\$ 1,414,859	\$ 644,590	\$ 158,813	\$ 12,663,841	\$ 1,938,012	\$ 166,718	\$ 14,768,571	\$ 13,010,516			
Fringe benefits and payroll taxes	571,260	344,267	61,164	128,478	19,321	293,347	443,871	97,785	48,736	204,454	345,589	172,803	215,524	200,574	426,286	194,210	47,849	3,815,518	583,908	50,231	4,449,657	3,607,080			
Consumer Assistance	18,116	18,785	2,754	3,602	-	26,329	325,535	1,534	-	13,272	407,611	16,769	7,297	-	-	39,848	26,688	908,140	-	-	908,140	582,980			
Depreciation & Amortization	102,524	62,351	5,581	16,292	7,108	31,953	225,282	8,661	1,914	26,699	45,664	30,326	31,584	14,710	35,863	16,050	9,485	672,047	38,435	-	710,482	650,381			
Professional Fees	7,832	88,685	569	1,327	65,800	3,599	43,249	4,962	285	71,241	12,503	81,174	8,685	758	200,807	19,297	37,512	648,285	51,336	-	699,621	767,464			
Repairs & Maintenance	22,970	135,737	1,434	14,144	6,802	7,530	163,726	8,836	-	10,407	20,777	18,497	10,723	-	29,111	10,312	13,786	474,792	44,487	-	519,279	579,771			
Travel, Transportation & Conferences	92,302	51,153	2,889	8,618	49	25,590	78,039	788	-	30,346	42,791	31,216	6,946	9,445	45,614	4,209	1,016	431,011	63,871	2,020	496,902	443,282			
Insurance	86,667	34,438	4,039	10,480	5,438	30,914	79,248	3,532	1,642	24,458	39,816	22,590	18,078	9,640	25,494	13,571	2,943	412,988	53,135	-	466,123	414,490			
Information Technology	49,579	33,292	3,304	10,877	7,094	24,092	43,503	6,448	1,968	13,885	24,581	31,322	17,500	5,126	26,945	24,321	2,160	325,997	74,505	14,999	415,501	355,987			
Supplies	14,678	10,576	1,007	8,578	688	12,904	34,027	3,121	1,044	5,014	8,606	79,400	16,166	615	23,344	25,684	3,950	249,402	23,262	5,540	278,204	223,818			
Telephone	31,508	16,933	3,092	8,986	584	14,654	34,095	8,769	897	11,930	24,005	17,194	9,287	8,177	15,546	14,157	2,403	222,217	19,035	-	241,252	205,399			
Training	6,826	4,570	380	1,127	1,013	7,367	6,555	3,322	190	1,635	3,635	2,625	3,600	-	1,226	140,773	5,270	2,291	192,405	7,247	7,114	206,766	113,664		
Utilities	16,398	45,503	1,157	4,478	2,901	7,937	61,852	3,769	-	3,035	7,773	5,033	-	-	14,641	3,326	7,134	184,937	20,034	-	204,971	192,243			
Public Awareness	4,101	4,101	4,101	4,101	4,101	4,163	5,101	4,101	4,101	4,224	34,447	4,101	4,101	4,101	99,236	11,065	4,101	203,347	-	-	203,347	238,398			
Equipment Rental & Maintenance	16,829	15,878	584	11,095	626	13,691	16,479	6,294	150	10,063	8,769	8,753	6,796	-	19,009	7,119	647	142,782	14,384	678	157,844	156,880			
Food	-	143,380	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	143,380	-	-	143,380	116,829			
Special Events	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	105,184	105,184	17,313			
Payroll Expenses	12,699	7,621	952	2,225	2,539	6,031	12,699	1,272	476	3,496	7,307	4,085	6,031	-	7,621	3,912	638	79,604	7,307	-	86,911	75,574			
Advertising	11,014	4,495	119	582	145	9,115	25,479	337	63	7,132	9,066	7,234	8,473	11,460	8,931	14,930	4,860	123,435	1,537	64	125,036	-			
Condo Association Exp 1160	5,937	-	-	-	-	-	5,937	-	-	5,937	5,937	5,937	-	-	5,937	-	5,937	41,559	5,937	-	47,496	-			
Subscriptions, Publications & Printing	890	3,152	48	1,646	128	528	3,919	3,166	24	481	493	396	3,801	250	450	272	892	20,536	15,642	1,096	37,274	25,048			
Real Estate Tax Expenses	4,424	-	-	-	-	-	4,424	-	-	4,424	4,424	4,424	-	-	4,424	-	4,424	30,968	4,424	-	35,392	56,675			
Minor Equipment	50	2,150	-	239	-	-	-	-	-	359	-	21,647	-	-	-	2,952	-	27,397	423	-	27,820	7,228			
Unrelated Business Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,672	-	20,672	4,955			
Postage & Printing	836	352	38	601	120	225	1,509	481	180	202	262	424	-	-	1,196	-	100	6,526	5,602	373	12,501	8,120			
Mental Health Assoc. Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,368	-	12,368	12,368			
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,572	-	8,572	8,775			
Recruitment and Onboarding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	111,870			
Association Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	41,676			
Occupancy	106,015	-	13,255	8,018	-	115,438	65,064	1,770	-	36,951	51,684	22,462	92,611	-	878	-	15	514,161	15,593	-	529,754	529,411			
Miscellaneous	306	8,144	-	37	-	-	260	10,307	-	-	155	42	4,636	-	18	-	287	24,190	44,690	53	68,933	44,412			
TOTAL EXPENDITURES	\$ 3,079,794	\$ 2,178,197	\$ 309,473	\$ 671,954	\$ 188,584	\$ 1,609,036	\$ 3,153,077	\$ 503,808	\$ 223,426	\$ 1,168,113	\$ 2,222,695	\$ 1,192,338	\$ 1,187,170	\$ 931,793	\$ 2,546,983	\$ 1,055,095	\$ 337,931	\$ 22,559,465	\$ 3,074,418	\$ 354,070	\$ 25,987,953	\$ 22,602,607			

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

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Statement of Cash Flows
For the Year Ended June 30, 2025
(With Comparative Totals for the Year Ended 2024)

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 314,895	\$ 827,648
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	711,589	650,381
Allowance for credit losses	22,904	-
Amortization of debt issuance costs	8,572	8,572
Net unrealized gains on the investments	(466,753)	(348,748)
Gain on sale of property and equipment	(22,726)	(11,011)
NET CHANGES IN OPERATING ASSETS AND LIABILITIES:		
(Increase) decrease in operating assets:		
Accounts receivable	(118,318)	(45,238)
Grants and contracts receivable	(317,411)	(312,245)
Charitable lead annuity trusts	-	15,074
Prepaid expenses and other current assets	(768)	(42,214)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(69,741)	103,550
Accrued payroll and related liabilities	149,509	199,061
State advances payable	1,660,831	176,689
Operating lease obligations	(11,138)	(14,081)
Deferred revenue	(614,624)	67,998
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,246,821</u>	<u>1,275,436</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property and equipment	22,726	11,011
Purchases of property and equipment	(862,574)	(1,172,599)
Acquisition of intangible assets	-	-
Proceeds from sale of investments	1,675,579	148,573
Purchases of investments	(1,659,845)	(375,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(824,114)</u>	<u>(1,388,015)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of mortgage notes payable	-	(16,048)
NET CHANGE IN CASH AND CASH EQUIVALENTS	422,707	(128,627)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,310,046</u>	<u>3,438,673</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,732,753</u>	<u>\$ 3,310,046</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 8,572</u>	<u>\$ 8,775</u>
Disclosure of noncash operating and financing activities:		
Lease assets obtained in exchange for operating lease obligations	<u>\$ 1,641,345</u>	<u>\$ 246,909</u>

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

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 1 - Nature of Business

The Mental Health Association of Essex and Morris, Inc. (the "Association") is a nonprofit organization serving Essex, Morris, Sussex, Passaic, Middlesex and Hudson Counties in New Jersey. The Association's mission is to promote mental health and addiction recovery, including the integration of physical healthcare, to improve the care and treatment of individuals with mental illness and addictions, 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 and federal funding, 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, revenues, 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.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 2 - Summary of Significant Accounting Policies (cont'd.)

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.

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 net assets without donor restrictions unless the use was restricted by explicit donor stipulations or by law.

Cash and Cash Equivalents

For the purpose of reporting of cash flows, the Association considers all highly liquid investments purchased with a maturity of three months or less at acquisition as cash and cash equivalents in the accompanying statements of financial position.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 2 - Summary of Significant Accounting Policies (cont'd.)

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 statement of activities and changes in net assets. All investment income is credited directly to net assets without donor restrictions 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 statement of activities and changes in net assets.

Receivables and Allowance for Credit Losses

Accounts receivable represents amounts due from Medicaid.

Grants and contracts receivable represents amounts due for financial assistance received from federal, state, and local government entities in the form of grants recognized on a cost-reimbursement basis and are recorded in government grants and contracts on the accompanying statement of activities and changes in net assets.

The amounts are stated net of an allowance for credit losses. An allowance for credit losses is maintained at a level which in management's judgment is adequate to absorb losses for bad debts inherent in the account. The amount of the allowance for credit losses is based on management's evaluation of the collectability of the receivables, including the account's nature, credit concentrations, trends in historical loss experience, economic conditions, and other risks inherent in the account. The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by write-offs, net of recoveries. Consequently, an allowance for credit losses in the amount of \$22,904 and \$0 has been recorded as of June 30, 2025 and 2024, respectively.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received or promised. 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Mortgage Notes Payable

The Association occasionally enters into mortgage notes payable transactions with various state government agencies, some of which are forgivable upon passage of time and the performance of the terms of the loans. The Association does not discount noninterest-bearing or below-market-rate loans from government agencies.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

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June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Deferred Revenue

Deferred revenue represents revenues received in advance not yet earned.

Property and Equipment

Property and equipment 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 useful lives of the assets are as follows:

Buildings and improvements	5 - 40 years
Furniture and fixtures	5 - 7 years
Transportation equipment	5 years
Computer equipment	3 - 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, 2025 and 2024 is \$4,135,624 and \$2,474,793, respectively.

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.

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June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 2 - Summary of Significant Accounting Policies (cont'd.)

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 state advances payable in the statement of financial position. Rental income is recognized as earned on a monthly basis.

The Association also derives its revenue from Medicaid, Medicare, Welfare, private insurance, Non-Medicaid (New Jersey Mental health Application for Payment Processing or "NJMHAPP") and Managed Care programs. All are subject to the rules and regulations of the various 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.

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.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Income Taxes (cont'd.)

No interest and penalties were recorded during the fiscal years ended June 30, 2025 and 2024. Accordingly, there are no significant income tax uncertainties identified at June 30, 2025 and 2024.

Endowment Funds

The Association reports permanently restricted net assets held for educational purposes and other related activities as part of donor restricted net assets.

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.

Leases

The Association recognizes right-of-use assets and lease liabilities when the Association has both the right to obtain substantially all of the economic benefits from use of the identified asset, and the right to direct the use of the identified asset.

The Association utilizes the rate implicit in the lease if it is readily determinable, regardless of whether it is higher than the Association's incremental borrowing rate, in determining the lease liability. If the rate implicit in the lease is not readily determinable, the discount rate reflects the Association's incremental secured borrowing rate.

The Company has elected the short-term lease exemption permitted under ASC 842, Leases, for all classes of underlying assets. Short-term leases are defined as leases with a noncancellable term of 12 months or less and that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. For such leases, the Company does not recognize right-of-use assets or lease liabilities on the balance sheet. Lease payments associated with short-term leases are recognized as lease expense on a straight-line basis over the lease term. Variable lease payments for short-term leases are recognized in the period in which the obligation for those payments is incurred.

Subsequent Events

The Association has evaluated subsequent events through October 27, 2025, the date that the financial statements were available to be issued.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported total net assets or the change in net assets for the year ended June 30, 2024.

Note 3 - Disaggregation of Revenue

The following table disaggregates revenue by grant and contribution source, which the Association believes best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors for the years ended June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Federal and State Grants and Contracts:		
New Jersey Division of Mental Health Services	\$ 10,218,278	\$ 8,522,204
New Jersey Department of Children and Families	2,897,856	2,738,672
Other	927,967	847,986
	<u>\$ 14,044,101</u>	<u>\$ 12,108,862</u>
Medicaid & Medicare:		
Medicaid	\$ 5,024,739	\$ 5,719,474
Medicare	134,978	131,339
Other	3,932	-
	<u>\$ 5,163,649</u>	<u>\$ 5,850,813</u>

Note 4 - Statement of Cash Flows

The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position that sums to the total of the same such amounts in the statements of cash flows for the years ended June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash	\$ 3,529,755	\$ 3,108,819
Accounts held in escrow	202,998	201,227
	<u>\$ 3,732,753</u>	<u>\$ 3,310,046</u>

Amounts included in accounts held in escrow are comprised of various escrow accounts as required by a regulatory authority.

Lease assets obtained in exchange for operating lease obligations were \$1,641,345 and \$246,909, during the year ended December 31, 2025 and 2024, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

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June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 5 - Investments

The Association holds investments in various mutual funds and exchange traded funds. 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.

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.

The following is the fair value measurements for the years ended June 30, 2025 and 2024:

<u>2025</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange Traded Funds	\$ 1,953,854	\$ -	\$ -	\$ 1,953,854
Mutual Funds	<u>2,650,043</u>	<u>-</u>	<u>-</u>	<u>2,650,043</u>
Investments at Fair Value	4,603,897	-	-	4,603,897
Cash and cash equivalents	-	-	-	192,917
Investments in Real Estate Income Trust	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,019,863</u>
Total	<u>\$ 4,603,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,816,677</u>
<u>2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange Traded Funds	\$ 1,939,207	\$ -	\$ -	\$ 1,939,207
Mutual Funds	<u>2,190,651</u>	<u>-</u>	<u>-</u>	<u>2,190,651</u>
Investments at Fair Value	4,129,858	-	-	4,129,858
Cash and cash equivalents	-	-	-	106,371
Investments in Real Estate Income Trust	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,129,429</u>
Total	<u>\$ 4,129,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,365,658</u>

The Association's valuation method of investments are summarized as follows:

Exchange Traded Funds (ETF) – ETFs traded on national securities exchanges are valued at the last reported sales price on the day of valuation and are classified as Level 1 in the fair value hierarchy.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

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(With Comparative Totals for June 30, 2024)

Note 5 - Investments (cont'd.)

Mutual funds – Mutual funds are valued at quoted market prices, which represent the net asset value (“NAV”) of shares held by the Company at year-end. These are classified as Level 1 measurements within the fair value hierarchy.

Investments in Real Estate Income Trust (REIT): The Company holds investments in non-traded REIT which are valued using NAV as a practical expedient in accordance with ASC 820-10-35-59. These investments do not have readily determinable fair values and are measured at fair value on a recurring basis.

Restricted Investments

The Association’s investments include assets that are restricted as to withdrawal or use. These restricted investments consist primarily of mutual funds for which donors have specified that only the earnings may be used for designated purposes, such as supporting the wellbeing of individuals with mental illness, housing, and similar initiatives. Access to the principal is permitted only with donor approval. These investments are reported separately on the statement of financial position as restricted investments. The carrying amounts of restricted investments as of June 30, 2025 and 2024, were \$937,947 and \$870,514, respectively. Please see note 9 to the financial statements for the related net assets with donor restrictions.

Note 6 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Building and improvements	\$ 9,038,007	\$ 8,851,419
Transportation equipment	2,860,912	2,632,730
Furniture and fixtures	342,768	342,768
Computer equipment	177,604	120,866
	<u>12,419,21</u>	<u>11,947,783</u>
Less accumulated depreciation	<u>5,636,084</u>	<u>5,315,561</u>
	<u>6,783,207</u>	<u>6,632,222</u>
Land	<u>3,744,676</u>	<u>3,744,676</u>
	<u>\$ 10,527,883</u>	<u>\$ 10,376,898</u>

Depreciation expense for the years ended June 30, 2025 and 2024 was \$711,589 and \$643,239, respectively.

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June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 7 - Mortgage Notes Payable

Mortgage notes payable consists of the following at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Mortgage payable to New Jersey Housing and Mortgage Finance Agency ("NJHMFA") which had an original maturity date in 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 mortgage 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 Association is in the process of negotiating an extended maturity.	\$ 363,893	\$ 363,893
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 16th 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.	503,237	503,237
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 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.	<u>1,616,211</u>	<u>1,616,211</u>
	3,667,529	3,667,529
Less: Current maturities	363,892	363,892
Debt issuance costs	<u>101,071</u>	<u>109,643</u>
	<u>\$ 3,202,566</u>	<u>\$ 3,193,994</u>

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

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June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 7 - Mortgage Notes Payable (cont'd.)

Amortization of debt issuance costs of approximately \$8,600 for each of the years ended June 30, 2025 and 2024, is reported on the statement of activities and changes in net assets as interest expense.

At June 30, 2025, the aggregate maturities of long-term debt are as follows:

2026	\$ 363,892
2027	-
2028	-
2029	-
2030	
Thereafter	<u>3,303,637</u>
	<u>\$ 3,667,529</u>

Note 8 - Forgivable Loans Payable

Mortgage payable to the County of Essex in the amount of \$182,000, due in April 2028, bearing no interest and requiring no principal payments as long as the Association abides by the restriction in the mortgage note. The mortgage note is collateralized by land and building on Bay Avenue in Bloomfield, New Jersey. The mortgage note is scheduled to be forgiven after the 20-year compliance period. The amount outstanding as of June 30, 2025 and 2024 was \$182,000.

Mortgage payable to the County of Essex in the amount of \$110,000, due in March 2029, bearing no interest and requiring no principal payments as long as the Association abides by the restriction in the mortgage note. The mortgage note is collateralized by land and building on 16th Street in Bloomfield, New Jersey. The mortgage note is scheduled to be forgiven after the 20-year compliance period. The amount outstanding as of June 30, 2025 and 2024 was \$110,000.

Mortgage payable to the County of Essex in the amount of \$280,000, due July in 2029, bearing no interest and requiring no principal payments as long as the Association abides by the restriction in the mortgage note. The mortgage note is collateralized by land and building in Nutley, New Jersey. The mortgage note is scheduled to be forgiven after the 20-year compliance period. The amount outstanding as of June 30, 2025 and 2024 was \$280,000.

Mortgage payable to the Department of Housing and Urban Development in the amount of \$829,000, due in November 2030, bearing no interest and requiring no principal payments as long as the Association abides by the restriction in the mortgage note. The mortgage note is collateralized by land and building in Montclair, New Jersey. The mortgage note is scheduled to be forgiven after the 20-year compliance period. The amount outstanding as of June 30, 2025 and 2024 was \$829,000.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

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June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 8 - Forgivable Loans Payable (cont'd.)

Mortgage payable to the County of Essex in the amount of \$850,000, due in July 2029, bearing no interest and requiring no principal payments as long as the Association abides by the restriction in the mortgage note. The mortgage note is collateralized by land and building in Bloomfield, New Jersey. The mortgage note is scheduled to be forgiven after the 20-year compliance period. The amount outstanding as of June 30, 2025 and 2024 was \$850,000.

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Net Assets with Donor Restrictions:		
Restricted due to time or use:		
Prospect House	\$ 229,574	\$ 212,976
Supportive Housing	149,681	137,958
Children Psychiatric Services	126,292	118,128
Other	<u>35,801</u>	<u>37,866</u>
Total restricted due to time or use	541,348	506,928
Restricted in perpetuity – endowment	<u>432,399</u>	<u>401,450</u>
Total Net Assets with Donor Restrictions	<u>\$ 973,747</u>	<u>\$ 908,378</u>

Net assets released from restrictions were \$122,136 and \$151,058 for the years ended June 30, 2025 and 2024, respectively.

Endowment

The Association's endowment is restricted investments. The endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Association has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

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Note 9 - Net Assets with Donor Restrictions (cont'd.)

Endowment (cont'd.)

Interpretation of Relevant Law (cont'd.)

In accordance with SPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

Changes in endowment net assets as of June 30:

	<u>2025</u>	<u>2024</u>
Restricted in Perpetuity – endowment, Beginning	\$ 401,450	\$ 367,010
Investment return:		
Interest and dividend paid	6,103	8,564
Unrealized (losses) gains	<u>24,846</u>	<u>25,876</u>
Restricted in Perpetuity – endowment, ending	\$ <u><u>432,399</u></u>	\$ <u><u>401,450</u></u>

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Association to retain as a fund of perpetual duration. There was no deficiencies of this nature noted as of June 30, 2025 and 2024.

Return objective and risk parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to support operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Association must hold in perpetuity or for a donor specified period and unrestricted funds that may be used for general operations. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that seeks to balance real capital growth with income and principal stability.

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Contents

June 30, 2025

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Note 9 - Net Assets with Donor Restrictions (cont'd.)

Endowment (cont'd.)

Strategies employed for achieving objectives

To satisfy its long-term objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places equal emphasis on equity-based investments and bond based investments in order to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

To the greatest extent possible, the Association wishes to preserve the historic dollar value of the endowment fund by limiting distributions to endowment fund earnings. This is consistent with the Association's objective of holding assets for the Association's exclusive use that are not wholly expendable on a current basis under the terms of the investment policy.

Note 10 - Retirement Plan

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 4% match and discretionary employer contributions to be determined at year-end by the Board of Directors. As of June 30, 2025 and 2024, there were 294 and 258 employees participating in the plan, respectively. Contribution expense for the years ended June 30, 2025 and 2024, was approximately \$859,096 and \$668,298, respectively.

Note 11 - 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 various financial institutions. The balances in the Association's operating accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. From time to time, the Association's balances may exceed this limit. As of June 30, 2025 and 2024, the uninsured amounts were \$3,257,896 and \$2,838,460, respectively.

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June 30, 2025

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Note 11 - Concentrations of Risks (Cont'd.)

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 57% and 55% of the Association's revenue for the years ended June 30, 2025 and 2024 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 are concentrated in mutual funds. 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.

Note 12 - Leasing Activities

The Association leases nine office spaces under operating leases having lease terms of up to 96 months with monthly lease payments totaling \$53,924 and \$37,007 as of June 30, 2025 and 2024, respectively. Certain leases include renewal options that can extend the lease term up to 3 years. The exercise of lease renewal option is at the Association's sole discretion and is not included in measurement of lease asset and liabilities as it is not reasonably certain that the option to renew will be exercised. These leases are recognized as operating leases in accordance with ASC 842.

Common area maintenance, taxes and other charges are accounted for as variable lease components. Rent paid amounted to \$503,743 and \$436,159, for the years ended June 30, 2025 and 2024, respectively.

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(With Comparative Totals for June 30, 2024)

Note 12 - Leasing Activities (cont'd.)

The Association also leases equipment and vehicles having lease terms ranging from 36 to 63 months with monthly lease payments ranging from \$129 to \$4,508 and \$2,718 to \$9,620 as of June 30, 2025 and 2024, respectively. These leases are recognized as operating leases in accordance with ASC 842.

The following summarizes the line items in the statement of financial position which include amounts for the operating leases as of June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Right-of-use assets under operating leases	<u>\$ 2,010,582</u>	<u>\$ 1,007,586</u>
Current maturities of operating leases		
Obligations	\$ 717,843	\$ 520,562
Operating lease obligations, net of current maturities	<u>1,311,932</u>	<u>517,355</u>
Total operating lease obligations	<u>\$ 2,029,775</u>	<u>\$ 1,037,917</u>

Weighted average remaining lease term for operating leases as of June 30, 2025 and 2024, is 47 and 27 months, respectively. Weighted average discount rate for operating leases as of June 30, 2025 and 2024, is 3.79% and 3.24%, respectively.

The maturities of operating lease obligations as of June 30, 2025 are as follows:

Years ending June 30:

2026	\$ 774,147
2027	469,349
2028	369,688
2029	232,745
2030	199,690
Thereafter	<u>167,287</u>
	2,212,906
Less interest	<u>183,131</u>
Present value of operating lease obligations	<u>\$ 2,029,775</u>

The line item in the statement of activities which includes the components of lease expense is the operating lease expense, included in occupancy, travel, and equipment rental, amounting to \$687,859 and \$580,707, for the years ended June 30, 2025 and 2024, respectively.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 13 - Commitments and Contingencies

Contributions

The Association contributes to the support of the State and National Mental Health Associations. The Association has paid or accrued \$12,368 and \$13,297 for the years ended June 30, 2025 and 2024, respectively.

Grant Advances

For the year ended June 30, 2024, the Association estimated that approximately \$381,000 of the state contracts were projected to be unused by the end of the grant year. The Association was granted approval to use these funds by the state in the next fiscal year. Approximately \$93,000 of the total amount was spent during the year ended June 30, 2025, and the remaining unused balance was included in the state advances payable in the statement of financial position as potential payback to the respective state agencies.

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 was \$1,250,000 as of June 30, 2025 and 2024. The revolving line of credit renews annually. At June 30, 2025 and 2024, the Association had no borrowings under the line of credit. 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, 2025 and 2024, was 8.875% and 6.95%, respectively. 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, 2025, all required tax returns have been filed.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 16 - Liquidity and Availability

The following represents the Association's financial assets at June 30, 2025 and 2024, 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.

	<u>2025</u>	<u>2024</u>
Cash	\$ 3,529,755	\$ 3,108,819
Investments	5,816,677	5,365,658
Accounts receivable before allowance	473,116	354,798
Grants and contracts receivable	1,135,428	818,017
Total Financial Assets	10,954,976	9,647,292
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(973,747)	(908,378)
Financial assets available to meet general expenditures over the next 12 months	\$ 9,981,229	\$ 8,738,914

The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the Association maintains a line of credit with a financial institution in the amount of \$1,250,000, available through February 1, 2026. There was no outstanding balance on the line of credit as of June 30, 2025 and 2024.

Note 17 - Uncertainty Regarding Government Funding

The Association receives a significant portion of its annual funding from federal and state government grants and contracts, which are subject to annual appropriations and budgetary decisions by governmental authorities. As of the date of these financial statements, substantial uncertainty exists regarding the federal and state budgets for the upcoming fiscal year.

Additionally, the Association receives significant funding from federal government sources. As of the date of these financial statements, there is uncertainty regarding the ongoing indefinite federal government shutdown. A prolonged shutdown could delay the receipt of federal funds, impact the timing of program activities, or result in changes to the availability of federal awards. The Association has substantial resources in terms of cash, investments, equity in buildings owned and an available line of credit, to withstand any long-term delay or reduction in government assistance.

Management is actively monitoring developments and maintaining communication with government partners, however, there is no assurance that current funding levels will be maintained. Any reduction, delay, or discontinuation of government funding could have a material adverse effect on the Organization's programs and financial condition. In response, management is developing contingency plans, including identifying alternative funding sources and adjusting program expenditures, as necessary.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Contents

June 30, 2025

(With Comparative Totals for June 30, 2024)

Note 17 - Uncertainty Regarding Government Funding (cont'd.)

The accompanying financial statements do not reflect any adjustments that may result from the outcome of this uncertainty.

SUPPLEMENTARY INFORMATION

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2025

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:						
Pass-through to State of New Jersey ("NJ") Department of Human Services – Division of Mental Health and Addiction Services: Block Grants for Community Mental Health Services	93.958	30209	07/01/24 - 06/30/25	\$ 1,324,679		\$ 1,374,679
Projects for Assistance in Transition from Homelessness	93.150	30209	07/01/24 - 06/30/25	283,942		283,942
Congressional Directives Spending Projects	93.493	H79FG000848-01M002	09/30/22 - 09/29/24	300,000		7,457
Total U.S. Department of Health and Human Services						<u>1,666,078</u>
U.S. Department of the Treasury:						
Coronavirus State and Local Fiscal Recovery Funds – Family and Community Partnership – Pass-through to State of NJ – Department of Children and Families – (COVID-19)	21.027	25MF0122	07/01/24 - 06/30/25	215,664		93,131
Subtotal Expenditures of Federal Awards – Balance Carried Forward						<u>\$ 1,759,209</u>

See independent auditors' report and notes to the schedule of expenditures of federal and state awards.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2025

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
Subtotal Expenditures of Federal Awards – Balance Brought Forward						<u>\$ 1,759,209</u>
U.S. Department of Housing and Urban Development:						
Community Development Block Grant:						
Pass-through to County of Morris, NJ – Department of Human Services – (COVID-19)	14.CDBG	N/A	N/A	\$ 161,126		161,126
Pass-through to Essex County, NJ	14.218	R-2024-00848	N/A	27,000		27,000
Pass-through to City of East Orange, NJ	14.218	N/A	N/A	20,000		<u>20,000</u>
						<u>208,126</u>
Supportive Housing:						
Pass-through to State of NJ NJ-504 – New - Newark Project - Loan	14.235	NJ0223B2F040900	N/A	829,000	829,000	<u>829,000</u>
Home Investment Partnership Program:						
Pass-through to County Of Essex – 354 Orange Road Project - Loan	14.239	N/A	N/A	850,000	850,000	850,000
Pass-through to County Of Essex – 134 Bay Avenue Project - Loan	14.239	N/A	N/A	182,000	182,000	182,000
Pass-through to County Of Essex – 99 North 16 th Street Project - Loan	14.239	N/A	N/A	110,000	110,000	110,000
Pass-through to County Of Essex – 184 Kingsland Street Project - Loan	14.239	N/A	N/A	280,000	280,000	<u>280,000</u>
						<u>1,422,000</u>
Subtotal U.S. Department of Housing and Urban Development – Balance Carried Forward						<u>\$ 2,459,126</u>
Subtotal Expenditures of Federal Awards – Balance Carried Forward						<u>\$ 1,759,209</u>

See independent auditors' report and notes to the schedule of expenditures of federal and state awards.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2025

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
Subtotal Expenditures of Federal Awards – Balance Brought Forward						<u>\$ 1,759,209</u>
Subtotal U.S. Department of Housing and Urban Development – Balance Brought Forward						<u>\$ 2,459,126</u>
Continuum of Care Program:						
Pass-through to State of NJ – Supportive Housing Program – Homeless Outreach Services	14.267	N/A	08/01/24– 07/31/25	\$ 20,592		17,307
Supportive Housing Program	14.267	NJ0660L2F092201	11/01/23 – 10/31/24	79,084		10,272
Supportive Housing Program	14.267	NJ0582L2F092205	07/01/24 – 6/30/2025	215,391		<u>151,578</u>
						<u>179,157</u>
Total U.S. Department of Housing and Urban Development						<u>\$ 2,638,283</u>
Total Expenditures of Federal Awards – Balance Carried Forward						<u><u>\$ 4,397,492</u></u>

See independent auditors' report and notes to the schedule of expenditures of federal and state awards.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2025

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
Total Expenditures of Federal Awards - Balance Brought Forward						<u>\$ 4,397,492</u>
<u>State Awards:</u>						
State of NJ - Division of Mental Health and Addiction Services:						
Involuntary Outpatient Commitment - Criminal Justice Program:						
Collaborative Justice Services (Jail Diversion)	N/A	30209	07/01/24 - 06/30/25	\$ 10,385,197		8,087,927
Projects for Assistance in Transition from Homelessness	N/A	30209	07/01/24 - 06/30/25	271,510		296,122
COVID Surplus Retention - (COVID-19)	N/A	30209	03/2020 - 09/2020	89,665		89,665
S.U.R.E.	N/A	30209	07/01/24 - 06/30/25	150,000		<u>150,000</u>
Total State of NJ - Division of Mental Health and Addiction Services						<u>8,623,714</u>
State of NJ - Department of Children and Families:						
Family and Community Partnerships	21.027	25MF0122	07/01/24 - 06/30/25	3,030,213		2,644,225
Children's System of Care	N/A	25CVGR	07/01/24 - 06/30/25	160,500		<u>160,500</u>
Total State of NJ - Department of Children and Families						<u>2,804,725</u>
Subtotal Expenditures of State Awards- Balance Carried Forward						<u>\$ 11,428,439</u>
Total Expenditures of Federal Awards - Balance Carried Forward						<u>\$ 4,397,492</u>

See independent auditors' report and notes to the schedule of expenditures of federal and state awards.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2025

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
Total Expenditures of Federal Awards – Balance Carried Forward						<u>\$ 4,397,492</u>
Subtotal Expenditures of State Awards- Balance Carried Forward						<u>\$ 11,428,439</u>
State of NJ – Division of Food and Nutrition:						
Adult Care Food	N/A	10.558	N/A	136,679		<u>136,679</u>
State of NJ – Department of Community Affairs:						
Division of Housing and Community Resources	N/A	2021-05224- 0282-12	07/01/20 - 07/31/24	860,917		6,801
Division of Housing and Community Resources	N/A	2024-05224- 0229-02	02/01/24 - 09/30/25	620,000		<u>420,265</u>
Total State of NJ Department of Community Affairs						<u>427,066</u>
Total Expenditures of Federal Awards – Balance Carried Forward						<u>\$ 4,397,492</u>
Subtotal Expenditures of State Awards- Balance Carried Forward						<u>\$ 11,992,184</u>

See independent auditors' report and notes to the schedule of expenditures of federal and state awards.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2025

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
Total Expenditures of Federal Awards – Balance Carried Forward						<u>\$ 4,397,492</u>
Subtotal Expenditures of State Awards- Balance Carried Forward						<u>\$ 11,992,184</u>
State of NJ Housing and Mortgage Finance Agency:						
The Bay Project, HMFA #2310	N/A	N/A	4/29/08 - 06/30/25	363,893	363,893	363,893
Project 99, HMFA #2374	N/A	N/A	10/26/09 - 10/29/38	393,237	393,237	393,237
Project 99, HMFA #2374	N/A	N/A	10/26/09 - 10/29/38	110,000	110,000	110,000
184 Kingsland, HMFA #2376	N/A	N/A	6/30/09 - 10/30/39	1,184,188	1,184,188	1,184,188
Orange Road, HMFA #2541	N/A	N/A	6/30/09 - 10/30/39	1,616,211	1,616,211	<u>1,616,211</u>
Total State of NJ Housing and Mortgage Finance Agency:						<u>3,667,529</u>
Total Expenditure of Federal Awards						<u>\$ 4,397,492</u>
Total Expenditure of State Awards						<u>\$ 15,659,713</u>
Total Expenditures of Federal and State Awards						<u>\$ 20,057,205</u>

See independent auditors' report and notes to the schedule of expenditures of federal and state awards.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

Notes to Schedule of Expenditures of Federal and State Awards

June 30, 2025

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (the "Schedule") includes the federal and state grant activity of the Mental Health Association of Essex and Morris, Inc. (the "Association") under programs of the federal and state government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) and the New Jersey OMB Circular 15-08. Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Administrative Requirements (CFR) Part 200, Cost Principles for Non-Profit Organizations, and the New Jersey OMB Circular 15-08, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through Entities

Pass-through entity identifying numbers are presented where available.

10% De Minimis Indirect Cost Rate

The Association has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - Subrecipients

During the year ended June 30, 2025, the Association did not provide any funds relating to their federal or state programs to subrecipients.

Note 4 - Loan and Loan Guarantee Programs

As of June 30, 2025, \$2,251,000 and \$3,667,529 was outstanding from federal and state loan programs, respectively.



**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 of
Mental Health Association of Essex and Morris, Inc.

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 ("Government Auditing Standards"), the financial statements of Mental Health Association of Essex and Morris, Inc. (the "Association") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2025, 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 27, 2025.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.



Report on 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 financial statement. 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



MAGONE & COMPANY, P.C.

Parsippany, New Jersey
October 27, 2025



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

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

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited Mental Health Association of Essex and Morris Inc.'s (the "Association") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement and the New Jersey OMB 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, 2025. 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.

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, 2025.

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 ("GAAS"); the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States ("Government Auditing Standards"); 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 New Jersey OMB Circular Letter 15-08. Our responsibilities under those standards, and the Uniform Guidance and New Jersey OMB Circular Letter 15-08 are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Association 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 the Association's 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 the Association's federal and state programs.

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 the Association's 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 GAAS, Government Auditing Standards, the Uniform Guidance and New Jersey OMB Circular Letter 15-08 will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than 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 the Association's compliance with the requirements of each federal and state program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, the Uniform Guidance, and New Jersey OMB Circular Letter 15-8 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 the Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's 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 and New Jersey OMB Circular Letter 15-8, but not for the purpose of expressing an opinion on the effectiveness of the Association's 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 federal and state programs 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 federal and state programs 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 federal and state programs 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 above 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 and New Jersey OMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.



MAGONE & COMPANY, P.C.

Parsippany, New Jersey
October 27, 2025

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Findings and Questioned Costs
June 30, 2025

1. Summary of Auditors' Results

Financial Statements

- (i) Type of independent auditors' report issued? Unmodified
- (ii) Internal control over financial reporting:
- Material weakness identified? [] Yes [X] No
 - Significant deficiencies identified that are not considered to be material weaknesses? [] Yes [X] None Reported
- (iii) Noncompliance or other matters material to financial statements noted? [] Yes [X] No

Federal and State Awards

- (iv) Internal control over major program:
- Material weakness identified? [] Yes [X] No
 - Significant deficiency identified that are not considered to be material weaknesses? [] Yes [X] None Reported
- (v) Type of independent auditors' report issued on compliance for major program? Unmodified
- (vi) Any audit findings disclosed that are required to be reported under 2CFR § 200.516(a) and New Jersey OMB Circular 15-08? [] Yes [X] No
- (vii) Identification of major programs:
- U.S. Department of Health and Human Services – Block Grants for Community Mental Health Services – Pass-through to the State of New Jersey Department of Human Services – Division of Mental Health and Addiction Services – CFDA #93.958 – Grant Number 30209
 - U.S. Department of Health and Human Services – Projects for Assistance in Transition from Homelessness – Pass-through to the State of New Jersey Department of Human Services – Division of Mental Health and Addiction Services – CFDA #93.150 – Grant Number 30209
 - U.S. Department of Housing and Urban Development – Supportive Housing – Pass-through to the State of New Jersey – Loan - CFDA #14.235 - Grant Number NJ0223B2F040900

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
Schedule of Findings and Questioned Costs
June 30, 2025

1. Summary of Auditors' Results (cont'd.)

(vii) Identification of major programs (cont'd.):

- U.S. Department of Housing and Urban Development – Home Investment Partnership Program – Pass-through to the County of Essex – Loans - CFDA #14.239
- The State of New Jersey – Division of Mental Health and Addiction Services – Involuntary Outpatient Commitment – Criminal Justice Program – Collaborative Justice Services (Jail Diversion) – Grant Number 30209
- The State of New Jersey – Division of Mental Health and Addiction Services – Involuntary Outpatient Commitment – Criminal Justice Program – Projects for Assistance in Transition from Homelessness – Grant Number 30209
- The State of New Jersey Housing and Mortgage Finance Agency – NJHMFA Loan

(viii) Federal awards expensed that exceeded \$750,000 were considered Type A programs.

(ix) The Mental Health Association of Essex and Morris, Inc. was not determined to be a low-risk auditee.

2. Financial Statement Findings

None reported.

3. Federal and State Awards Findings and Questioned Costs

None reported.

4. Summary Schedule of Prior Audit Findings:

None.