

MENTAL HEALTH ASSOCIATION OF
ESSEX COUNTY, INC.

Financial Statements
June 30, 2009 and 2008



MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

FINANCIAL STATEMENTS
June 30, 2009 and 2008

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REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

To the Board of Directors of

Mental Health Association of Essex County, Inc.


We have audited the accompanying statements of financial position of Mental Health Association of Essex County, Inc. (a Not-for-Profit organization) as of June 30, 2009 and 2008, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mental Health Association of Essex County, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2009 on our consideration of Mental Health Association of Essex County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mental Health Association of Essex County, Inc. taken as a whole. The accompanying schedule of expenditures of Federal and State awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Englewood, New Jersey
October 27, 2009

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

ASSETS

	2009	2008
CURRENT ASSETS:		
Cash and cash equivalents	\$ 127,522	\$ 197,599
Investments	993,894	1,106,481
Accounts receivable, less allowance for doubtful accounts of \$3,546 and \$5,956 in 2009 and 2008	110,416	198,963
Grants and contracts receivable	129,462	125,298
Pledges receivable	153,690	35,000
United Way receivable	15,793	12,542
Deposits and prepaid expenses	88,616	47,797
Total Current Assets	1,619,393	1,723,680
PROPERTY, PLANT AND EQUIPMENT:		
Net of accumulated depreciation of \$1,014,778 and \$832,461 in 2009 and 2008	3,142,987	2,775,891
INTANGIBLE ASSETS:		
Net of accumulated amortization of \$4,696 and \$4,476 in 2009 and 2008	10,000	220
OTHER ASSETS:		
Pledges receivable	23,980	45,750
Permanently restricted investments	70,500	70,500
Total Other Assets	94,480	116,250
Total Assets	\$ 4,866,860	\$ 4,616,041
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 180,488	\$ 35,000
Accounts payable and accrued expenses	312,804	225,399
Accrued payroll and related liabilities	298,379	286,365
Deferred support	42,128	67,684
Total Current Liabilities	833,799	614,448
LONG-TERM DEBT	1,697,638	1,467,083
Total Liabilities	2,531,437	2,081,531
NET ASSETS:		
Unrestricted		
Board designated	246,731	246,731
Available for Operations	1,325,953	1,407,497
DMHS Operational Incentives Reserve	177,382	185,716
Temporarily restricted	514,857	624,066
Permanently restricted	70,500	70,500
Total Net Assets	2,335,423	2,534,510
Total Liabilities and Net Assets	\$ 4,866,860	\$ 4,616,041

The accompanying notes are an integral
part of these financial statements

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2009
(With Comparative Totals for the Year Ended June 30, 2008)

	2009			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
SUPPORT AND REVENUES:					
Government grants and contracts:					
NJ Division of Mental Health Services	\$ 4,843,609	\$ -	\$ -	\$ 4,843,609	\$ 4,995,797
NJ Department of Community Affairs	76,000	-	-	76,000	64,800
Nutrition program	38,500	-	-	38,500	36,000
NJ Child Assault Prevention Programs	212,645	-	-	212,645	229,350
NJ Division of Children and Family Services	416,208	-	-	416,208	112,371
Essex County Office on Aging	39,162	-	-	39,162	39,162
Livingston Township	148,425	-	-	148,425	138,712
Essex County Housing and Community Development	-	-	-	-	19,435
East Orange Teens programs	20,000	-	-	20,000	17,500
CIACC, as subrecipient	69,582	-	-	69,582	69,582
Total Support	5,864,131	-	-	5,864,131	5,722,709
Revenues:					
Medicaid, Medicare, welfare and private insurance	1,725,534	-	-	1,725,534	1,752,295
Fee for service	54,186	-	-	54,186	34,009
Income from investments	(50,090)	-	-	(50,090)	(17,150)
Miscellaneous	81,579	-	-	81,579	20,126
Total Revenues	1,811,209	-	-	1,811,209	1,789,280
Public Support:					
Contributions, membership, dues and bequests	185,232	-	-	185,232	68,498
Grants	7,789	-	-	7,789	11,173
United Way	43,646	-	-	43,646	73,100
Special events	248,846	-	-	248,846	266,214
Total Public Support	485,513	-	-	485,513	418,985
Net Assets Released from Restrictions:	109,209	(109,209)	-	-	-
TOTAL SUPPORT AND REVENUES	8,270,062	(109,209)	-	8,160,853	7,930,974
EXPENSES:					
Program services	6,910,812	-	-	6,910,812	6,554,133
Management and general	1,212,469	-	-	1,212,469	1,114,874
Fundraising	236,659	-	-	236,659	219,459
TOTAL EXPENSES	8,359,940	-	-	8,359,940	7,888,466
CHANGES IN NET ASSETS	(89,878)	(109,209)	-	(199,087)	42,508
NET ASSETS, Beginning of Year	1,839,944	624,066	70,500	2,534,510	2,492,002
NET ASSETS, End of Year	\$ 1,750,066	\$ 514,857	\$ 70,500	\$ 2,335,423	\$ 2,534,510

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (199,087)	\$ 42,508
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	182,535	165,960
Provision for doubtful accounts	2,410	5,500
Unrealized loss on investments	99,173	74,723
Net (gain) loss on sale of securities	2,412	(12,987)
Change in assets:		
Receivables	81,132	33,172
Pledges receivable	(96,920)	(1,250)
Deposits and prepaid expenses	(40,819)	(1,377)
Change in liabilities:		
Accounts payable and accrued expenses	87,405	6,298
Accrued payroll and related liabilities	12,014	66,628
Deferred support	(25,556)	(94,348)
Contributions restricted for permanent investments	-	(2,500)
Net Cash Provided by Operating Activities	104,699	282,327
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(565,311)	(762,559)
Proceeds from sale of investments	573,905	661,580
Purchase of permanently restricted investments	-	(2,500)
Purchase of property, plant and equipment, net of trade-in allowances	(559,413)	(1,195,451)
Net Cash Used in Investing Activities	(550,819)	(1,298,930)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(396,083)	(71,000)
Borrowings on long-term debt	772,126	1,036,083
Contributions restricted for permanent investments	-	2,500
Net Cash Provided by Financing Activities	376,043	967,583
DECREASE IN CASH AND CASH EQUIVALENTS	(70,077)	(49,020)
CASH AND CASH EQUIVALENTS, Beginning of Year	197,599	246,619
CASH AND CASH EQUIVALENTS, End of Year	\$ 127,522	\$ 197,599
Supplemental Disclosure:		
Cash paid during the year for interest	\$ 30,790	\$ 4,767

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009
(With Comparative Totals for the Year Ended June 30, 2008)

2009

	Integrated Case Management Service Program	Prospect House Program	Supported Employment Programs	Family Support Programs	Unified Care Management	Youth Programs	Criminal Justice / Jail Diversion Program
Salaries	\$ 1,195,625	\$ 1,046,505	\$ 332,836	\$ 400,654	\$ 289,137	\$ 256,031	\$ 241,230
Fringe benefits and payroll taxes	257,045	224,986	71,556	86,136	62,161	55,044	51,862
Therapists / consultants	-	-	-	-	-	177,365	-
Joint Program Consultants (UBHC)	-	-	-	-	-	-	293,468
Occupancy	64,841	153,310	40,185	24,527	-	7,251	13,089
Equipment rental and maintenance	17,783	42,192	21,699	8,595	-	8,538	3,170
Telephone	19,892	10,399	7,695	9,039	6,171	12,508	3,192
Supplies	10,094	24,269	4,558	4,498	119	21,670	6,020
Travel, transportation and conference	36,833	40,940	5,301	10,671	2,418	3,715	2,730
Insurance	38,133	26,334	13,888	7,990	-	3,437	12,358
Advertising	1,419	3,186	588	-	718	499	548
Professional fees	10,613	8,603	3,778	2,613	-	2,773	4,221
Food	-	53,839	-	-	-	-	-
Postage and printing	1,334	300	521	1,706	17	2,159	-
Mortgage interest	-	-	-	1,108	-	175	-
Subscriptions and publications	40	1,000	-	-	-	-	-
Data processing	7,453	6,431	2,144	1,484	-	1,944	1,072
Mental Health Association dues	-	-	-	-	-	-	-
Consumer assistance	8,179	1,561	540	1,270	-	-	3,918
Public awareness	-	-	-	340	-	-	-
Special events	-	-	-	-	-	-	-
Depreciation and amortization	50,864	52,685	13,057	4,099	-	-	-
Bad debts	-	-	-	-	-	-	-
Miscellaneous	55	1,073	50	664	-	-	-
TOTAL OPERATING EXPENSES	\$ 1,720,203	\$ 1,697,613	\$ 518,396	\$ 565,394	\$ 360,741	\$ 553,109	\$ 636,878

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended June 30, 2009

(With Comparative Totals for the Year Ended June 30, 2008)

	2009					2008	
	Supportive Living Services	Center for Low Cost Psychotherapy	Total Program Services	Management and General	Fundraising	Total Combined	Total Combined
Salaries	\$ 247,021	\$ 196,392	\$ 4,205,431	\$ 793,077	\$ 83,320	\$ 5,081,828	\$ 4,637,341
Fringe benefits and payroll taxes	53,107	42,222	904,119	169,288	17,913	1,091,320	1,022,281
Therapists / consultants	-	6,600	183,965	-	-	183,965	190,025
Joint Program Consultants (UBHC)	-	-	293,468	-	-	293,468	297,804
Occupancy	101,580	4,686	409,469	36,614	-	446,083	404,206
Equipment rental and maintenance	1,056	6,451	109,484	34,805	4,599	148,888	183,973
Telephone	8,366	5,753	83,015	24,612	-	107,627	115,671
Supplies	8,850	1,524	81,602	12,344	2,586	96,532	152,481
Travel, transportation and conference	11,060	1,478	115,146	33,743	1,391	150,280	165,104
Insurance	4,752	1,843	108,735	8,045	-	116,780	124,578
Advertising	822	-	7,780	873	2,271	10,924	27,740
Professional fees	9,470	1,587	43,658	18,029	-	61,687	72,208
Food	-	-	53,839	-	-	53,839	47,730
Postage and printing	93	1,117	7,247	6,776	964	14,987	17,218
Mortgage interest	106,364	113	107,760	1,841	-	109,601	74,613
Subscriptions and publications	-	-	1,040	532	374	1,946	2,668
Data processing	249	1,521	22,298	3,041	-	25,339	23,906
Mental Health Association dues	-	-	-	15,896	-	15,896	17,194
Consumer assistance	2,938	-	18,406	-	-	18,406	26,409
Public awareness	-	-	340	10,309	-	28,149	20,000
Special events	-	-	-	-	17,500	28,149	20,000
Depreciation and amortization	30,705	-	151,410	31,125	103,831	103,831	82,782
Bad debts	-	-	-	-	-	182,535	165,960
Miscellaneous	50	708	2,600	11,519	1,910	16,029	5,500
TOTAL OPERATING EXPENSES	\$ 586,483	\$ 271,995	\$ 6,910,812	\$ 1,212,469	\$ 236,659	\$ 8,359,940	\$ 7,888,466

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

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

The Mental Health Association of Essex County, Inc. (The "Association") is a Not-for-Profit organization whose mission is to promote mental health, improve the care and treatment of individuals with mental illness and to remove the stigma associated with mental disorders. This is accomplished through advocacy, education, prevention, treatment and service. The Association's revenues are derived principally from state funding, third party reimbursements and support from the general public.

Classes of Net Assets:

The Association records gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets include gifts which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

The Board has designated certain unrestricted net assets to be used as an endowment or for specific future purposes, subject to board approval.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents:

The Association considers all short-term investments with a maturity of three months or less to be cash equivalents.

Investments:

Investments are reported at their fair market values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Accounts Receivable:

Accounts receivable represent amounts due from Medicaid. Bad debts are accounted for using the reserve method based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year.

Income Taxes:

The Association is exempt from federal, state and local income taxes as a voluntary, Not-for-Profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for income taxes are included in the financial statements.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

Intangible Assets and Property, Plant and Equipment:

Intangible assets and property, plant and equipment are stated at cost (fair market value at date of donation if contributed) less accumulated depreciation and amortization. Depreciation and amortization are provided principally using the straight-line method over the estimated lives of the assets as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Computer software	3-5 Years
Buildings and improvements	5-40 Years
Furniture and fixtures	5-7 Years
Transportation equipment	5 Years
Computer equipment	5 Years

Summarized Comparative Information:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported support, revenues and expenses. Actual results could differ from those estimates.

Reclassification:

Certain reclassifications have been made to prior year information in order to conform with current year presentation.

Subsequent Events

Subsequent events have been evaluated through October 27, 2009, the date the financial statements were issued. No events have occurred subsequent to the statement of financial position date and through the date of issuance that would require adjustment to or disclosure in the accompanying financial statements.

NOTE 2 - INVESTMENTS:

Investments consisted of the following at June 30, 2009:

<u>Description</u>	<u>06/30/09</u>	<u>Quoted Prices: Level 1</u>
Money Market	\$ 40,398	\$ 40,398
Domestic and international equity funds	372,975	372,975
Bonds	<u>651,021</u>	<u>651,021</u>
Total	<u>\$ 1,064,394</u>	<u>\$ 1,064,394</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 2 - INVESTMENTS (CONTINUED):

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

Investment return is summarized as follows:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Investment income	\$ 51,495	\$ -	\$ -	\$ 51,495
Gain on sale of securities	(2,412)	-	-	(2,412)
Unrealized gain in investments	<u>(99,173)</u>	<u>-</u>	<u>-</u>	<u>(99,173)</u>
Total Income from Investments	<u>\$ (50,090)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (50,090)</u>

NOTE 3 - PLEDGES RECEIVABLE:

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

Receivable in less than one year	\$ 153,690
Receivable in one to five years	<u>25,000</u>
Total pledges receivable	178,690
Less discounts to net present value	<u>(1,020)</u>
Net pledges receivable as of June 30, 2009	<u>\$ 177,670</u>

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT:

Property and equipment consisted of the following at June 30, 2009 and 2008:

	2009	2008
Land	\$ 1,097,492	\$ 1,037,492
Building and improvements	2,329,715	1,901,093
Furniture and fixtures	109,652	104,954
Transportation equipment	541,282	482,786
Computer equipment	<u>79,624</u>	<u>82,027</u>
Total Property, Plant and Equipment	4,157,765	3,608,352
Less: accumulated depreciation	<u>1,014,778</u>	<u>832,461</u>
	<u>\$ 3,142,987</u>	<u>\$ 2,775,891</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

NOTE 5 - INTANGIBLE ASSETS:

Intangible assets consisted of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Computer Software	\$ 14,696	\$ 4,696
Less: accumulated amortization	<u>4,696</u>	<u>4,476</u>
Total Intangible Assets	<u>\$ 10,000</u>	<u>\$ 220</u>

NOTE 6 - LONG-TERM DEBT:

The following is a summary of long-term debt at June 30, 2009 and 2008:

1. Mortgage note payable to a New Jersey state agency through July 1, 2010 at fixed annual principal payment plus interest at varying rates (average 4.464%). The required payment is withheld ratably from the Association's monthly advances under their State of New Jersey Division of Mental Health Services award. This note is collateralized by land and building in Montclair, New Jersey. The balance as of June 30, 2009 and 2008 was \$35,000 and \$70,000, respectively.
2. Mortgage note payable to the Corporation for Supportive Housing bearing interest at 6% per annum. The note is collateralized by land and building in Bloomfield, New Jersey. The balance as of June 30, 2009 and 2008 was \$396,000. It is anticipated that the Association will secure permanent financing with Essex County Home Funds and New Jersey Housing and Mortgage Finance Agency (HMFA) and use those monies to repay this note payable.
3. Mortgage note payable to New Jersey Housing and Mortgage Finance Agency (HMFA) bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The balance as of June 30, 2009 was \$396,608. The mortgage will be repayable only if the property does not remain available for very-low income eligible individuals for no less than 15 years.
4. Mortgage note payable to the Corporation for Supportive Housing bearing interest 7% per annum. The note is collateralized by land and building in Nutley, New Jersey. The balance as of June 30, 2009 and 2008 was \$675,000. It is anticipated that the Association will secure permanent financing with Essex County Home Funds and New Jersey Housing and Mortgage Finance Agency (HMFA). The Association has also applied for additional funds through the Federal Home Loan Bank.
5. Mortgage note payable to the County of Essex bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The balance as of June 30, 2009 was \$181,830. The mortgage will be repayable only if the property does not remain available for very low-income eligible individuals for no less than 20 years.
6. Mortgage note payable to the County of Essex bearing no interest. The note is collateralized by land and building in Nutley, New Jersey. The balance as of June 30, 2009 was \$48,200. The mortgage will be repayable only if the property does not remain available for very low-income eligible individuals for now less than 20 years.

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED):

7. The Association has a \$500,000 revolving line of credit bearing interest at the bank's prime rate plus 1/2% and expiring April 1, 2010. At June 30, 2009 the Association had a \$145,488 outstanding balance.

Future required principal payments on all long-term debt at June 30, 2009 are as follows:

Year ending June 30,

2010	\$ 180,488
2011	-
2012	-
2013	-
2014 and thereafter	<u>1,697,638</u>
	<u>\$ 1,878,126</u>

NOTE 7 - ENDOWMENT FUNDS:

Board Designated Endowment

As of June 30, 2009, the Board of Directors has designated \$246,731 of unrestricted net assets as a general endowment fund to support Mental Health Association of Essex County, Inc. Since that amount resulted from an internal designation and is not donor restricted, it is classified and reported as unrestricted net assets.

Donor Designated Endowment

The Association's endowment consists of individual funds established for the purpose of supporting Mental Health Association of Essex County, Inc. Client's Programs. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Association has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 7 - ENDOWMENT FUNDS (CONTINUED):

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.

Investment Return Objectives, Risk Parameters and Strategies. The Association has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return exceeding the Consumer Price index by 3% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Association has a policy of appropriating for distribution each year 5% of the average total net assets at year-end for the five-year period ended with the most recent fiscal year-end. In establishing this policy, the Association considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Association expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment fund	\$ -	\$ 70,500	\$ 70,500
Board-designated endowment fund	<u>246,731</u>	<u>-</u>	<u>246,731</u>
Total funds	<u>\$ 246,731</u>	<u>\$ 70,500</u>	<u>\$ 317,231</u>

MENTAL HEALTH ASSOCIATION OF ESSEX COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were available for the following purposes or periods at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Prospect House deficit funding	\$ 328,833	\$ 378,042
Mental Health in "The School Program"	20,701	20,701
Educational activities	11,796	11,796
Prospect House consumer trips	60,441	60,441
Supportive Housing	<u>93,086</u>	<u>153,086</u>
Total Temporarily Restricted Net Assets	<u>\$ 514,857</u>	<u>\$ 624,066</u>

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS:

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

	<u>2009</u>	<u>2008</u>
Educational activities	\$ 25,000	\$ 25,000
General purposes	<u>45,500</u>	<u>45,500</u>
Total Permanently Restricted Net Assets	<u>\$ 70,500</u>	<u>\$ 70,500</u>

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the years ended June 30, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Prospect House deficit funding	\$ 49,209	\$ 2,500
"The School Program"	-	10,000
President's Club speaker	-	10,000
Prospect House consumer trips	-	3,500
Supportive Housing (Drill Endowment)	<u>60,000</u>	<u>-</u>
Total Program Restrictions	<u>\$ 109,209</u>	<u>\$ 26,000</u>

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 the staff salaries and other expenses associated with the program. Advances are included in support, and disbursements are included in program expenses, currently \$198,833 and \$195,913, respectively. Timing differences in the recording of advances and expenses may result in the appearance of a slight program deficit or a surplus in any given year.

As required by the NJCAP program, a separate bank account is maintained for all program receipts and disbursements.

