

Audited  
Financial  
Statements

June 30,  
2018

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The Mental Health  
Association of  
Frederick County, Inc.

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Smith Elliott Kearns & Company, LLC  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The Mental Health Association of Frederick County, Inc.  
Frederick, Maryland

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of The Mental Health Association of Frederick County, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

#### *Auditor's Responsibility*

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mental Health Association of Frederick County, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Smith Elliott Heavens & Company, LLC*

Hagerstown, Maryland  
October 10, 2018

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 188,411	\$ 346,311
Investments	152,558	145,988
Grants receivable	293,622	218,560
Pledges receivable - net	121,219	128,860
Accounts receivable - other	49,512	19,152
Prepaid expenses	22,219	21,301
Future Interest Endowment Fund held by CFFC	55,344	50,801
Land, building and equipment, net	<u>2,621,212</u>	<u>2,707,931</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,504,097</u></b>	<b><u>\$ 3,638,904</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 185,065	\$ 152,753
Notes payable	1,110,125	1,136,175
Unexpended portion of grants received	<u>29,710</u>	<u>55,088</u>
Total Liabilities	<u>1,324,900</u>	<u>1,344,016</u>
<b>Net Assets</b>		
Unrestricted		
Undesignated	2,042,113	2,093,320
Board designated	<u>137,084</u>	<u>201,568</u>
Total Net Assets	<u>2,179,197</u>	<u>2,294,888</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,504,097</u></b>	<b><u>\$ 3,638,904</u></b>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statement of Activities**  
**Year Ended June 30, 2018**

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	Unrestricted	Temporarily Restricted	Total
<b>UNRESTRICTED REVENUES AND OTHER SUPPORT</b>			
Public grants	\$ 1,644,832	\$ -	\$ 1,644,832
Program service revenue	443,016	-	443,016
Contract revenue	193,810	-	193,810
United Way	39,123	-	39,123
Donations and foundation grants	327,643	-	327,643
Special event revenue	218,710	-	218,710
In-kind donated goods and services	77,920	-	77,920
Other income	5,122	-	5,122
Investment income, net	13,961	-	13,961
	<u>2,964,137</u>	<u>-</u>	<u>2,964,137</u>
<b>EXPENSES</b>			
Program Services			
Preparing Resilient Children	742,962	-	742,962
Securing Vulnerable Families	484,375	-	484,375
Facing Crises Together	1,187,200	-	1,187,200
Supporting Our Whole Community	222,680	-	222,680
Total Program Services	<u>2,637,217</u>	<u>-</u>	<u>2,637,217</u>
Supporting Services			
Management and general	290,647	-	290,647
Fundraising	151,839	-	151,839
Total Supporting Services	<u>442,486</u>	<u>-</u>	<u>442,486</u>
Total Expenses	<u>3,079,703</u>	<u>-</u>	<u>3,079,703</u>
(Loss) From Operations	<u>(115,566)</u>	<u>-</u>	<u>(115,566)</u>
<b>OTHER (LOSSES)</b>			
(Loss) on sale of property and equipment	<u>(125)</u>	<u>-</u>	<u>(125)</u>
Change in Net Assets	(115,691)	-	(115,691)
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	<u>2,294,888</u>	<u>-</u>	<u>2,294,888</u>
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	<u>\$ 2,179,197</u>	<u>\$ -</u>	<u>\$ 2,179,197</u>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statement of Activities**  
**Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>UNRESTRICTED REVENUES AND OTHER SUPPORT</b>			
Public grants	\$ 1,602,648	\$ -	\$ 1,602,648
Program service revenue	282,173	-	282,173
Contract revenue	190,793	-	190,793
United Way	37,798	-	37,798
Donations and private foundation grants	442,193	-	442,193
Special event revenue	130,430	-	130,430
In-kind donated goods and services	66,837	-	66,837
Membership dues	4,610	-	4,610
Other income	6,674	-	6,674
Investment income, net	19,258	-	19,258
Net assets released from restrictions	6,741	(6,741)	-
	<u>2,790,155</u>	<u>(6,741)</u>	<u>2,783,414</u>
<b>EXPENSES</b>			
Program services:			
Preparing Resilient Children	752,978	-	752,978
Securing Vulnerable Families	414,618	-	414,618
Facing Crises Together	1,095,490	-	1,095,490
Supporting Our Whole Community	204,782	-	204,782
Total Program Services	<u>2,467,868</u>	-	<u>2,467,868</u>
Supporting services:			
Management and general	306,136	-	306,136
Fundraising	106,065	-	106,065
Total Supporting Services	<u>412,201</u>	-	<u>412,201</u>
Total Expenses	<u>2,880,069</u>	-	<u>2,880,069</u>
Change in Net Assets	(89,914)	(6,741)	(96,655)
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	<u>2,384,802</u>	<u>6,741</u>	<u>2,391,543</u>
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	<u>\$ 2,294,888</u>	<u>\$ -</u>	<u>\$ 2,294,888</u>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statements of Functional Expenses**  
**Year Ended June 30, 2018**

	Program Services				Supporting Services			Total
	Preparing Resilient Children	Securing Vulnerable Families	Facing Crises Together	Supporting Our Whole Community	Total Program Services	Management and General	Fundraising	
Salaries	\$ 511,107	\$ 355,967	\$ 900,425	\$ 97,513	\$ 1,865,012	\$ 221,170	\$ 19,368	\$ 2,105,550
Employee benefits	32,088	11,354	31,843	4,182	79,467	14,117	235	93,819
Payroll taxes	37,911	28,130	67,907	7,201	141,149	16,326	1,431	158,906
<b>Total Salaries and Related Expenses</b>	<b>581,106</b>	<b>395,451</b>	<b>1,000,175</b>	<b>108,896</b>	<b>2,085,628</b>	<b>251,613</b>	<b>21,034</b>	<b>2,358,275</b>
Advertising	787	-	2,761	1,714	5,262	-	-	5,262
Bad debt expense	-	-	-	16,725	16,725	-	-	16,725
Client training	33,649	11,583	3,458	7,028	55,718	-	-	55,718
Depreciation	23,876	15,488	51,541	29,236	120,141	-	-	120,141
Discount from MV	-	-	-	3,520	3,520	-	-	3,520
Dues and publications	4,483	1,320	9,498	1,147	16,448	2,456	-	18,904
Equipment	5,614	4,991	17,652	228	28,485	637	-	29,122
Fundraising direct expenses	-	-	-	-	-	-	127,705	127,705
Insurance	4,798	3,404	10,184	949	19,335	2,074	169	21,578
Interest and finance charges	8,708	10,186	22,014	12,449	53,357	-	1,904	55,261
Interpreter services	1,614	366	3,167	-	5,147	-	-	5,147
Miscellaneous	-	376	218	17,106	17,700	1,295	-	18,995
Office supplies	4,395	618	1,719	564	7,296	5,321	15	12,632
Postage	1,732	183	262	648	2,825	356	248	3,429
Printing	3,754	1,712	47	594	6,107	274	-	6,381
Professional fees	5,699	4,161	10,342	1,002	21,204	7,196	147	28,547
Program library materials	292	89	-	190	571	-	-	571
Rent	3,579	1,353	-	-	4,932	1,901	-	6,833
Repairs and maintenance	11,900	7,633	15,467	7,462	42,462	12,612	268	55,342
Security and background checks	-	2,321	315	50	2,686	-	349	3,035
Staff training	15,410	7,727	5,994	5,023	34,154	-	-	34,154
Telephone	7,067	4,728	10,040	568	22,403	1,253	-	23,656
Travel and meetings	15,891	4,524	1,487	2,542	24,444	274	-	24,718
Utilities	4,610	3,077	9,584	590	17,861	2,448	-	20,309
Web programs	3,998	3,084	11,275	4,449	22,806	937	-	23,743
<b>TOTAL EXPENSES</b>	<b>\$ 742,962</b>	<b>\$ 484,375</b>	<b>\$ 1,187,200</b>	<b>\$ 222,680</b>	<b>\$ 2,637,217</b>	<b>\$ 290,647</b>	<b>\$ 151,839</b>	<b>\$ 3,079,703</b>



**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**

	Program Services				Supporting Services			Total
	Preparing Resilient Children	Securing Vulnerable Families	Facing Crises Together	Supporting Our Whole Community	Total Program Services	Management and General	Fundraising	
Salaries	\$ 518,150	\$ 303,954	\$ 831,613	\$ 78,700	\$ 1,732,417	\$ 235,746	\$ 11,195	\$ 1,979,358
Employee benefits	32,090	15,119	27,123	3,602	77,934	13,325	155	91,414
Payroll taxes	40,324	24,401	67,077	6,447	138,249	17,734	830	156,813
<b>Total Salaries and Related Expenses</b>	<b>590,564</b>	<b>343,474</b>	<b>925,813</b>	<b>88,749</b>	<b>1,948,600</b>	<b>266,805</b>	<b>12,180</b>	<b>2,227,585</b>
Advertising	1,138	-	4,389	352	5,879	-	-	5,879
Client training	37,209	3,761	2,302	12,465	55,737	-	-	55,737
Depreciation	27,167	17,400	55,399	18,114	118,080	12,078	-	130,158
Dues and publications	4,082	512	1,415	965	6,974	1,400	-	8,374
Equipment	1,038	1,963	2,091	7,849	12,941	-	-	12,941
Fundraising direct expenses	-	-	-	-	-	-	90,671	90,671
Insurance	4,416	2,591	8,159	674	15,840	1,989	91	17,920
Interest and finance charges	9,463	10,920	24,358	10,466	55,207	-	1,718	56,925
Interpreter services	875	417	2,844	5	4,141	-	-	4,141
Miscellaneous	39	531	232	10,289	11,091	1,475	168	12,734
Office supplies	3,757	1,074	1,815	423	7,069	4,221	10	11,300
Postage	2,183	240	133	28	2,584	443	463	3,490
Printing	3,681	-	1,638	2,020	7,339	111	-	7,450
Professional fees	7,384	4,333	12,751	5,473	29,941	2,328	95	32,364
Program library materials	959	50	-	183	1,192	-	-	1,192
Rent	3,658	1,102	-	-	4,760	1,743	-	6,503
Repairs and maintenance	12,578	7,001	16,432	6,712	42,723	8,753	179	51,655
Security and background checks	279	2,247	524	461	3,511	-	490	4,001
Staff training	9,846	3,046	2,130	31,201	46,223	121	-	46,344
Telephone	7,324	3,716	9,743	605	21,388	1,281	-	22,669
Travel and meetings	16,323	4,278	1,926	1,368	23,895	275	-	24,170
Utilities	4,919	3,021	10,076	677	18,693	2,567	-	21,260
Web programs	4,096	2,941	11,320	5,703	24,060	546	-	24,606
<b>TOTAL EXPENSES</b>	<b>\$ 752,978</b>	<b>\$ 414,618</b>	<b>\$ 1,095,490</b>	<b>\$ 204,782</b>	<b>\$ 2,467,868</b>	<b>\$ 306,136</b>	<b>\$ 106,065</b>	<b>\$ 2,880,069</b>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (115,691)	\$ (96,655)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Write-off of pledges receivable	12,630	-
Change in allowance for pledges receivable	4,095	-
Depreciation	120,141	130,158
Loss on disposal of property and equipment	125	-
Net realized and unrealized (gain) on investments	(12,286)	(14,705)
(Increase) in grants receivable	(75,062)	(17,800)
(Increase) decrease in pledges receivable	(9,084)	12,347
(Increase) in other receivables	(30,360)	(13,567)
(Increase) decrease in prepaid expenses	(918)	3,026
(Decrease) in unexpended portion of grants received	(25,378)	(10,043)
Increase in accounts payable and accrued expenses	<u>32,312</u>	<u>9,649</u>
Net Cash Provided by (Used in) Operating Activities	<u>(99,476)</u>	<u>2,410</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(33,547)	-
Net proceeds from sale (purchase) of investments	<u>1,173</u>	<u>(7,119)</u>
Net Cash (Used in) Investing Activities	<u>(32,374)</u>	<u>(7,119)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	<u>(26,050)</u>	<u>(25,018)</u>
Net Cash (Used in) Financing Activities	<u>(26,050)</u>	<u>(25,018)</u>
Net (Decrease) in Cash and Cash Equivalents	(157,900)	(29,727)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>346,311</u>	<u>376,038</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 188,411</u>	<u>\$ 346,311</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ 43,574	\$ 45,720

# **THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**

## **Notes to Financial Statements**

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### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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#### ***Organization and Nature of Operations***

Mental Health Association of Frederick County, Inc. (Association) is a not-for-profit organization founded in 1965. The Association works to build a strong foundation of emotional wellness for the whole community by preparing resilient children, securing vulnerable families, and standing with people to face crises together. The Association envisions a community where children can grow and thrive without fear, good mental health is valued, people of all ages know when and how to seek help for emotional or family problems without shame, and everyone will have access to services without barriers.

Through 12 active programs, the Association provides services that prepare resilient children, secure vulnerable families, stand beside people as they face crises, and support our whole community through mental health education and advocacy. Services include: 24-hour call center, professional development/capacity building for early childhood professionals, counseling services, court appointed special advocates, healthy families, mental health first aid, parent coaching, partnership for emotionally resilient kids, suicide prevention/intervention training, supervised visitation/monitored transfer, survivors of suicide support group, systems navigation, telephone reassurance, and walk-in behavioral health.

#### ***Preparing Resilient Children***

The Association offers guidance to first-time parents on vital topics including pregnancy, child development, and medical care; partners with early childhood educators to ensure all children have an appropriate environment in which to learn; and supports children with behavioral issues because the key to a child's success tomorrow is building his/her mental and emotional resilience today. It makes a difference when every child in our community has the best start. The Association prepares children to adapt to whatever situations and setbacks they face in life and become strong, stable members of the community around them.

#### ***Securing Vulnerable Families***

The Association provides families with support, stability, and the promise of a better tomorrow with a safe, neutral location for parents and children to develop, renew, and/or sustain a healthy relationship; secure transfer of children from one parent to another; and/or advocate for the best interests of children in the court system while facilitating their placement in loving, permanent homes.

#### ***Facing Crises Together***

From intervention and a supporting voice at the moment of crisis to resources and information that show the way forward to sustained counseling and assistance for the weeks and months ahead, no one should have to face these struggles alone. The Association is available 24 hours a day, 7 days a week helping people and saving lives.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### ***Supporting Our Whole Community***

The Association does more than support the thousands of individuals who seek its services each year. It provides mental health education and advocacy on a community-wide basis, raising awareness of the importance of mental health and related services. This work strengthens our whole community by encouraging those who feel alone to seek support; promoting understanding; and bolstering mental and emotional well-being in schools, businesses, and homes.

#### ***Basis of Accounting and Presentation***

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, support and revenue are recorded when earned and expenses are recorded when incurred. Net assets revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

##### ***Unrestricted Net Assets***

Net assets not subject to donor-imposed restrictions.

##### ***Temporarily Restricted Net Assets***

Net assets subject to donor-imposed restrictions. Such restrictions expire either by the passage of time or actions of the Association. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. At June 30, 2018 and 2017, the Association had no temporarily restricted net assets.

##### ***Permanently Restricted Net Assets***

Net assets subject to donor-imposed restrictions. Such restrictions neither expire by the passage of time nor can be fulfilled or otherwise removed by the Association's actions. At June 30, 2018 and 2017, the Association had no permanently restricted net assets.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted revenue.

#### ***Reclassifications***

Certain prior year amounts have been reclassified to conform with the current year presentation.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### *Investments*

Investments are reported at fair value in the Statements of Financial Position. Realized and unrealized gains and losses are included in investment income, net in the Statements of Activities.

#### *Grants Receivable*

The Association considers grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made.

#### *Pledges Receivable*

Pledges are recorded as revenue when a signed pledge form is received. It is the Association's policy to evaluate individual pledges annually to determine collectability. As such, the Association maintains an allowance for doubtful pledges based on historical write-off trends and other known conditions surrounding the pledge. Additionally, the Association calculates a present value adjustment for pledges receivable by determining the present value of the future contributions expected to be received, using a discount rate of 2.25%.

#### *Property and Equipment*

Property and equipment consist of land, building, furniture, and equipment and are stated at cost. The Association capitalizes property and equipment purchases over \$2,000 with estimated useful lives greater than one year. Lesser amounts are expensed. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is calculated on the straight-line basis over the useful lives of the assets:

Buildings and improvements	5-39 years
Equipment	3-10 years
Furniture & fixtures	3-10 years
Computer equipment & software	3-5 years

# **THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**

## **Notes to Financial Statements**

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### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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#### ***Compensated Absences***

The Association's personnel policies allow employees to accumulate a limited amount of earned but unused vacation leave, which will be paid to employees in the event of termination. Employees are not paid for sick leave accumulated at the time they terminate employment with the Association. The Association has recorded a provision for accumulated unused vacation leave in the financial statements.

#### ***Revenue Recognition***

The Association's primary source of revenue is public grants. The Association is dependent on this source to continue its level of programs and services. Grants, pledges, and contributions are recorded when the donor makes a promise to give to the Association that is, in substance, unconditional. The Association may also receive fees for services performed under contract agreements, which are recognized as revenue when the services are performed. Conditional grant proceeds or contract fees that are received in advance but have not been earned are recorded as the unexpended portion of grants received in the Statements of Financial Position.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

#### ***Donated Goods and Services***

Many volunteers have made significant contributions of time in furthering the Association's programs and objectives. The value of this contributed time is not recorded in the accompanying financial statements, because the contributed services provided do not require specialized skills or create or enhance non-financial assets. Donations in-kind are recorded at fair value at the date of the gift.

#### ***General and Program Service Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association. Certain costs have been allocated among the programs based upon estimates of actual time or resources devoted to each program.

#### ***Advertising***

Advertising costs are expensed as incurred and included in program services. Advertising and marketing expense amounted to \$5,262 and \$5,879 for the years ended June 30, 2018 and 2017, respectively.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### *Income Tax Status*

The Association has been recognized by the Internal Revenue Service as a not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on income from operations related to its tax-exempt purpose. In addition, the Internal Revenue Service has determined the Association is not a private foundation within the meaning of Section 509(a) of the Code.

The Association follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The Association's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. The Association's federal and state tax returns are subject to examination by the Internal Revenue Service and state tax authorities, generally for a period of three years after the returns are filed.

#### *Statements of Cash Flows*

For purposes of the statement of cash flows, the Association considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

The Association maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Association believes it is not exposed to any significant credit risk on cash and cash equivalents.

### NOTE 2 INVESTMENTS

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Investments are carried at fair value at June 30, 2018 and 2017 and consist of the following:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 3,294	\$ 3,169
Exchange-traded funds	<u>149,264</u>	<u>142,819</u>
Total investments	<u>\$ 152,558</u>	<u>\$ 145,988</u>

The Association invests in various securities, which are exposed to various risk, such as interest rate, credit and overall volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of securities will occur in the near term, and such changes could materially affect the amounts reported in the Statements of Financial Position.

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Notes to Financial Statements**

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**NOTE 2 INVESTMENTS (CONTINUED)**

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The components of investment income at June 30, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Interest and dividends	\$ 8,294	\$ 8,188
Unrealized gains, net	800	9,884
Realized gains, net	6,943	3,626
Investment expenses	<u>(2,076)</u>	<u>(2,440)</u>
	<u>\$ 13,961</u>	<u>\$ 19,258</u>

**NOTE 3 PLEDGES RECEIVABLE**

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Pledges receivable at June 30, 2018 consist of unconditional promises to give to be received by the Association in years subsequent to June 30, 2018. Pledges receivable consists of the following:

	<b>2018</b>	<b>2017</b>
Pledges receivable, beginning of year	\$ 128,860	\$ 141,207
New pledges	48,745	64,600
Write-offs	(12,630)	-
Payments received	<u>(36,141)</u>	<u>(76,947)</u>
Gross pledges receivable	128,834	128,860
Present value adjustment	(3,520)	-
Allowance for doubtful accounts	<u>(4,095)</u>	<u>-</u>
Pledges receivable, end of year	<u>\$ 121,219</u>	<u>\$ 128,860</u>

	<b>2018</b>	<b>2017</b>
Receivable in less than one year	\$ 44,564	\$ 38,769
Receivable in one to five years	82,970	88,691
Receivable in five to ten years	<u>1,300</u>	<u>1,400</u>
Total pledges receivable	<u>\$ 128,834</u>	<u>\$ 128,860</u>



**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Notes to Financial Statements**

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**NOTE 4 LAND, BUILDING AND EQUIPMENT**

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Property and equipment at June 30, 2018 consists of the following:

	Cost	Accumulated Depreciation	Book Value
<b>2018</b>			
Land	\$ 257,481	\$ -	\$ 257,481
Building and improvements	2,852,707	537,625	2,315,082
Equipment	137,447	103,307	34,140
Furniture and fixtures	97,672	92,470	5,202
Computer equipment and software	49,760	40,453	9,307
	<u>\$ 3,395,067</u>	<u>\$ 773,855</u>	<u>\$ 2,621,212</u>
<b>2017</b>			
Land	\$ 257,481	\$ -	\$ 257,481
Building and improvements	2,832,836	454,112	2,378,724
Equipment	124,052	86,047	38,005
Furniture and fixtures	98,989	88,113	10,876
Computer equipment and software	49,760	26,915	22,845
	<u>\$ 3,363,118</u>	<u>\$ 655,187</u>	<u>\$ 2,707,931</u>

Depreciation charged to expense was \$120,141 and \$130,158 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 5 LINE OF CREDIT**

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The Association entered into a line of credit with Revere Bank in October 2011 which allows the Association to borrow up to \$50,000 against the value of eligible investment securities. The line of credit has a variable interest rate of 1% plus the Wall Street Journal Prime Rate (5.00% at June 30, 2018). The line of credit agreement requires the Association to maintain a minimum balance of \$80,000 in its investment account at all times. The Association did not have an amount outstanding on the line of credit at June 30, 2018 and 2017.

**NOTE 6 LONG-TERM DEBT**

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Detail of the Association's indebtedness as of June 30 is as follows:

	2018	2017
Note payable to City of Frederick; payable upon transfer or sale of the land and building (see paragraph "a" below)	\$ 50,000	\$ 50,000
Note payable to Revere Bank, due March 2020 (see paragraph "b" below)	<u>1,060,125</u>	<u>1,086,175</u>
	<u>\$ 1,110,125</u>	<u>\$ 1,136,175</u>

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 6 LONG-TERM DEBT (CONTINUED)

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- (a) In September 2010 (the Closing Date), the Association entered into a Community Development Block Grant agreement with the City of Frederick, Maryland for the acquisition of real property at 226 South Jefferson Street, Frederick, Maryland. The loan is non-interest bearing and is payable upon the transfer or sale of the land and building. This loan is secured by the land and building. The book value on the collateral at June 30, 2018 is \$2,572,562.
- (b) In February 2010, the Association entered into a loan agreement with Revere Bank in the amount of \$1,250,000 to finance the acquisition of and improvements to the land and building at 226 South Jefferson Street, Frederick, Maryland. In February 2015, the Association refinanced this loan in the amount of \$1,142,215 with a monthly payment of \$5,802, including interest at a fixed rate of 4%. The loan is collateralized by a purchase money deed of trust on real property located at 226 South Jefferson Street, Frederick, Maryland, as well as a blanket assignment of rents and leases and a first lien on all business assets of the Association. The loan matures March 2020, at which time a balloon payment is due. The book value on the collateral at June 30, 2018 is \$2,572,562.

The Association is required to meet certain financial loan covenants, including a cash flow to debt service ratio of 1.0 to 1.0, and maintaining total net assets of not less than \$500,000. For the years ended June 30, 2018 and 2017, the Association has met these covenants.

Maturities of long-term debt in each of the next five years are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 27,128
2020	1,032,997
Thereafter	50,000
	<u>\$ 1,110,125</u>

### NOTE 7 RETIREMENT PLAN

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The Association sponsors a 403(b) retirement plan covering employees who elect to defer part of their salaries into the plan for retirement. The Association does not contribute to the plan.

### NOTE 8 COMMITMENTS AND CONTINGENCIES

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#### *Revenue and Support Dependency*

The Organization is significantly dependent on public grants from various state and federal agencies. Public grants represent 55% and 57% of total revenue for the years ended June 30, 2018 and 2017, respectively. Curtailment of grant funding by the grantor agencies could have a significant negative effect on the operations of the Organization.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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#### *Operating Leases*

The Association leases office facilities on a monthly basis. Total rent expense for the years ended June 30, 2018 and 2017 was \$6,581 and \$6,251, respectively.

### NOTE 9 FUTURE INTEREST IN ENDOWMENT HELD BY THE CFFC

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The Association established The Mental Health Association Endowment Fund (Fund) at the Community Foundation of Frederick County, Inc. (CFFC) during the year ended June 30, 2000. The purpose of the Fund is to provide financial support to the Association in fulfilling its mission. The Association has a future interest in the investments held by the CFFC. The Association is entitled to receive an annual distribution from the Fund in the amount of 5% of the market value of the Fund as of the last day of the CFFC's fiscal year or one-half of the annual return, whichever is larger. However, in the case of a catastrophic financial emergency which threatens the continuance of operating the Association or one of its programs, the principal may be distributed with the approval of the CFFC. The fair value of this account at June 30, 2018 and 2017 was \$55,344 and \$50,801, respectively.

### NOTE 10 BOARD DESIGNATED NET ASSETS

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Board designated net assets consist of the following at June 30:

	<b>2018</b>	<b>2017</b>
Future interest in endowment fund held by the Community Foundation of Frederick County, Inc.	\$ 55,344	\$ 50,801
Mortgage reserve	30,624	99,935
Building repairs and maintenance	51,116	50,832
	<u>\$ 137,084</u>	<u>\$ 201,568</u>

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 11 FAIR VALUE MEASUREMENTS

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Accounting standards for fair value measurements establish a framework for measuring fair value, establish a three-level valuation hierarchy for disclosure of fair value measurement and enhance disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- **Level 1** – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products, exchange-traded equities, and mutual funds.
- **Level 2** – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of state and political subdivisions and certain corporate, asset backed securities and swap agreements.
- **Level 3** – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Notes to Financial Statements**

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**NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)**

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Fair values of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

Description	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2018</b>				
Cash and cash equivalents	\$ 3,294	\$ 3,294	\$ -	\$ -
Exchange traded funds				
Intermediate-term bond	52,080	52,080	-	-
Large cap blend	43,583	43,583	-	-
Large cap value	20,507	20,507	-	-
Large cap growth	33,094	33,094	-	-
CFFC endowment	55,344	-	55,344	-
	<u>\$ 207,902</u>	<u>\$ 152,558</u>	<u>\$ 55,344</u>	<u>\$ -</u>
<b>June 30, 2017</b>				
Cash and cash equivalents	\$ 3,169	\$ 3,169	\$ -	\$ -
Exchange traded funds				
Fixed income	49,037	49,037	-	-
Large cap blend	22,493	22,493	-	-
Large cap value	38,579	38,579	-	-
Large cap growth	32,710	32,710	-	-
CFFC endowment	50,801	-	50,801	-
	<u>\$ 196,789</u>	<u>\$ 145,988</u>	<u>\$ 50,801</u>	<u>\$ -</u>

**NOTE 12 SUBSEQUENT EVENTS**

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The Association has evaluated events and transactions subsequent to June 30, 2018 through October 10, 2018, the date these financial statements were available to be issued. Based on the definitions of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2018 and through October 10, 2018 that requires recognition or disclosure in the financial statements.



## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors  
The Mental Health Association of Frederick County, Inc.  
Frederick, Maryland

We have audited the financial statements of The Mental Health Association of Frederick County, Inc. as of and for the years ended June 30, 2018 and 2017 and our report thereon dated October 10, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The Schedules of Facing Crises Together are presented for the purposes of additional analysis and are 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Smith Elliott Kearns & Company, LLC*

Hagerstown, Maryland  
October 10, 2018

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Schedule of Program Expenses - Facing Crises Together**  
**Year Ended June 30, 2018**

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	<b>Maryland Crisis Hotline</b>	<b>Other Facing Crises Together</b>	<b>Total Facing Crises Together</b>
Salaries	\$ 141,159	\$ 759,266	\$ 900,425
Employee benefits	6,944	24,899	31,843
Payroll taxes	<u>11,502</u>	<u>56,405</u>	<u>67,907</u>
 Total Salaries and Related Expenses	 159,605	 840,570	 1,000,175
 Advertising	 -	 2,761	 2,761
Client training	-	3,458	3,458
Depreciation	-	51,541	51,541
Dues and publications	-	9,498	9,498
Equipment	-	17,652	17,652
Insurance	1,184	9,000	10,184
Interest and finance charges	-	22,014	22,014
Interpreter services	-	3,167	3,167
Miscellaneous	-	218	218
Office supplies	-	1,719	1,719
Postage	-	262	262
Printing	-	47	47
Professional fees	2,136	8,206	10,342
Repairs and maintenance	664	14,803	15,467
Security and background checks	-	315	315
Staff training	-	5,994	5,994
Telephone	234	9,806	10,040
Travel and meetings	-	1,487	1,487
Utilities	392	9,192	9,584
Web programs	<u>2,515</u>	<u>8,760</u>	<u>11,275</u>
 <b>TOTAL EXPENSES</b>	 <u>\$ 166,730</u>	 <u>\$ 1,020,470</u>	 <u>\$ 1,187,200</u>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Schedule of Program Expenses - Facing Crises Together**  
**Year Ended June 30, 2017**

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	<b>Maryland Crisis Hotline</b>	<b>Other Facing Crises Together</b>	<b>Total Facing Crises Together</b>
Salaries	\$ 145,806	\$ 685,807	\$ 831,613
Employee benefits	3,144	23,979	27,123
Payroll taxes	11,719	55,358	67,077
Total Salaries and Related Expenses	160,669	765,144	925,813
Advertising	-	4,389	4,389
Client training	-	2,302	2,302
Depreciation	864	54,535	55,399
Dues and publications	-	1,415	1,415
Equipment	-	2,091	2,091
Insurance	1,236	6,923	8,159
Interest and finance charges	-	24,358	24,358
Interpreter services	-	2,844	2,844
Miscellaneous	-	232	232
Office supplies	-	1,815	1,815
Postage	-	133	133
Printing	-	1,638	1,638
Professional fees	3,143	9,608	12,751
Repairs and maintenance	436	15,996	16,432
Security and background checks	-	524	524
Staff training	-	2,130	2,130
Telephone	128	9,615	9,743
Travel and meetings	-	1,926	1,926
Utilities	758	9,318	10,076
Web programs	2,467	8,853	11,320
<b>TOTAL EXPENSES</b>	<b>\$ 169,701</b>	<b>\$ 925,789</b>	<b>\$ 1,095,490</b>