

Audited  
Financial  
Statements

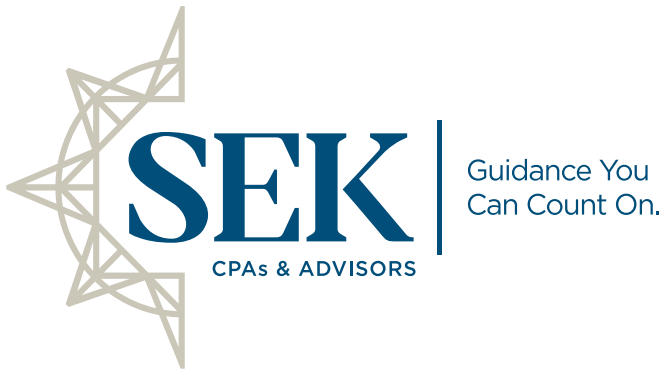
June 30, 2019

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The Mental Health  
Association of  
Frederick County, Inc.

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## **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, 2019 and 2018, 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2019 and 2018, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Adoption of New Accounting Standard***

As discussed in Note 1 to the financial statements, The Mental Health Association of Frederick County, Inc. adopted Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* (Topic 958) during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

## ***Substantial Doubt about the Organization's Ability to Continue as a Going Concern***

The accompanying financial statements have been prepared assuming that The Mental Health Association of Frederick County, Inc. will continue as a going concern. As discussed in Note 13 to the financial statements, The Mental Health Association of Frederick County, Inc. has shown a trend of operating losses, has incurred additional debt to provide necessary cash flow for operations, and has stated that substantial doubt exists about its ability to continue as a going concern. These conditions raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*Smith Elliott Reardon & Company, LLC*

Hagerstown, Maryland  
September 23, 2019

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

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	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 100,395	\$ 188,411
Investments	79,196	152,558
Grants receivable	384,102	293,622
Pledges receivable - net	80,958	121,219
Accounts receivable - other	26,658	49,512
Prepaid expenses	39,488	22,219
Future Interest Endowment Fund held by CFFC	59,325	55,344
Land, building and equipment, net	<u>2,511,844</u>	<u>2,621,212</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,281,966</u></b>	<b><u>\$ 3,504,097</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 164,426	\$ 185,065
Notes payable	1,157,290	1,110,125
Unexpended portion of grants received	<u>25,880</u>	<u>29,710</u>
Total Liabilities	<u>1,347,596</u>	<u>1,324,900</u>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	1,799,059	2,042,113
Board designated	<u>135,311</u>	<u>137,084</u>
Total Net Assets	<u>1,934,370</u>	<u>2,179,197</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,281,966</u></b>	<b><u>\$ 3,504,097</u></b>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statement of Activities**  
**Years Ended June 30, 2019 and 2018**

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	<b>2019</b>	<b>2018</b>
<b>REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS</b>		
Public grants	\$ 1,606,837	\$ 1,644,832
Program service revenue	496,595	443,016
Contract revenue	215,144	193,810
United Way	38,398	39,123
Donations and foundation grants, net of bad debt and present value discount	262,279	307,398
Special event revenue	193,150	218,710
In-kind donated goods and services	74,050	77,920
Other income	7,567	5,122
Investment income, net	3,424	13,961
	<u>2,897,444</u>	<u>2,943,892</u>
<b>EXPENSES</b>		
Program Services		
Preparing Resilient Children	736,427	742,962
Securing Vulnerable Families	508,888	484,375
Facing Crises Together	1,247,807	1,187,200
Supporting Our Whole Community	187,460	202,435
Total Program Services	<u>2,680,582</u>	<u>2,616,972</u>
Supporting Services		
Management and general	306,870	290,647
Fundraising	154,819	151,839
Total Supporting Services	<u>461,689</u>	<u>442,486</u>
Total Expenses	<u>3,142,271</u>	<u>3,059,458</u>
(Loss) From Operations	(244,827)	(115,566)
<b>OTHER (LOSSES)</b>		
(Loss) on sale of property and equipment	<u>-</u>	<u>(125)</u>
Change in Net Assets Without Donor Restrictions	(244,827)	(115,691)
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR</b>	<u>2,179,197</u>	<u>2,294,888</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR</b>	<u>\$ 1,934,370</u>	<u>\$ 2,179,197</u>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2019**

	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	\$ 518,224	\$ 395,106	\$ 981,152	\$ 76,345	\$ 1,970,827	\$ 220,367	\$ 14,317	\$ 2,205,511
Employee benefits	30,252	6,383	33,312	6,296	76,243	15,083	141	91,467
Payroll taxes	38,920	31,051	75,841	5,462	151,274	16,541	1,012	168,827
<b>Total Salaries and Related Expenses</b>	<b>587,396</b>	<b>432,540</b>	<b>1,090,305</b>	<b>88,103</b>	<b>2,198,344</b>	<b>251,991</b>	<b>15,470</b>	<b>2,465,805</b>
Advertising	762	219	315	1,639	2,935	-	-	2,935
Client training	36,164	3,850	3,820	16,377	60,211	-	-	60,211
Depreciation	22,598	15,572	49,958	21,240	109,368	-	-	109,368
Dues and publications	4,012	1,300	10,072	1,485	16,869	2,670	-	19,539
Equipment	-	1,513	159	6,288	7,960	-	-	7,960
Fundraising direct expenses	-	-	-	-	-	-	129,067	129,067
Insurance	4,958	3,741	13,770	686	23,155	2,050	109	25,314
Interest and finance charges	8,286	9,860	21,729	19,097	58,972	-	1,611	60,583
Interpreter services	1,015	230	3,552	-	4,797	-	-	4,797
Miscellaneous	-	626	322	3,128	4,076	397	8,341	12,814
Office supplies	4,499	47	1,806	43	6,395	7,512	-	13,907
Postage	1,400	248	256	992	2,896	474	33	3,403
Printing	-	1,653	75	2,749	4,477	387	-	4,864
Professional fees	3,727	2,814	6,887	570	13,998	15,714	97	29,809
Program library materials	929	-	-	216	1,145	-	-	1,145
Rent	3,367	1,685	-	-	5,052	2,216	-	7,268
Repairs and maintenance	13,424	8,575	16,432	2,274	40,705	18,593	91	59,389
Security and background checks	65	3,813	258	50	4,186	100	-	4,286
Staff training	8,082	4,389	2,774	14,825	30,070	-	-	30,070
Telephone	7,562	5,117	5,020	395	18,094	1,215	-	19,309
Travel and meetings	19,440	4,170	1,073	1,197	25,880	274	-	26,154
Utilities	4,041	2,742	8,612	888	16,283	2,126	-	18,409
Web programs	4,700	4,184	10,612	5,218	24,714	1,151	-	25,865
<b>TOTAL EXPENSES</b>	<b>\$ 736,427</b>	<b>\$ 508,888</b>	<b>\$ 1,247,807</b>	<b>\$ 187,460</b>	<b>\$ 2,680,582</b>	<b>\$ 306,870</b>	<b>\$ 154,819</b>	<b>\$ 3,142,271</b>

**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statement 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
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
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>\$ 202,435</b>	<b>\$ 2,616,972</b>	<b>\$ 290,647</b>	<b>\$ 151,839</b>	<b>\$ 3,059,458</b>



**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (244,827)	\$ (115,691)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Write-off of pledges receivable	22,235	12,630
Allowance for pledges receivable	13,543	4,095
Depreciation	109,368	120,141
Loss on disposal of property and equipment	-	125
Net realized and unrealized (gain) loss on investments	98	(12,286)
(Increase) in grants receivable	(90,480)	(75,062)
(Increase) decrease in pledges receivable	4,483	(9,084)
(Increase) decrease in other receivables	22,854	(30,360)
(Increase) in prepaid expenses	(17,269)	(918)
(Decrease) in unexpended portion of grants received	(3,830)	(25,378)
Increase (decrease) in accounts payable and accrued expenses	(20,639)	32,312
Net Cash (Used in) Operating Activities	<u>(204,464)</u>	<u>(99,476)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(33,547)
Purchases of investments	(244,006)	(110,216)
Proceeds from sale of investments	313,289	111,389
Net Cash Provided by (Used in) Investing Activities	<u>69,283</u>	<u>(32,374)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	75,000	-
Payments on notes payable	(27,835)	(26,050)
Net Cash Provided by (Used in) Financing Activities	<u>47,165</u>	<u>(26,050)</u>
Net (Decrease) in Cash and Cash Equivalents	(88,016)	(157,900)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>188,411</u>	<u>346,311</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 100,395</u>	<u>\$ 188,411</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ 42,256	\$ 43,574

# **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 the 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:

##### ***Net Assets without Donor Restrictions***

Net assets not subject to donor-imposed restrictions.

##### ***Net Assets with Donor Restrictions***

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from donor restrictions. At June 30, 2019 and 2018, the Association had no net assets with donor restrictions.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as revenue without donor restrictions.

#### ***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.

# 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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#### ***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

#### ***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.

# **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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Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions.

#### ***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.

#### ***Functional Expenses***

The costs of providing the Association's 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.

#### ***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 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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#### ***Concentration of Credit Risk***

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.

#### ***Effect of Adopting New Accounting Standard***

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association implemented ASU 2016-14 during the year ended June 30, 2019 and adjusted the presentation in the financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The implementation did not result in reclassification of net assets.

#### ***Reclassifications***

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make the June 30, 2018 amounts to conform to classifications used for the year ended June 30, 2019.

#### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Association will be evaluating the effect that the standard will have on the financial statements.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

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Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

<u>Financial Assets at Year-End</u>	<u>2019</u>
Cash and cash equivalents	\$ 100,395
Investments	79,196
Grants receivable	384,102
Pledges receivable due within one year, net of allowance	23,056
Accounts receivable - other	26,658
Future Interest Endowment Fund held by CFFC	<u>59,325</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 672,732</u>

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Association has various sources of liquidity at its disposal, including cash and cash equivalents, and marketable exchange-traded funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing activities of preparing resilient children, securing vulnerable families, standing beside people as they face crises, and supporting the whole community through mental health education and advocacy, as well as the type of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Association operates with a Board-approved budget and anticipates collecting sufficient revenue to cover general expenditures. In the event of an unanticipated liquidity need, the Association could draw upon their investments as well as their line of credit which is discussed further in Note 6.

### NOTE 3 INVESTMENTS

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Investments are carried at fair value at June 30, 2019 and 2018 and consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,832	\$ 3,294
Exchange-traded funds	<u>77,364</u>	<u>149,264</u>
Total investments	<u>\$ 79,196</u>	<u>\$ 152,558</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

### NOTE 4 PLEDGES RECEIVABLE

Pledges receivable at June 30, 2019 and 2018 consist of unconditional promises to give to be received by the Association in subsequent years. Pledges receivable are for general operating expenses and consist of the following:

	<b>2019</b>	<b>2018</b>
Pledges receivable, beginning of year	\$ 121,219	\$ 128,860
New pledges	25,440	48,745
Write-offs	(22,235)	(12,630)
Payments received	<u>(27,324)</u>	<u>(36,141)</u>
Gross pledges receivable	97,100	128,834
Present value adjustment	(2,599)	(3,520)
Allowance for doubtful accounts	<u>(13,543)</u>	<u>(4,095)</u>
Pledges receivable, end of year	<u><u>\$ 80,958</u></u>	<u><u>\$ 121,219</u></u>

	<b>2019</b>	<b>2018</b>
Receivable in less than one year	\$ 36,599	\$ 44,564
Receivable in one to five years	59,551	82,970
Receivable in five to ten years	<u>950</u>	<u>1,300</u>
Total pledges receivable	<u><u>\$ 97,100</u></u>	<u><u>\$ 128,834</u></u>

### NOTE 5 LAND, BUILDING AND EQUIPMENT

Land, building and equipment at June 30, 2019 and 2018 consists of the following:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
<b>2019</b>			
Land	\$ 257,481	\$ -	\$ 257,481
Building and improvements	2,852,707	621,024	2,231,683
Equipment	137,447	117,394	20,053
Furniture and fixtures	88,689	86,767	1,922
Computer equipment and software	<u>49,760</u>	<u>49,055</u>	<u>705</u>
	<u><u>\$ 3,386,084</u></u>	<u><u>\$ 874,240</u></u>	<u><u>\$ 2,511,844</u></u>
<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	<u>49,760</u>	<u>40,453</u>	<u>9,307</u>
	<u><u>\$ 3,395,067</u></u>	<u><u>\$ 773,855</u></u>	<u><u>\$ 2,621,212</u></u>



# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 6 LINE OF CREDIT

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The Association had a line of credit which allowed the Association to borrow up to \$50,000 against the value of eligible investment securities and had a variable interest rate of 1% plus the Wall Street Journal Prime Rate. There was no outstanding balance on the line of credit at June 30, 2018. The line was converted into a term loan beginning May 2019, which is described further in Note 7.

In May 2019, the Association entered into a \$100,000 line of credit with Revere Bank with a variable interest rate of 1% plus the Wall Street Journal Prime Rate (5.50% at June 30, 2019). The line is secured by a deed of trust on real property located at 226 South Jefferson Street Frederick, Maryland and a third lien on all business assets of the Association. There was no outstanding balance on the line of credit at June 30, 2019.

### NOTE 7 LONG-TERM DEBT

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

	2019	2018
Note payable to City of Frederick; payable upon transfer or sale of the land and building (see paragraph "a" below)	\$ 50,000	\$ 50,000
Mortgage note payable to Revere Bank, due March 2020 (see paragraph "b" below)	1,033,002	1,060,125
Note payable to Revere Bank, due May 2024 (see paragraph "c" below)	49,288	-
Note payable to Maryland Department of Commerce, due September 2019 (see paragraph "d" below)	25,000	-
	<u>\$ 1,157,290</u>	<u>\$ 1,110,125</u>

- (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, 2019 is \$2,489,164.
- (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, 2019 is \$2,489,164.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 7 LONG-TERM DEBT (CONTINUED)

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As discussed in Note 13, the Association is currently in the process of refinancing this loan.

(c) In May 2019, the Association entered into a loan agreement with Revere Bank in the amount of \$50,000 which was converted from the line of credit described in Note 6. 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 second lien on all business assets of the Association. The loan requires monthly payments of \$968 including interest at a fixed rate of 5.95% and matures May 2024. The book value on the collateral at June 30, 2019 is \$2,489,164.

(d) In February 2019, the Association entered into a nonprofit, interest-free micro bridge loan with the Maryland Department of Commerce in the amount of \$25,000. Proceeds from the loan are to be used for operating expenses and the loan is payable upon the receipt of funds from one of the Association's reimbursement grants. The grant funds are expected to be received in September 2019.

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 year ended June 30, 2019, the Association did not meet all of these covenants. The Association has obtained a waiver from the lender which waives the lender's right to call the loan in full as a result of noncompliance with loan covenants.

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

<u>Year Ending June 30,</u>	
2020	\$ 1,066,895
2021	9,437
2022	10,014
2023	10,627
2024	10,317
Thereafter	50,000
	<u>\$ 1,157,290</u>

### NOTE 8 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.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 9 COMMITMENTS AND CONTINGENCIES

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#### *Revenue and Support Dependency*

The Association is significantly dependent on public grants from various state and federal agencies. Public grants represent 55% and 56% of total revenue for the years ended June 30, 2019 and 2018, respectively. Curtailment of grant funding by the grantor agencies could have a significant negative effect on the operations of the Association. Additionally, a delay in funding or reimbursements could have a significant impact on the Association.

#### *Operating Leases*

The Association leases office facilities on a monthly basis. Total rent expense for the years ended June 30, 2019 and 2018 was \$7,016 and \$6,581, respectively.

### NOTE 10 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, 2019 and 2018 was \$59,325 and \$55,344, respectively.

### NOTE 11 BOARD DESIGNATED NET ASSETS

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

	<b>2019</b>	<b>2018</b>
Future interest in endowment fund held by the Community Foundation of Frederick County, Inc.	\$ 59,325	\$ 55,344
Mortgage reserve	24,837	30,624
Building repairs and maintenance	51,149	51,116
	<u>\$ 135,311</u>	<u>\$ 137,084</u>

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 12 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**

**NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)**

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, 2019</b>				
Cash and cash equivalents	\$ 1,832	\$ 1,832	\$ -	\$ -
Exchange traded funds				
Communications	3,554	3,554	-	-
Consumer Cyclical	3,457	3,457	-	-
Consumer Defensive	3,368	3,368	-	-
Diversified Emerging Mkts	4,215	4,215	-	-
Financial	3,478	3,478	-	-
Foreign Large Blend	3,834	3,834	-	-
Health	3,511	3,511	-	-
Industrial	3,537	3,537	-	-
Intermediate-Term Bond	13,410	13,410	-	-
Large Value	5,829	5,829	-	-
Multi-sector	13,151	13,151	-	-
Natural Resources	3,510	3,510	-	-
Real Estate	3,383	3,383	-	-
Technology	5,669	5,669	-	-
Utilities	3,459	3,459	-	-
Pledges Receivable	80,958	-	-	80,958
CFFC endowment	59,325	-	59,325	-
	<u>\$ 219,479</u>	<u>\$ 79,196</u>	<u>\$ 59,325</u>	<u>\$ 80,958</u>
<b>June 30, 2018</b>				
Cash and cash equivalents	\$ 3,294	\$ 3,294	\$ -	\$ -
Exchange traded funds				
Fixed income	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	-	-
Pledges Receivable	121,219	-	-	121,219
CFFC endowment	55,344	-	55,344	-
	<u>\$ 329,121</u>	<u>\$ 152,558</u>	<u>\$ 55,344</u>	<u>\$ 121,219</u>

The fair values for cash and cash equivalents, exchange-traded funds and the Community Foundation of Frederick County endowment are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for pledges receivable are determined by calculating the present value of the pledges expected to be received, using a discount rate of 2.25%. Fair values of pledges receivable are also shown net of the estimated allowance for doubtful pledges.

# THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

## Notes to Financial Statements

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### NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

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The changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows at June 30, 2019:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2019	2018
Balance, Beginning of Year	\$ 121,219	\$ 128,860
New pledges	25,440	48,745
Write-offs	(22,235)	(12,630)
Payments received	(27,324)	(36,141)
Change in present value	(2,599)	(3,520)
Allowance for doubtful accounts	(13,543)	(4,095)
Balance, End of Year	<u>\$ 80,958</u>	<u>\$ 121,219</u>
The amount of total gains or losses for the period included in changes in net assets	<u>\$ 921</u>	<u>\$ (3,520)</u>

### NOTE 13 CONTINGENCY

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As reported in the accompanying financial statements, the Association incurred an operating loss of \$244,827 in 2019 and \$115,566 in 2018. In addition, the Association liquidated approximately half of its investment portfolio and incurred additional debt in 2019 in order to provide necessary cash flow for operations. These combined factors create substantial doubt about the Association's ability to continue as a going concern. Management of the Association has evaluated these conditions and developed the following plan:

- Refinance the line of credit into a term note payable
- Refinance the mortgage note payable with Revere Bank, extending the term of repayment
- Budgeted operating surplus for fiscal year ending June 30, 2020
- Build a reserve for the operating surplus to cover delays in receipts of future funding
- Refine utilization goals for the psychiatric service provider
- Secure new grant funds to expand program capacities and hire a billing specialist
- Secure new grant funds from the Behavioral Health Crisis Response Grant Program (HB 1092) to support a crisis center
- Create a development and marketing plan

Management believes the plan described above effectively mitigates the risk that the Association will not be able to continue operating as a going concern.

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

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**NOTE 14 SUBSEQUENT EVENTS**

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The Association has evaluated events and transactions subsequent to June 30, 2019 through September 23, 2019, 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 occurred subsequent to June 30, 2019 and through September 23, 2019 that require recognition or disclosure in the financial statements.



Guidance You  
Can Count On.

## **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, 2019 and 2018 and our report thereon dated September 12, 2019, 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 Ream & Company, LLC*

Hagerstown, Maryland  
September 23, 2019



**THE MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.**  
**Schedule of Program Expenses - Facing Crises Together**  
**Year Ended June 30, 2019**

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	<b>Maryland Crisis Hotline</b>	<b>Other Facing Crises Together</b>	<b>Total Facing Crises Together</b>
Salaries	\$ 264,931	\$ 716,221	\$ 981,152
Employee benefits	7,421	25,891	33,312
Payroll taxes	-	75,841	75,841
Total Salaries and Related Expenses	272,352	817,953	1,090,305
Advertising	-	315	315
Client training	-	3,820	3,820
Depreciation	-	49,958	49,958
Dues and publications	-	10,072	10,072
Equipment	-	159	159
Insurance	-	13,770	13,770
Interest and finance charges	-	21,729	21,729
Interpreter services	-	3,552	3,552
Miscellaneous	-	322	322
Office supplies	-	1,806	1,806
Postage	-	256	256
Printing	-	75	75
Professional fees	-	6,887	6,887
Repairs and maintenance	-	16,432	16,432
Security and background checks	-	258	258
Staff training	1,967	807	2,774
Telephone	1,986	3,034	5,020
Travel and meetings	-	1,073	1,073
Utilities	-	8,612	8,612
Web programs	5,945	4,667	10,612
<b>TOTAL EXPENSES</b>	<b>\$ 282,250</b>	<b>\$ 965,557</b>	<b>\$ 1,247,807</b>

**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	11,502	56,405	67,907
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	2,515	8,760	11,275
<b>TOTAL EXPENSES</b>	<b>\$ 166,730</b>	<b>\$ 1,020,470</b>	<b>\$ 1,187,200</b>