

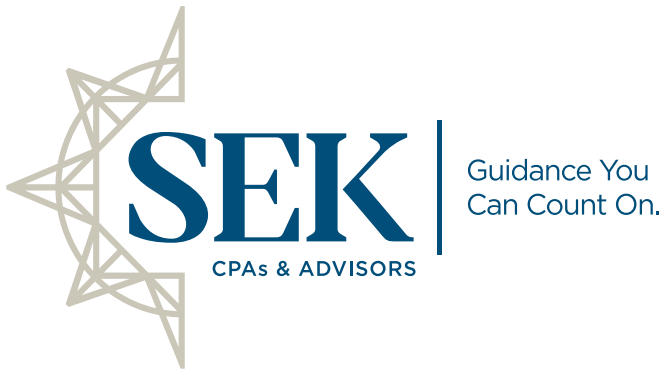
Audited
Financial
Statements

June 30,
2020

**Mental Health
Association of
Frederick County, Inc.**

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Mental Health Association of Frederick County, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, 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 Mental Health Association of Frederick County, Inc. as of June 30, 2020 and 2019, 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, Mental Health Association of Frederick County, Inc. adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) related to contribution and exchange transactions. Our opinion is not modified with respect to this matter.

Smith Elliott Reardon & Company, LLC

Hagerstown, Maryland
October 14, 2020

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 648,174	\$ 100,395
Investments	82,102	79,196
Grants receivable	472,542	384,102
Pledges receivable - net	30,708	80,958
Accounts receivable - Medicaid	130,439	21,596
Accounts receivable - other	2,770	5,062
Prepaid expenses	41,440	39,488
Deposits on furniture	2,030	-
Future Interest Endowment Fund held by CFFC	58,960	59,325
Land, building and equipment, net	<u>2,445,087</u>	<u>2,511,844</u>
TOTAL ASSETS	<u>\$ 3,914,252</u>	<u>\$ 3,281,966</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 265,269	\$ 164,426
Medicaid payments liability	186,017	-
Unexpended portion of grants received	49,841	25,880
Deferred sponsorships	9,250	-
Payroll Protection Program loan	447,840	-
Notes payable	<u>1,095,581</u>	<u>1,157,290</u>
Total Liabilities	<u>2,053,798</u>	<u>1,347,596</u>
Net Assets		
Without donor restrictions		
Undesignated	1,725,508	1,799,059
Board designated	<u>134,946</u>	<u>135,311</u>
Total Net Assets	<u>1,860,454</u>	<u>1,934,370</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,914,252</u>	<u>\$ 3,281,966</u>

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Activities
Years Ended June 30, 2020 and 2019

	2020	2019
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
Public grants	\$ 1,898,081	\$ 1,606,837
Program service revenue	471,933	496,595
Contract revenue	200,949	215,144
United Way	39,557	38,398
Donations and foundation grants, net of bad debt and present value discount	402,355	262,279
Special event revenue	16,075	193,150
In-kind donated goods and services	6,390	74,050
Other income	4,894	7,567
Investment income, net	<u>6,600</u>	<u>3,424</u>
 Total Revenues and Other Support Without Donor Restrictions	 <u>3,046,834</u>	 <u>2,897,444</u>
EXPENSES		
Program Services		
Preparing Resilient Children	716,559	736,427
Securing Vulnerable Families	507,091	508,888
Facing Crises Together	1,291,648	1,247,807
Supporting Our Whole Community	<u>243,153</u>	<u>187,460</u>
Total Program Services	2,758,451	2,680,582
Supporting Services		
Management and general	335,911	306,870
Fundraising	<u>26,388</u>	<u>154,819</u>
Total Supporting Services	362,299	461,689
 Total Expenses	 <u>3,120,750</u>	 <u>3,142,271</u>
 Change in Net Assets Without Donor Restrictions	 (73,916)	 (244,827)
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	<u>1,934,370</u>	<u>2,179,197</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	<u>\$ 1,860,454</u>	<u>\$ 1,934,370</u>

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statement of Functional Expenses
Year Ended June 30, 2020

	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	\$ 524,345	\$ 385,243	\$ 1,014,218	\$ 141,764	\$ 2,065,570	\$ 236,422	\$ 10,218	\$ 2,312,210
Employee benefits	24,175	6,585	37,270	6,136	74,166	23,490	89	97,745
Payroll taxes	40,440	30,484	77,325	12,220	160,469	17,255	-	177,724
Total Salaries and Related Expenses	588,960	422,312	1,128,813	160,120	2,300,205	277,167	10,307	2,587,679
Advertising	762	62	499	1,142	2,465	-	-	2,465
Alterations	-	-	3,171	-	3,171	-	-	3,171
Client training	28,591	10,469	412	13,175	52,647	-	-	52,647
Consulting	-	-	-	15,450	15,450	-	-	15,450
Depreciation	18,164	11,932	41,829	13,062	84,987	-	-	84,987
Dues and publications	4,072	500	2,760	889	8,221	2,695	-	10,916
Equipment	1,510	14,525	10,317	2,490	28,842	-	-	28,842
Fundraising direct expenses	-	-	-	-	-	-	15,658	15,658
Insurance	5,164	3,821	15,591	938	25,514	2,397	75	27,986
Interest and finance charges	8,569	8,555	22,710	14,258	54,092	-	-	54,092
Interpreter services	790	43	8,757	-	9,590	-	-	9,590
Miscellaneous	-	652	259	3,663	4,574	287	-	4,861
Office supplies	4,186	498	1,952	4,505	11,141	5,742	-	16,883
Postage	1,051	521	218	700	2,490	300	43	2,833
Printing	-	766	207	184	1,157	346	-	1,503
Professional fees	4,001	2,893	7,729	860	15,483	14,746	77	30,306
Program library materials	86	-	-	202	288	-	-	288
Rent	3,222	2,006	-	35	5,263	2,131	-	7,394
Repairs and maintenance	12,688	8,039	16,626	2,850	40,203	13,581	228	54,012
Security and background checks	185	2,854	629	-	3,668	205	-	3,873
Staff training	9,616	2,318	503	426	12,863	11,701	-	24,564
Telephone	5,501	4,120	3,903	331	13,855	1,061	-	14,916
Travel and meetings	12,211	3,389	798	1,676	18,074	275	-	18,349
Utilities	3,250	2,089	7,469	424	13,232	2,085	-	15,317
Web programs	3,980	4,727	16,496	5,773	30,976	1,192	-	32,168
TOTAL EXPENSES	\$ 716,559	\$ 507,091	\$ 1,291,648	\$ 243,153	\$ 2,758,451	\$ 335,911	\$ 26,388	\$ 3,120,750

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
Total Salaries and Related Expenses	587,396	432,540	1,090,305	88,103	2,198,344	251,991	15,470	2,465,805
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
TOTAL EXPENSES	\$ 736,427	\$ 508,888	\$ 1,247,807	\$ 187,460	\$ 2,680,582	\$ 306,870	\$ 154,819	\$ 3,142,271

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (73,916)	\$ (244,827)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Write-off of pledges receivable	34,079	22,235
Allowance for pledges receivable	8,400	13,543
Depreciation	84,987	109,368
Net realized and unrealized loss on investments	90	98
(Increase) in grants receivable	(88,440)	(90,480)
Decrease in pledges receivable	7,771	4,483
(Increase) decrease in accounts receivable - Medicaid	(108,843)	22,943
(Increase) decrease in other receivables	2,292	(89)
(Increase) in prepaid expenses	(1,952)	(17,269)
Increase (decrease) in unexpended portion of grants received	23,961	(3,830)
Increase in deferred sponsorships	9,250	-
Increase (decrease) in accounts payable and accrued expenses	100,843	(20,639)
Increase in medicaid payments liability	186,017	-
	<u>184,539</u>	<u>(204,464)</u>
Net Cash Provided by (Used in) Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(18,230)	-
Deposit paid on furniture	(2,030)	-
Purchases of investments	(87,768)	(244,006)
Proceeds from sale of investments	85,137	313,289
	<u>(22,891)</u>	<u>69,283</u>
Net Cash Provided by (Used in) Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Payroll Protection Program loan	447,840	-
Proceeds from notes payable	1,054,486	75,000
Payments on notes payable	(1,116,195)	(27,835)
	<u>386,131</u>	<u>47,165</u>
Net Cash Provided by Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	547,779	(88,016)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>100,395</u>	<u>188,411</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 648,174</u>	<u>\$ 100,395</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 45,768	\$ 42,256

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 13 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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 and 2019, 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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Market Risks

The Association's investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investments assets reported in the financial statements.

In addition, recent economic uncertainty and market events as a result of the COVID-19 pandemic and other market forces have led to unprecedented volatility in currency, commodity, credit and equity markets. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the investment portfolio.

Risks and Uncertainties

Recent economic and government reactions to the COVID-19 pandemic have resulted in temporary reductions or ceasing of operations for some businesses and created economic uncertainties. These events could impact the ability of the Association to maintain its operating results at the same level. However, the financial impact and duration cannot be reasonably estimated at this time.

Effect of Adopting New Accounting Standard

During the year, the Association adopted the provisions of FASB ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under ASU 2014-09 (FASB ASC Topic 606). If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. Results for reporting the year ending June 30, 2020 are presented under FASB ASU 2018-08. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those reporting periods. There was no material impact to the financial statements as a result of adoption. Accordingly, no adjustment to beginning net assets was recorded.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make the June 30, 2019 amounts conform to classifications used for the year ended June 30, 2020.

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 May 2020, the FASB deferred the effective date of ASU 2014-09 one year making it effective for the Organization as of July 1, 2020.

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 the Organization as of July 1, 2022. 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.

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

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:

Financial Assets at Year-End	2020	2019
Cash and cash equivalents	\$ 648,174	\$ 100,395
Investments	82,102	79,196
Grants receivable	472,542	384,102
Pledges receivable due within one year, net of allowance	14,813	23,056
Accounts receivable - Medicaid	130,439	21,596
Accounts receivable - other	2,770	5,062
Future Interest Endowment Fund held by CFFC	58,960	59,325
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,409,800</u>	<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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

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

Investments are carried at fair value at June 30, 2020 and 2019 and consist of the following:

	2020	2019
Cash and cash equivalents	\$ 1,894	\$ 1,832
Exchange-traded funds	<u>80,208</u>	<u>77,364</u>
Total investments	<u>\$ 82,102</u>	<u>\$ 79,196</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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable at June 30, 2020 and 2019 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:

	2020	2019
Pledges Receivable, Beginning of Year	\$ 97,100	\$ 121,219
New pledges	1,000	25,440
Write-offs	(34,079)	(22,235)
Payments received	(24,319)	(27,324)
Gross Pledges Receivable	39,702	97,100
Present value adjustment	(594)	(2,599)
Allowance for doubtful accounts	(8,400)	(13,543)
Pledges Receivable, End of Year	<u>\$ 30,708</u>	<u>\$ 80,958</u>

NOTE 5 LAND, BUILDING AND EQUIPMENT

Land, building and equipment at June 30, 2020 and 2019 consists of the following:

	Cost	Accumulated Depreciation	Book Value
2020			
Land	\$ 257,481	\$ -	\$ 257,481
Building and improvements	2,868,037	700,991	2,167,046
Equipment	137,447	121,162	16,285
Furniture and fixtures	87,706	83,431	4,275
Computer equipment and software	49,760	49,760	-
	<u>\$ 3,400,431</u>	<u>\$ 955,344</u>	<u>\$ 2,445,087</u>
2019			
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	49,760	49,055	705
	<u>\$ 3,386,084</u>	<u>\$ 874,240</u>	<u>\$ 2,511,844</u>

NOTE 6 LINE OF CREDIT

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 (3.25% at June 30, 2020). 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, 2020 and 2019.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 7 LONG-TERM DEBT

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

	2020	2019
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 2025 (see paragraph "b" below)	1,005,167	1,033,002
Note payable to Revere Bank, due May 2024 (see paragraph "c" below)	40,414	49,288
Note payable to Maryland Department of Commerce, due September 2019 (see paragraph "d" below)	-	25,000
	<u>\$ 1,095,581</u>	<u>\$ 1,157,290</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, 2020 is \$2,424,527.
- (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 March 2020, the Association refinanced this loan in the amount of \$1,014,486 with a monthly payment of \$6,027, including interest at a fixed rate of 4.375%. 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 2025, at which time a balloon payment is due. The book value on the collateral at June 30, 2020 is \$2,424,527.
- (c) In May 2019, the Association entered into a loan agreement with Revere Bank in the amount of \$50,000. 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, 2020 is \$2,424,527.
- (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 were used for operating expenses and the loan was paid upon the receipt of funds from one of the Association's reimbursement grants in September 2019.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 7 LONG-TERM DEBT

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, 2020, 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>	
2021	\$ 38,358
2022	40,226
2023	42,188
2024	43,280
2025	881,529
Thereafter	50,000
	<u>\$ 1,095,581</u>

NOTE 8 PAYROLL PROTECTION PROGRAM LOAN

In April 2020, the Association entered into a Payroll Protection Program (PPP) loan agreement through the Small Business Administration (SBA) in the amount of \$447,840. The loan requires monthly principal and interest payments with a fixed rate of 1.00% starting November 2020 and maturing April 2022. However, if the Association submits a loan forgiveness application within ten months of the completion of the covered period, they are not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. Forgiveness of the loan in full or partially, is contingent on the Association meeting certain requirements of the loan program regarding the use of the funds.

Maturities of the PPP loan in future years are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 196,960
2022	250,880
	<u>\$ 447,840</u>

NOTE 9 RETIREMENT PLAN

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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 10 COMMITMENTS AND CONTINGENCIES

Revenue and Support Dependency

The Association is significantly dependent on public grants from various state and federal agencies. Public grants represent 62% and 55% of total revenue for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 was \$7,108 and \$7,016, respectively.

NOTE 11 FUTURE INTEREST IN ENDOWMENT HELD BY THE CFFC

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, 2020 and 2019 was \$58,960 and \$59,325, respectively.

NOTE 12 BOARD DESIGNATED NET ASSETS

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

	2020	2019
Future interest in endowment fund held by the Community Foundation of Frederick County, Inc.	\$ 58,960	\$ 59,325
Mortgage reserve	24,837	24,837
Building repairs and maintenance	51,149	51,149
	<u>\$ 134,946</u>	<u>\$ 135,311</u>

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 13 FAIR VALUE MEASUREMENTS

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.

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)
June 30, 2020				
Cash and cash equivalents	\$ 1,894	\$ 1,894	\$ -	\$ -
Exchange-traded funds	80,208	80,208	-	-
Pledges receivable	30,708	-	-	30,708
CFFC endowment	58,960	-	58,960	-
	<u>\$ 171,770</u>	<u>\$ 82,102</u>	<u>\$ 58,960</u>	<u>\$ 30,708</u>
June 30, 2019				
Cash and cash equivalents	\$ 1,832	\$ 1,832	\$ -	\$ -
Exchange-traded funds	77,364	77,364	-	-
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>

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.

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

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows at June 30, 2020:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2020	2019
Balance, Beginning of Year	\$ 80,958	\$ 121,219
New pledges	1,000	25,440
Write-offs	(20,536)	(22,235)
Payments received	(24,319)	(27,324)
Change in present value	2,005	(2,599)
Allowance for doubtful accounts	(8,400)	(13,543)
Balance, End of Year	<u>\$ 30,708</u>	<u>\$ 80,958</u>
The amount of total gains for the period included in changes in net assets	<u>\$ 2,005</u>	<u>\$ 921</u>

NOTE 14 MEDICAID PAYMENTS

In January 2020, the Maryland Department of Health engaged Optum Maryland (Optum) as the new payment provider for Medicaid claims. Beginning in January and continuing through June 2020 and beyond, Optum paid weekly payments to the Association based on the average weekly payment the Association received in the prior fiscal year. As a result, payments were not applied to specific patient accounts. Furthermore, the COVID-19 pandemic led to reduced patient visits, which therefore reduced the Association's billings between March and June 2020. Through the date of the audit report, Optum is still working to properly reconcile payments made to providers with claims submitted. Therefore, as of June 30, 2020, the Association has presented separately, on the Statements of Financial Position, an asset (Accounts receivable - Medicaid) to reflect amounts billed to Optum but not applied to individual patient visits, and a liability (Medicaid payments liability) to reflect what has been received from Optum by the Association between January and June 2020. Since the liability exceeds the amount billed, it is possible that the Association will have to repay the amount of overpayment made by Optum once Optum reconciles claims from January through June. Following is the net impact of amounts billed and payments received at June 30, 2020:

Accounts receivable - Medicaid	\$ 130,439
Medicaid payments liability	<u>(186,017)</u>
Net	<u>\$ (55,578)</u>

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 15 CONTINGENCY

As reported in the accompanying financial statements, the Association incurred an operating loss of \$73,916 in 2020 and \$244,827 in 2019. 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 created substantial doubt about the Association's ability to continue as a going concern. For the fiscal year ended June 30, 2020, the Association generated positive cash flow from operating activities, had a current ratio of approximately 2.46, successfully refinanced their mortgage, paid off their micro bridge loan, and had no balance outstanding on their line of credit. As a result, substantial doubt regarding the Association's ability to continue as a going concern has been alleviated.

NOTE 16 SUBSEQUENT EVENTS

The Association has evaluated events and transactions subsequent to June 30, 2020 through October 14, 2020, 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, 2020 and through October 14, 2020 that require recognition or disclosure in the financial statements other than described below.

Subsequent to year-end, the Association received multiple awards from federal and state granting agencies for COVID-19 relief. As of the date these statements were available to be issued, the Association has been awarded total Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding of approximately \$182,000, which must be spent by December 31, 2020. The Association also received approximately \$13,000 from the U.S. Department of Health and Human Services to supplement lost revenue.



Guidance You
Can Count On.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Mental Health Association of Frederick County, Inc. as of and for the years ended June 30, 2020 and 2019 and our report thereon dated October 14, 2020, 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 purpose 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 Reardon & Company, LLC

Hagerstown, Maryland
October 14, 2020

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Schedule of Program Expenses - Facing Crises Together
Year Ended June 30, 2020

	Urgent Care/Walk-In Facility	MHA Crisis Center	Other Facing Crises Together	Total Facing Crises Together
Salaries	\$ 45,758	\$ 192,445	\$ 776,015	\$ 1,014,218
Employee benefits	6,874	19,780	10,616	37,270
Payroll taxes	-	1,149	76,176	77,325
Total Salaries and Related Expenses	52,632	213,374	862,807	1,128,813
Advertising	-	-	499	499
Alterations	-	3,171	-	3,171
Client training	-	266	146	412
Depreciation	-	-	41,829	41,829
Dues and publications	-	177	2,583	2,760
Equipment	-	9,806	511	10,317
Insurance	-	1,099	14,492	15,591
Interest and finance charges	-	-	22,710	22,710
Interpreter services	-	1,261	7,496	8,757
Miscellaneous	-	19	240	259
Office supplies	-	682	1,270	1,952
Postage	-	20	198	218
Printing	-	23	184	207
Professional fees	-	2,303	5,426	7,729
Repairs and maintenance	-	2,558	14,068	16,626
Security and background checks	-	333	296	629
Staff training	-	503	-	503
Telephone	-	70	3,833	3,903
Travel and meetings	-	18	780	798
Utilities	-	1,274	6,195	7,469
Web programs	-	3,848	12,648	16,496
TOTAL EXPENSES	\$ 52,632	\$ 240,805	\$ 998,211	\$ 1,291,648

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

	Maryland Crisis Hotline	Other Facing Crises Together	Total Facing Crises Together
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
TOTAL EXPENSES	<u>\$ 282,250</u>	<u>\$ 965,557</u>	<u>\$ 1,247,807</u>