

Audited
Financial
Statements

June 30,
2023

**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

OPINION

We have audited the accompanying financial statements of Mental Health Association of Frederick County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mental Health Association of Frederick County, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mental Health Association of Frederick County, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Association adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) related to lease accounting. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mental Health Association of Frederick County, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mental Health Association of Frederick County, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mental Health Association of Frederick County, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2024, on our consideration of Mental Health Association of Frederick County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Smith Elliott Ream & Company, LLC

Hagerstown, Maryland
May 15, 2024

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 386,936	\$ 685,537
Cash and cash equivalents - restricted for crisis services	-	50,000
Investments	394,646	84,114
Grants receivable	1,261,013	844,723
Pledges receivable - net	3,355	6,805
Accounts receivable - counseling services	75,251	54,913
Accounts receivable - other	33,356	30,755
Prepaid expenses	49,757	52,124
Future Interest Endowment Fund held by CFFC	71,631	69,856
Operating lease right-of-use asset	12,245	-
Land, building and equipment, net	2,646,848	2,732,227
TOTAL ASSETS	\$ 4,935,038	\$ 4,611,054
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 317,467	\$ 343,829
Medicaid payment liability	-	75,009
Unexpended portion of grants received	306,781	101,460
Operating lease obligation	12,245	-
Notes payable	963,675	994,709
Total Liabilities	1,600,168	1,515,007
Net Assets		
Without donor restrictions		
Undesignated	3,187,184	2,900,141
Board designated	147,686	145,906
Total Net Assets without Donor Restrictions	3,334,870	3,046,047
With donor restrictions - restricted for crisis services	-	50,000
Total Net Assets	3,334,870	3,096,047
TOTAL LIABILITIES AND NET ASSETS	\$ 4,935,038	\$ 4,611,054

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Activities
Years Ended June 30, 2023 and 2022

	2023	2022
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
Public grants	\$ 4,074,590	\$ 2,814,719
Program service revenue	1,453,028	1,196,432
Contract revenue	153,054	170,742
United Way	3,476	2,904
Donations and foundation grants, net of bad debt and present value discount	314,022	284,911
Special event revenue	282,986	279,556
In-kind donated goods and services	48,620	42,548
Paycheck Protection Program loan forgiveness	-	358,029
Medicaid payment liability forgiveness	24,287	-
Net assets released from restrictions	50,000	-
Other income	35,518	6,757
Investment income (loss), net	17,826	(23,002)
Total Revenues and Other Support Without Donor Restrictions	6,457,407	5,133,596
EXPENSES		
Program Services		
Preparing Resilient Children	1,594,071	901,630
Securing Vulnerable Families	617,207	485,000
Facing Crises Together	3,012,415	2,251,512
Supporting Our Whole Community	245,737	174,444
Total Program Services	5,469,430	3,812,586
Supporting Services		
Management and general	537,243	401,520
Fundraising	161,911	142,707
Total Supporting Services	699,154	544,227
Total Expenses	6,168,584	4,356,813
Increase in Net Assets Without Donor Restrictions	288,823	776,783
NET ASSETS WITH DONOR RESTRICTIONS		
Donation	-	50,000
Net assets released from restrictions	(50,000)	-
Increase (Decrease) in Net Assets with Donor Restrictions	(50,000)	50,000
Increase in Net Assets	238,823	826,783
NET ASSETS, BEGINNING OF YEAR	3,096,047	2,269,264
NET ASSETS, END OF YEAR	\$ 3,334,870	\$ 3,096,047

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statement of Functional Expenses
Year Ended June 30, 2023

	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	\$ 1,052,798	\$ 456,768	\$ 2,291,688	\$ 110,274	\$ 3,911,528	\$ 347,852	\$ 16,833	\$ 4,276,213
Payroll taxes	84,727	33,517	178,106	24,103	320,453	24,407	87	344,947
Employee benefits	81,195	26,863	113,540	6,111	227,709	16,847	134	244,690
Total Salaries and Related Expenses	1,218,720	517,148	2,583,334	140,488	4,459,690	389,106	17,054	4,865,850
Program service expense	127,963	18,093	-	6,174	152,230	-	-	152,230
Repairs & maintenance	40,326	17,890	44,243	19,121	121,580	23,571	-	145,151
CAF expense	-	-	-	-	-	-	144,652	144,652
Web programs	9,582	6,073	75,411	6,428	97,494	7,486	-	104,980
Depreciation	12,980	8,206	38,630	35,109	94,925	-	-	94,925
Professional fees	5,183	2,265	11,122	2,538	21,108	66,866	74	88,048
Client training	45,933	6,396	8,385	4,200	64,914	18,698	-	83,612
Furniture	2,630	-	72,233	-	74,863	-	-	74,863
Interpreter services	404	67	62,669	-	63,140	-	-	63,140
Consultant	-	5,786	31,028	1,095	37,909	-	-	37,909
Interest and finance charges	8,379	6,668	25,496	15,239	55,782	359	-	56,141
Travel and meetings	42,199	6,742	472	761	50,174	250	-	50,424
Insurance	9,150	4,000	20,633	970	34,753	7,037	130	41,920
Equipment	18,628	3,856	15,740	2,507	40,731	685	-	41,416
Rent	19,311	2,488	-	254	22,053	2,109	-	24,162
Telephone	6,407	5,618	6,737	427	19,189	1,714	-	20,903
Office supplies	8,436	569	1,828	587	11,420	7,296	-	18,716
Utilities	3,811	1,296	6,144	270	11,521	3,985	-	15,506
Dues and publications	4,726	500	5,952	1,212	12,390	2,350	-	14,740
Miscellaneous	13	1,311	483	3,763	5,570	4,979	-	10,549
Advertising	6,261	-	-	3,901	10,162	-	-	10,162
Postage	1,691	154	916	429	3,190	379	1	3,570
Security and background checks	468	1,122	761	51	2,402	256	-	2,658
Printing	84	959	-	65	1,108	117	-	1,225
Program library materials	786	-	198	148	1,132	-	-	1,132
TOTAL EXPENSES	\$ 1,594,071	\$ 617,207	\$ 3,012,415	\$ 245,737	\$ 5,469,430	\$ 537,243	\$ 161,911	\$ 6,168,584

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services				Supporting Services			
	Preparing Resilient Children	Securing Vulnerable Families	Facing Crises Together	Supporting Our Whole Community	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 601,563	\$ 353,581	\$ 1,775,906	\$ 77,922	\$ 2,808,972	\$ 262,148	\$ 25,853	\$ 3,096,973
Payroll taxes	48,100	29,577	141,712	7,730	227,119	20,192	2,114	249,425
Employee benefits	24,811	7,657	81,051	7,854	121,373	21,664	207	143,244
Total Salaries and Related Expenses	674,474	390,815	1,998,669	93,506	3,157,464	304,004	28,174	3,489,642
Repairs & maintenance	25,466	20,827	38,752	14,422	99,467	27,885	36	127,388
Fundraising direct expense	-	-	-	-	-	-	110,890	110,890
Depreciation	13,871	10,973	46,020	23,523	94,387	-	-	94,387
Web programs	8,575	6,268	49,518	6,511	70,872	5,672	-	76,544
Staff training	20,980	11,097	7,032	3,353	42,462	16,638	-	59,100
Interest and finance charges	7,565	8,261	28,745	11,401	55,972	-	2,932	58,904
Client training	46,542	8,215	174	3,513	58,444	-	-	58,444
Professional fees	4,218	2,634	13,154	635	20,641	23,986	202	44,829
Equipment	28,662	998	2,124	3,007	34,791	427	-	35,218
Insurance	6,316	3,626	18,893	818	29,653	2,631	217	32,501
Dues and publications	7,169	586	10,621	704	19,080	2,833	-	21,913
Telephone	7,219	6,302	5,431	543	19,495	1,624	-	21,119
Office supplies	8,977	204	1,826	192	11,199	9,340	64	20,603
Utilities	5,117	2,440	10,250	465	18,272	2,262	-	20,534
Interpreter services	1,440	166	16,451	208	18,265	-	-	18,265
Rent	10,681	3,096	-	3	13,780	2,421	-	16,201
Travel and meetings	11,374	2,708	30	371	14,483	270	-	14,753
Miscellaneous	2,171	1,473	181	3,705	7,530	397	-	7,927
Furniture	5,652	-	595	1,038	7,285	320	-	7,605
Security and background checks	413	2,386	1,157	-	3,956	103	163	4,222
Advertising	2,335	-	797	570	3,702	-	-	3,702
Consultant	-	-	-	3,650	3,650	-	-	3,650
Printing	1,136	1,671	652	-	3,459	-	-	3,459
Postage	1,169	254	440	103	1,966	707	29	2,702
Building	-	-	-	1,962	1,962	-	-	1,962
Program library materials	108	-	-	241	349	-	-	349
TOTAL EXPENSES	\$ 901,630	\$ 485,000	\$ 2,251,512	\$ 174,444	\$ 3,812,586	\$ 401,520	\$ 142,707	\$ 4,356,813

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 238,823	\$ 826,783
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Forgiveness of Paycheck Protection Program loan	-	(358,029)
Forgiveness of Medicaid payment liability	(24,287)	-
Provision for uncollectible pledges	250	3,620
Depreciation	94,925	94,387
Loss on sale of equipment	-	558
Net realized and unrealized (gain) loss on investments	(6,703)	23,969
(Increase) in grants receivable	(416,290)	(326,116)
Decrease in pledges receivable	3,200	6,627
(Increase) in accounts receivable - counseling services	(20,338)	(5,324)
(Increase) decrease in other receivables	(2,601)	3,619
Decrease (increase) in prepaid expenses	2,367	(8,970)
Increase (decrease) in unexpended portion of grants received	205,321	(15,178)
(Decrease) increase in accounts payable and accrued expenses	(26,362)	64,973
(Decrease) in medicaid payment liability	(50,722)	(11,029)
Net Cash Provided by Operating Activities	<u>(2,417)</u>	<u>299,890</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(9,546)	(20,843)
Purchases of investments	(305,604)	(88,850)
Proceeds from sale of investments	-	82,958
Net Cash (Used in) Investing Activities	<u>(315,150)</u>	<u>(26,735)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Paycheck Protection Program loan	-	(89,811)
Payments on notes payable	(31,034)	(59,862)
Net Cash (Used in) Financing Activities	<u>(31,034)</u>	<u>(149,673)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(348,601)	123,482
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>735,537</u>	<u>612,055</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 386,936</u>	<u>\$ 735,537</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 41,518	\$ 46,086
NON-CASH TRANSACTIONS		
Establishment of operating right-of-use assets and lease obligations	\$ 28,190	-
RECONCILIATION OF CASH AND RESTRICTED CASH		
Cash and cash equivalents	\$ 386,936	\$ 685,537
Cash and cash equivalents - restricted for crisis services	-	50,000
TOTAL ENDING CASH AND CASH EQUIVALENTS	<u>\$ 386,936</u>	<u>\$ 735,537</u>

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, 2023 and 2022, the Association had net assets with donor restrictions of \$0 and \$50,000 respectively.

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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments of the Association are exposed to various risks, such as interest rate, market, currency, and credit risks. Market risks include global events which could impact the value of investment securities, such as a pandemic or international conflict. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment assets reported in the financial statements.

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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition – Exchange Transactions

The sources of revenue for the Association that are recognized under Accounting Standards Codification Topic 606 (ASC 606) are program service revenue, contract revenue, and special event revenue. Public grants, United Way, donations and foundation grants, in-kind income and investment income are recognized on the accrual basis, but these revenues are outside the scope of ASC 606.

Program Service Revenue

Program service revenues include Medicaid and Medicare reimbursements, insurance and self-pay for counseling services and workshops. It is reported at the amount that reflects the consideration the Association expects to receive in exchange for the services provided. Service fee revenue is recorded at net realizable amounts from patients and third-party payors for services rendered. The Association provides an allowance for doubtful accounts based on a review of its receivables and its historical collection experience.

Service fee revenue is recognized as performance obligations are satisfied. The performance obligations inherent within the services the Association provides are suicide prevention and individual, group and family therapy services. The performance obligation is considered complete when the patient appointment is complete.

The Association receives a significant portion of its revenue from Medicaid which include discounts from established billing rates. The Association estimates the transaction price based on terms of the contract with the payor, correspondence with the payor, and historical payment trends. However, invoices amounts are subject to review and final approval or adjustment prior to payment. Laws and regulations governing Medicaid are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Payments not made by third parties are due from the patient based on contract arrangements. In some cases, payment from the third party is considered payment in full and any remaining balance is written off as bad debt. In instances where balances are due from the patient after third party payments are applied, the Association recognizes revenue based on historical payment trends.

Contract Revenue

Contract revenue represents grants received which require the Association to perform services, such as medication management, individual, group and family services. The performance obligation is the service as specified in the grant agreement and is recognized at the time the service is performed.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition – Exchange Transactions (Continued)

Special Event Revenue

The Association conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event— the exchange component, and a portion represents a contribution to the Association. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Association. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Association, are recorded as costs of direct donor benefits in the statements of activities. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fee is set by the Association. ASC 606 requires allocation of the transaction price to the performance obligations. Accordingly, the Association separately presents in Note 16 to the financial statements the exchange and contribution components of the gross proceeds from special events.

The balance of receivables related to contracts with customers was \$79,676 and \$364,438 at July 1, 2022 and June 30, 2023, respectively. Additionally, the balance of receivables related to contracts with customers was \$90,030 at July 1, 2021. The Association's contract liability balance was \$86,038 and \$0 at July 1, 2022 and June 30, 2023, respectively. Additionally, the balance of contract liabilities at July 1, 2021 was \$186,017.

The Association implemented ASC 606 using a portfolio approach, that is, by grouping certain contracts with similar performance obligations and other characteristics into a single portfolio. Management reasonably expects the effects on the financial statements of applying this guidance to the portfolio would not differ significantly from applying this guidance to individual contracts (or performance obligations) within that portfolio.

Financing Component

The Association has elected the practical expedient allowed under generally accepted accounting principles for financing components associated with revenue recognition and does not adjust the promised amount of consideration from patients or third-party payors for the effects of significant financing components due to the Association's expectation that the period between the time the service is provided to a patient and the time the patient or third-party payor pays for the service will be one year or less.

Contract Costs

The Association has applied the practical expedient allowed under generally accepted accounting principles for certain costs associated with contracts with customers. As a result, all incremental contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Association would have recognized is one year or less.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions

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. Conditional grant proceeds that are received in advance but have not been earned are recorded as the unexpended portion of grants received in the Statements of Financial Position.

Contributions received are recorded as 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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Market risks include global events which could impact the value of investment securities, such as a pandemic or international conflict. 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.

Reclassifications

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make the June 30, 2022 amounts conform to classifications used for the year ended June 30, 2023.

Recently Adopted Accounting Standard

In February 2016, the FASB issued No. 2016-02, Leases (Topic 842). Under ASU No. 2016-02, lessees are required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

The Association adopted ASU No. 2016-02 effective July 1, 2022. As allowed by ASU 2018-11, the guidance was applied on a prospective basis using the alternative transition method, which eliminates the requirements to restate periods prior to the date of implementation. As such, financial information related to June 30, 2022, and the year then ended has not been updated and the disclosures required under the new standard have not been provided for dates and periods prior to July 1, 2022. Additionally, implementation of the new standard did not result in a cumulative-effect adjustment to net assets.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Standard (Continued)

The standard provides for several practical expedients in transition, which have been described in Note 10. The Association elected to apply the practical expedients, which among other things, allowed it to carryforward the prior conclusion on lease identification, lease classification, initial direct costs, and determination of lease term. The Association also made the policy election to account for short-term leases (leases with enforceable terms of 12 months or less) by recognizing the lease payments as expense on a straight-line basis over the term of the lease.

There was no material impact to the Statement of Activities as a result of adoption.

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	2023	2022
Cash and cash equivalents	\$ 386,936	\$ 685,537
Investments	394,646	84,114
Grants receivable	1,261,013	844,723
Pledges receivable due within one year, net of allowance	3,065	4,497
Accounts receivable - counseling services	75,251	54,913
Accounts receivable - other	33,356	30,755
Future Interest Endowment Fund held by CFFC	71,631	69,856
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 2,225,898</u>	<u>\$ 1,774,395</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, marketable exchange-traded funds, and various receivables.

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.

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

NOTE 3 INVESTMENTS

Investments are carried at fair value at June 30, 2023 and 2022 and consist of the following:

	2023	2022
Cash and cash equivalents	\$ 394,630	\$ 4,138
Exchange-traded funds	16	79,976
Total Investments	<u>\$ 394,646</u>	<u>\$ 84,114</u>

Investment earnings for the years ended June 30, 2023 and 2022 consist of the following:

	2023	2022
Unrealized gain (loss)	\$ 6,703	\$ (24,313)
Realized gain	-	344
Investment income, net of fees	11,123	967
	<u>\$ 17,826</u>	<u>\$ (23,002)</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.

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable at June 30, 2023 and 2022 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:

	2023	2022
Pledges Receivable, Beginning of Year	\$ 7,122	\$ 19,175
Write-offs	(250)	(3,370)
Payments received	(3,507)	(8,683)
Gross Pledges Receivable	<u>3,365</u>	<u>7,122</u>
Present value adjustment	(10)	(67)
Allowance for doubtful accounts	-	(250)
Pledges Receivable, End of Year	<u>\$ 3,355</u>	<u>\$ 6,805</u>
	2023	2022
Receivable in less than one year	\$ 3,065	\$ 4,747
Receivable in one to five years	300	2,375
Total Pledges Receivable	<u>\$ 3,365</u>	<u>\$ 7,122</u>

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

NOTE 5 LAND, BUILDING AND EQUIPMENT

Land, building and equipment at June 30, 2023 and 2022 consists of the following:

	Cost	Accumulated Depreciation	Book Value
2023			
Land	\$ 257,481	\$ -	\$ 257,481
Building and improvements	3,304,939	956,777	2,348,162
Equipment	172,042	135,293	36,749
Furniture and fixtures	10,979	7,890	3,089
Computer equipment and software	43,531	42,164	1,367
	<u>\$ 3,788,972</u>	<u>\$ 1,142,124</u>	<u>\$ 2,646,848</u>
2022			
Land	\$ 257,481	\$ -	\$ 257,481
Building and improvements	3,304,939	872,154	2,432,785
Equipment	162,497	127,529	34,968
Furniture and fixtures	10,979	6,096	4,883
Computer equipment and software	43,531	41,421	2,110
	<u>\$ 3,779,427</u>	<u>\$ 1,047,200</u>	<u>\$ 2,732,227</u>

NOTE 6 LINE OF CREDIT

In May 2019, the Association entered into a \$100,000 line of credit with a bank with a variable interest rate of 1% plus the Wall Street Journal Prime Rate (9.25% at June 30, 2023). 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. The book value of collateral at June 30, 2023 is \$2,605,644. There was no outstanding balance on the line of credit at June 30, 2023 and 2022. Interest paid for the years ending June 30, 2023 and 2022 was approximately \$0 and \$600, respectively.

NOTE 7 LONG-TERM DEBT

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

	2023	2022
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)	913,675	944,709
	<u>\$ 963,675</u>	<u>\$ 994,709</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, 2023 is \$2,605,644.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 7 LONG-TERM DEBT (CONTINUED)

(b) In February 2010, the Association entered into a loan agreement with a 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, 2023 is \$2,605,644. The Association is required to meet certain financial loan covenants.

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

<u>Year Ending June 30,</u>	
2024	\$ 32,969
2025	880,706
2026	-
2027	-
2028	-
Thereafter	50,000
	<u>\$ 963,675</u>

NOTE 8 RETIREMENT PLAN

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

NOTE 9 COMMITMENTS AND CONTINGENCIES

Revenue and Support Dependency

The Association is significantly dependent on public grants from various state and federal agencies. Public grants represent 63% and 54% of total revenue for the years ended June 30, 2023 and 2022, 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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 10 LEASES

Lease obligations represent the Association's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Association's incremental borrowing rate in effect at the commencement of the lease. Right-of-use assets represent the Association's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and, if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Association's long-term lease agreements are classified as operating leases. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact the financial statements or require incurring additional financial obligations. The expenses incurred under operating leases were as follows:

	Building
June 30, 2023	
Operating lease expense	\$ 15,840
June 30, 2022	
Operating lease expense	\$ 7,920

For the year ended June 30, 2023, there were no significant variable lease costs incurred. Cash paid for amounts included in the measurement of lease obligations totaled \$15,840. The lease expires in fiscal year 2024.

The following is a schedule of future minimum lease payments included in the calculation of the lease obligations as of June 30, 2023:

Year Ending June 30,	
2024	\$ 12,380
Present value adjustment	<u>(135)</u>
Lease obligation	<u>\$ 12,245</u>

The Association assumed an incremental borrowing rate of 2.70% to discount the future minimum lease payments included in operating lease obligations. This discount rate was determined by the Association based on the risk-free treasury rate for 2 years. At June 30, 2023, the weighted average discount rate was 2.70%. Additionally, the weighted average remaining lease term as of June 30, 2023 was .75 years.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

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, 2023 and 2022 was \$71,631 and \$69,856, respectively.

NOTE 12 BOARD DESIGNATED NET ASSETS

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

	2023	2022
Future interest in endowment fund held by the Community Foundation of Frederick County, Inc.	\$ 71,631	\$ 69,856
Mortgage reserve	24,906	24,901
Building repairs and maintenance	51,149	51,149
	<u>\$ 147,686</u>	<u>\$ 145,906</u>

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.

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

NOTE 13 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)
June 30, 2023				
Cash and cash equivalents	\$ 394,630	\$ 394,630	\$ -	\$ -
Exchange-traded funds	16	16	-	-
Pledges receivable	3,355	-	-	3,355
CFFC endowment	71,631	-	71,631	-
	<u>\$ 469,632</u>	<u>\$ 394,646</u>	<u>\$ 71,631</u>	<u>\$ 3,355</u>
June 30, 2022				
Cash and cash equivalents	\$ 4,138	\$ 4,138	\$ -	\$ -
Exchange-traded funds	79,976	79,976	-	-
Pledges receivable	6,805	-	-	6,805
CFFC endowment	69,856	-	69,856	-
	<u>\$ 160,775</u>	<u>\$ 84,114</u>	<u>\$ 69,856</u>	<u>\$ 6,805</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 changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows at June 30:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2023	2022
Pledges Receivable, Beginning of Year	\$ 7,122	\$ 19,175
Write-offs	(250)	(3,370)
Payments received	(3,507)	(8,683)
Gross Pledges Receivable	<u>\$ 3,365</u>	<u>\$ 7,122</u>
Present value adjustment	(10)	(67)
Allowance for doubtful accounts	-	(250)
Pledges Receivable, End of Year	<u>\$ 3,355</u>	<u>\$ 6,805</u>
The amount of total gains for the period included in changes in net assets	<u>\$ 57</u>	<u>\$ 156</u>

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 14 MEDICAID PAYMENTS AND FORGIVENESS

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 into fiscal year 2022, 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 and Optum began reconciling payments made during this time period to patient billings within the same period; however, there were substantial amounts of unreconciled payments through June 30, 2022.

As of June 30, 2022, the Association presented separately, on the Statements of Financial Position, a Medicaid payments liability of \$75,009 to reflect amounts received from Optum for services rendered as of June 30, 2022, but not yet applied to individual patient accounts. During the year ended June 30, 2023, the Association repaid excess funds of \$50,722 and received forgiveness from Optum in the amount of \$24,287. The amount forgiven is presented separately in the Statements of Activities.

NOTE 15 CONTRIBUTED NONFINANCIAL ASSETS

The Association follows ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which clarifies the presentation and disclosure of contributed nonfinancial assets. The intention is to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received, and how they are used and recognized by the not-for-profit.

Nonfinancial contributions received by the Association for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Audio/video services	\$ 20,100	\$ 21,000
Catoctin Affair live auction packages	28,520	21,548
Total	<u>\$ 48,620</u>	<u>\$ 42,548</u>

All nonfinancial contributions represent services and items for the Association's annual Catoctin Affair fundraiser and were valued using estimates based on prices of identical or similar products as provided by the donor. The live auction packages gift cards for food, entertainment, and services. The live auction packages were then provided to those individuals who won the bid at the event. The audio/video services were utilized during the fundraiser, while live auction packages were monetized. The Association does not have a formal policy regarding use of contributed nonfinancial assets, but generally the items are monetized and used to support the Association's programs in general. There were no donor-imposed restrictions associated with the contributed nonfinancial assets as of June 30, 2023 and 2022.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 16 SPECIAL EVENT REVENUE

Gross receipts for special fundraising events recorded by the Association consist of exchange transaction revenue and contribution revenue. The Association is required to separately present the components of this revenue.

	2023	2022
Contributions	\$ 194,061	\$ 212,625
Special event revenue	<u>88,925</u>	<u>66,931</u>
Special Event Revenue - Gross	<u>\$ 282,986</u>	<u>\$ 279,556</u>

NOTE 17 SUBSEQUENT EVENTS

The Association has evaluated events and transactions subsequent to June 30, 2023 through May 15, 2024, 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, 2023 that require recognition or disclosure in the financial statements.



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, 2023 and 2022 and our report thereon dated May 15, 2024, 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 Program Expenses - 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 Ream & Company, LLC

Hagerstown, Maryland
May 15, 2024

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Schedule of Program Expenses - Facing Crises Together
Year Ended June 30, 2023

	Urgent Care/Walk-In Facility	MHA Crisis Center	Other Facing Crises Together	Total Facing Crises Together
Salaries	\$ 43,205	\$ 592,636	\$ 1,655,847	\$ 2,291,688
Payroll taxes	4,209	47,066	126,831	178,106
Employee benefits	5,797	31,576	76,167	113,540
Total Salaries and Related Expenses	53,211	671,278	1,858,845	2,583,334
Web programs	40	11,771	63,600	75,411
Furniture	-	-	72,233	72,233
Interpreter services	-	5,862	56,807	62,669
Repairs & maintenance	25	9,765	34,453	44,243
Depreciation	-	-	38,630	38,630
Consultant	-	-	31,028	31,028
Interest and finance charges	-	-	25,496	25,496
Insurance	74	5,533	15,026	20,633
Equipment	-	4,570	11,170	15,740
Professional fees	42	3,134	7,946	11,122
Client training	117	2,474	5,794	8,385
Telephone	12	1,985	4,740	6,737
Utilities	-	2,093	4,051	6,144
Dues and publications	-	1,878	4,074	5,952
Office supplies	-	61	1,767	1,828
Postage	-	-	916	916
Security and background checks	-	256	505	761
Miscellaneous	-	-	483	483
Travel and meetings	-	140	332	472
Program library materials	-	99	99	198
TOTAL EXPENSES	\$ 53,521	\$ 720,899	\$ 2,237,995	\$ 3,012,415

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Schedule of Program Expenses - Facing Crises Together
Year Ended June 30, 2022

	Urgent Care/Walk-In Facility	MHA Crisis Center	Other Facing Crises Together	Total Facing Crises Together
Salaries	\$ 34,346	\$ 564,196	\$ 1,177,364	\$ 1,775,906
Payroll taxes	2,594	44,924	94,194	141,712
Employee benefits	3,112	18,928	59,011	81,051
Total Salaries and Related Expenses	40,052	628,048	1,330,569	1,998,669
Web programs software licenses	-	13,340	36,178	49,518
Depreciation	-	-	46,020	46,020
Repairs & maintenance	-	9,548	29,204	38,752
Interest and finance charges	-	-	28,745	28,745
Insurance	-	5,697	13,196	18,893
Dues and publications	-	-	10,621	10,621
Interpreters	-	5,205	11,246	16,451
Professional fees	-	4,192	8,962	13,154
Utilities	-	3,519	6,731	10,250
Staff training	-	827	6,205	7,032
Telephone	-	1,296	4,135	5,431
Equipment	-	13	2,111	2,124
Office supplies	-	44	1,782	1,826
Security and background checks	-	709	448	1,157
Advertising	-	336	461	797
Printing	-	-	652	652
Furniture	-	595	-	595
Postage	-	-	440	440
Miscellaneous	-	-	181	181
Client training	-	-	174	174
Travel and meetings	-	2	28	30
TOTAL EXPENSES	\$ 40,052	\$ 673,371	\$ 1,538,089	\$ 2,251,512



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mental Health Association of Frederick County, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mental Health Association of Frederick County, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mental Health Association of Frederick County, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Mental Health Association of Frederick County, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2023-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mental Health Association of Frederick County, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mental Health Association of Frederick County, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Mental Health Association of Frederick County, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings. Mental Health Association of Frederick County, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Reardon & Company, LLC

Hagerstown, Maryland
May 15, 2024

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Schedule of Findings

Year Ended June 30, 2023

Finding 2023-001 – Material Weakness in Internal Control over Financial Reporting – Financial Closing Process

Criteria: The financial closing process should be completed typically within 30 days after each month and the fiscal year-end to ensure timely and accurate reporting. The closing process should include steps to review the reconciliations and journal entries prepared.

Condition: During the fiscal year 2023, the process for closing the books was not completed in a timely manner, which caused delays in providing information for the audit. In addition, it was noted that a review of the reconciliations and journal entries was not evidenced by an appropriate sign off. Furthermore, there were multiple journal entries posted to the general ledger for which there was a lack of supporting documentation. It was also noted that the accounts receivable for counseling services was not reconciled to the billing software and there were several aged receivables for which an explanation or an allowance was not provided.

Cause: The delay in the financial close, lack of review procedures, and resulting unreconciled accounts and missing documentation were primarily due to turnover in the Chief Financial Officer role. In addition, the Association changed billing software and finance staff were not familiar with the new software and reporting.

Effect: The delay in closing the books has resulted in delayed preparation and submission of the annual financial report, including the Single Audit which was due March 31, 2024. The delay in financial close also creates challenges in performing timely financial analysis and decision making and increases risk of errors and omissions in the financial statements. Additionally, the lack of oversight and review allowed for inaccuracies and unsupported journal entries in the Association's financial records.

Recommendation: Review assignment of responsibilities and policies and procedures related to the financial closing process. Develop and enforce a comprehensive financial closing process timeline and checklist. Ensure that journal entries are supported by a reconciliation, schedule, or similar documentation. All financial close documentation should be subjected to review by an individual other than the preparer. The Association should review the available features in the billing software and obtain training as necessary.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Schedule of Findings

Year Ended June 30, 2023

Management's

Response:

Management agrees with the recommendation and acknowledges that with the resignation of our prior Chief Financial Officer (CFO) and the unsuccessful transition to a contract CFO company, our closing processes and financial reporting has been delayed. In response, management has already taken the following steps:

- Hired a new Finance Director and provided grant training,
- Hired an Accounts Payable Clerk who has already caught up our payment to our vendors,
- Discontinued the contract with the contract CFO company and hired a retired CPA in the contract CFO position to assist with audits and the close processes,
- The Frederick County Government, Maryland Interagency Internal Audit Authority, along with the Frederick County Government, Maryland Finance Division contracted with a consulting CPA to assist with the reimbursement request for our County grants in FY24, particularly the large Crisis Stabilization grant (which has been fully expended and final reimbursement request was completed May 8, 2024).
- Conducted frequent meetings of the Chief Executive Officer, Finance Director and contract CFO to monitor progress in bringing current our financial records.

Management is planning to take the immediate steps (to be completed by Fiscal Year (FY) end 2024 and FY end 2025):

- Evaluate and strategically align finance staff duties to ensure all recording and reconciliation of financial data is done in a timely manner,
- Review and update all financial process procedures, improve documentation retention, and create a closing process timeline and checklist,
- Commit to bringing current FY24 data by the close of FY24 and a commitment to begin FY25 with a clear definition of duties and processes to keep FY25 current,
- Provide the Finance Committee and Board with prompt and timely financials which will give them the basis for making strategic financial decisions for the organization.
- Continue ongoing discussions about hiring a grant specialist position in the finance department. If FY25 budget allows, this would be a new position for MHA.