

Audited
Financial
Statements

June 30,
2024

**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, 2024 and 2023, 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 present fairly, in all material respects, the financial position of Mental Health Association of Frederick County, Inc. as of June 30, 2024 and 2023, 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 opinions.

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 and *Government 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 and *Government 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.

SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is 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 audit 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 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 solely 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 Pearson & Company, LLC

Hagerstown, Maryland
December 13, 2024

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
Cash and cash equivalents	\$ 799,441	\$ 781,566
Investments	16	16
Grants receivable	1,560,035	1,261,013
Pledges receivable - net	1,562	3,355
Accounts receivable - counseling services	127,149	75,251
Accounts receivable - other	517	33,356
Prepaid expenses	41,793	49,757
Future Interest in Endowment Fund held by CFFC	74,999	71,631
Operating lease right-of-use asset	-	12,245
Land, building and equipment, net	<u>2,558,055</u>	<u>2,646,848</u>
TOTAL ASSETS	<u><u>\$ 5,163,567</u></u>	<u><u>\$ 4,935,038</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 367,375	\$ 317,467
Unexpended portion of grants received	426,784	306,781
Operating lease obligation	-	12,245
Notes payable	<u>934,157</u>	<u>963,675</u>
Total Liabilities	<u>1,728,316</u>	<u>1,600,168</u>
Net Assets		
Without donor restrictions		
Undesignated	3,284,197	3,187,184
Board designated	<u>151,054</u>	<u>147,686</u>
Total Net Assets without Donor Restrictions	<u>3,435,251</u>	<u>3,334,870</u>
Total Net Assets	<u>3,435,251</u>	<u>3,334,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,163,567</u></u>	<u><u>\$ 4,935,038</u></u>

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statements of Activities
Years Ended June 30, 2024 and 2023

	2024	2023
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
Public grants	\$ 5,504,574	\$ 3,618,954
Program service revenue	1,319,769	1,453,028
Contract revenue	444,381	612,166
Donations and foundation grants, net of bad debt and present value discount	350,181	314,022
Special event revenue	320,621	282,986
Non-financial contributions	195,311	48,620
Medicaid payment liability forgiveness	-	24,287
Net assets released from restrictions	-	50,000
Other income	51,316	35,518
Investment income, net	12,222	17,826
	<u>8,198,375</u>	<u>6,457,407</u>
EXPENSES		
Program Services		
Preparing Resilient Children	1,605,242	1,594,071
Securing Vulnerable Families	614,913	617,207
Facing Crises Together	4,761,327	3,012,415
Supporting Our Whole Community	231,002	245,737
Total Program Services	<u>7,212,484</u>	<u>5,469,430</u>
Supporting Services		
Management and general	726,726	537,243
Fundraising	158,784	161,911
Total Supporting Services	<u>885,510</u>	<u>699,154</u>
	<u>8,097,994</u>	<u>6,168,584</u>
	<u>100,381</u>	<u>288,823</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Net assets released from restrictions	<u>-</u>	<u>(50,000)</u>
(Decrease) in Net Assets with Donor Restrictions	<u>-</u>	<u>(50,000)</u>
	100,381	238,823
NET ASSETS, BEGINNING OF YEAR	<u>3,334,870</u>	<u>3,096,047</u>
NET ASSETS, END OF YEAR	<u>\$ 3,435,251</u>	<u>\$ 3,334,870</u>

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Statement of Functional Expenses
Year Ended June 30, 2024

	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	\$ 1,121,349	\$ 466,335	\$ 3,442,306	\$ 155,111	\$ 5,185,101	\$ 436,459	\$ 21,880	\$ 5,643,440
Payroll taxes	85,711	31,347	250,946	11,555	379,559	30,972	1,639	412,170
Employee benefits	94,743	35,930	159,993	7,100	297,766	16,318	512	314,596
Total Salaries and Related Expenses	1,301,803	533,612	3,853,245	173,766	5,862,426	483,749	24,031	6,370,206
Consultant	12,303	2,025	240,117	-	254,445	-	-	254,445
In-kind	-	-	162,142	-	162,142	-	-	162,142
Repairs and maintenance	34,642	15,405	70,885	5,521	126,453	25,319	428	152,200
CAF expense	-	-	-	428	428	-	133,715	134,143
Web programs	8,465	5,922	92,256	6,415	113,058	10,336	168	123,562
Program service expense	105,195	12,362	147	675	118,379	-	-	118,379
Depreciation	3,034	-	1,185	-	4,219	91,231	-	95,450
Professional fees	6,707	2,192	20,385	873	30,157	65,001	224	95,382
Furniture	-	-	76,568	-	76,568	-	-	76,568
Equipment	-	3,810	66,059	-	69,869	1,982	-	71,851
Travel and meetings	57,993	5,707	908	167	64,775	318	-	65,093
Interest and finance charges	8,085	6,162	26,319	17,153	57,719	6,566	-	64,285
Interpreter services	6	3,122	54,648	-	57,776	-	-	57,776
Client training	12,619	4,482	11,206	1,330	29,637	21,242	-	50,879
Insurance	7,754	3,192	23,058	4,594	38,598	2,882	150	41,630
Rent	15,962	2,262	17,751	252	36,227	2,199	-	38,426
Office supplies	8,984	1,148	10,807	336	21,275	5,361	-	26,636
Telephone	7,045	5,877	8,384	516	21,822	1,522	-	23,344
Dues and publications	5,221	550	10,170	3,272	19,213	3,078	-	22,291
Utilities	4,513	2,384	11,398	596	18,891	3,246	41	22,178
Miscellaneous	1,772	1,614	24	8,349	11,759	2,510	27	14,296
Printing	391	1,668	2,063	4,224	8,346	71	-	8,417
Advertising	2,466	-	100	2,141	4,707	-	-	4,707
Security and background checks	106	1,336	1,502	51	2,995	103	-	3,098
Postage	66	81	-	343	490	10	-	500
Program library materials	110	-	-	-	110	-	-	110
TOTAL EXPENSES	\$ 1,605,242	\$ 614,913	\$ 4,761,327	\$ 231,002	\$ 7,212,484	\$ 726,726	\$ 158,784	\$ 8,097,994

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.
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 100,381	\$ 238,823
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Forgiveness of Medicaid payment liability	-	(24,287)
Provision for uncollectible pledges	-	250
Depreciation	95,450	94,925
Loss on disposal of equipment	1,244	-
Net realized and unrealized (gain) loss on investments	(3,368)	(6,703)
(Increase) in grants receivable	(299,022)	(416,290)
Decrease in pledges receivable	1,793	3,200
(Increase) in accounts receivable - counseling services	(51,898)	(20,338)
(Increase) decrease in other receivables	32,839	(2,601)
Decrease in prepaid expenses	7,964	2,367
Increase in unexpended portion of grants received	120,003	205,321
Increase (decrease) in accounts payable and accrued expenses	49,908	(26,362)
(Decrease) in Medicaid payment liability	-	(50,722)
Net Cash Provided by (Used in) Operating Activities	<u>55,294</u>	<u>(2,417)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,901)	(9,546)
Proceeds from sale of investments	-	89,026
Net Cash Provided by (Used in) Investing Activities	<u>(7,901)</u>	<u>79,480</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(29,518)	(31,034)
Net Cash (Used in) Financing Activities	<u>(29,518)</u>	<u>(31,034)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,875	46,029
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>781,566</u>	<u>735,537</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 799,441</u>	<u>\$ 781,566</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 44,499	\$ 41,518
NON-CASH TRANSACTIONS		
Establishment of operating right-of-use assets and lease obligations	\$ -	\$ 28,190

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, 2024 and 2023, 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.

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, donations and foundation grants, non-financial contributions, other 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 credit losses based on a review of its receivables and its historical collection experience. As of June 30, 2024 and 2023, management considers these receivables to be fully collectible; accordingly, no allowance for credit losses is required.

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, invoice 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 \$83,607 and \$127,666 at July 1, 2023 and June 30, 2024, respectively. Additionally, the balance of receivables related to contracts with customers was \$60,668 at July 1, 2022. The Association's contract liability balance was \$0 at July 1, 2023 and June 30, 2024. Additionally, the balance of contract liabilities at July 1, 2022 was \$86,038.

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)

Allowance for Credit Losses - Recently Adopted Accounting Standard

Effective July 1, 2023, the Association adopted Accounting Standard Update (ASU) No. 2016-13 (topic 326) Financial instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which eliminated the probable initial recognition threshold for credit losses and instead requires that all financial assets (or group of financial assets) measured at amortized cost be presented at the net amount expected to be collected inclusive of the entity's current estimate of all lifetime expected credit losses.

The Organization adopted Accounting Standards Codification (ASC) 326 using the modified retrospective transition approach for all financial assets measured at amortized cost. The financial assets subject to ASC 326 are grants, counseling services and other receivables. The Association estimates the allowance for credit losses based on factors surrounding the credit risk of specific customers, historical loss experiences, projection of trends and other economic factors. There was no material impact to the Association as a result of adopting this standard.

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. See Note 15 for further details.

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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2023 amounts conform to classifications used for the year ended June 30, 2024.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to 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	2024	2023
Cash and cash equivalents	\$ 799,441	\$ 781,566
Investments	16	16
Grants receivable	1,560,035	1,261,013
Pledges receivable due within one year, net	1,472	3,065
Accounts receivable - counseling services	127,149	75,251
Accounts receivable - other	517	33,356
Future Interest Endowment Fund held by CFFC	74,999	71,631
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 2,563,629</u>	<u>\$ 2,225,898</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.

NOTE 3 INVESTMENTS

Investments are carried at fair value at June 30, 2024 and 2023 and consist of exchange-traded funds of \$16. Investment earnings for the years ended June 30, 2024 and 2023 consist of the following:

	2024	2023
Unrealized gain	\$ 3,351	\$ 15,578
Investment income, net of fees	8,871	2,248
	<u>\$ 12,222</u>	<u>\$ 17,826</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, 2024 and 2023 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:

	2024	2023
Pledges Receivable, Beginning of Year	\$ 3,365	\$ 7,122
Write-offs	-	(250)
Payments received	(1,793)	(3,507)
Gross Pledges Receivable	1,572	3,365
Present value adjustment	(10)	(10)
Pledges Receivable, End of Year	<u>\$ 1,562</u>	<u>\$ 3,355</u>

	2024	2023
Receivable in less than one year	\$ 1,472	\$ 3,065
Receivable in one to five years	100	300
Total Pledges Receivable	<u>\$ 1,572</u>	<u>\$ 3,365</u>

NOTE 5 LAND, BUILDING AND EQUIPMENT

Land, building and equipment at June 30, 2024 and 2023 consists of the following:

	Cost	Accumulated Depreciation	Book Value
2024			
Land	\$ 257,481	\$ -	\$ 257,481
Building and improvements	3,304,939	1,041,400	2,263,539
Equipment	160,686	125,655	35,031
Furniture and fixtures	10,979	9,596	1,383
Computer equipment and software	43,531	42,910	621
	<u>\$ 3,777,616</u>	<u>\$ 1,219,561</u>	<u>\$ 2,558,055</u>
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>

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 (9.50% at June 30, 2024). 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, 2024 is \$2,521,022. There was no outstanding balance on the line of credit at June 30, 2024 and 2023. Interest paid for the years ending June 30, 2024 and 2023 was \$4,262 and \$0, respectively.

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:

	<u>2024</u>	<u>2023</u>
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 Sandy Spring Bank, due, March 2025 (see paragraph "b" below)	<u>884,157</u>	<u>913,675</u>
	<u>\$ 934,157</u>	<u>\$ 963,675</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, 2024 is \$2,521,022.
- (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 Association expects to refinance this loan, but through the date these financial statements were available to be issued, nothing has been finalized. The book value on the collateral at June 30, 2024 is \$2,521,022. 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>	
2025	\$ 884,157
2026	-
2027	-
2028	-
Thereafter	<u>50,000</u>
	<u>\$ 934,157</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.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

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 67% and 63% of total revenue for the years ended June 30, 2024 and 2023, 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.

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 and included a building that was terminated in fiscal year 2024. The Association assumed an incremental borrowing rate of 2.70% to discount the future minimum lease payments included in the operating lease obligation. 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%. This lease agreement did not provide for residual value guarantees and had no restrictions or covenants that would impact the financial statements or require incurring additional financial obligations.

In fiscal year 2024, the Association entered into a lease agreement for a Behavioral Health Crisis Stabilization Center (CSC). The lease requires an annual payment of \$1 through the lease expiration on June 30, 2028. The difference between the fair market rate and the payment required is recognized as a non-financial contribution, as further discussed in Note 15 to the financial statements.

The expenses incurred under operating leases were as follows:

	Building	CSC
June 30, 2024		
Operating lease expense(cash paid)	\$ 7,920	\$ 1
Operating lease expense(donated)	-	162,142
June 30, 2023		
Operating lease expense	\$ 15,840	\$ -

For the year ended June 30, 2024 and 2023, there were no significant variable lease costs incurred.

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, 2024 and 2023 was \$74,999 and \$71,631, respectively.

NOTE 12 BOARD DESIGNATED NET ASSETS

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

	2024	2023
Future interest in endowment fund held by the Community Foundation of Frederick County, Inc.	\$ 74,999	\$ 71,631
Mortgage reserve	24,906	24,906
Building repairs and maintenance	51,149	51,149
	<u>\$ 151,054</u>	<u>\$ 147,686</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, 2024				
Exchange-traded funds	\$ 16	\$ 16	\$ -	\$ -
Pledges receivable	1,562	-	-	1,562
CFFC endowment	74,999	-	74,999	-
	<u>\$ 76,577</u>	<u>\$ 16</u>	<u>\$ 74,999</u>	<u>\$ 1,562</u>
June 30, 2023				
Exchange-traded funds	\$ 16	\$ 16	\$ -	\$ -
Pledges receivable	3,355	-	-	3,355
CFFC endowment	71,631	-	71,631	-
	<u>\$ 75,002</u>	<u>\$ 16</u>	<u>\$ 71,631</u>	<u>\$ 3,355</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)	
	2024	2023
Pledges Receivable, Beginning of Year	\$ 3,365	\$ 7,122
Write-offs	-	(250)
Payments received	(1,793)	(3,507)
Gross Pledges Receivable	\$ 1,572	\$ 3,365
Present value adjustment	(10)	(10)
Pledges Receivable, End of Year	<u>\$ 1,562</u>	<u>\$ 3,355</u>
The amount of total gains for the period included in changes in net assets	<u>\$ -</u>	<u>\$ 57</u>

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, which was recognized as a Medicaid payments liability of \$75,009.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.

Notes to Financial Statements

NOTE 14 MEDICAID PAYMENTS AND FORGIVENESS (CONTINUED)

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, 2024 and 2023 are as follows:

	2024	2023
Leased CSC below market rent	\$ 162,142	\$ -
Catoctin Affair live auction packages	16,802	28,520
Audio/video services	10,200	20,100
Floral services	3,240	-
Catering services	1,800	-
Printing services	1,127	-
Total	<u>\$ 195,311</u>	<u>\$ 48,620</u>

As described in Note 10, the Association leases their CSC at below fair market rent. The difference between fair market rent and cash paid is recognized as a non-financial contribution and is utilized for the Facing Crisis Together program. The remaining 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 include 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 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, 2024 and 2023.

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.

	2024	2023
Contributions	\$ 215,823	\$ 194,061
Special event revenue	<u>104,798</u>	<u>88,925</u>
Special Event Revenue - Gross	<u>\$ 320,621</u>	<u>\$ 282,986</u>

NOTE 17 SUBSEQUENT EVENTS

The Association has evaluated events and transactions subsequent to June 30, 2024 through December 13, 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, 2024 that require recognition or disclosure in the financial statements.



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, 2024, 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 December 13, 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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*.

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
December 13, 2024



INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *THE UNIFORM GUIDANCE*

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited Mental Health Association of Frederick County, Inc.’s (Association) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association’s major federal programs for the year ended June 30, 2024. The Association’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Mental Health Association of Frederick County, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance 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 relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Mental Health Association of Frederick County, Inc.’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Mental Health Association of Frederick County, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Mental Health Association of Frederick County, Inc.'s compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Mental Health Association of Frederick County, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Mental Health Association of Frederick County, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Mental Health Association of Frederick County, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Mental Health Association of Frederick County, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Smith Elliott Reardon & Company, LLC

Hagerstown, Maryland
December 13, 2024

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor and Program Title	Federal Assistance Listing Number	Pass-Through Entity	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services					
American Rescue Plan Act Early Childhood Mental Health *COVID-19 Funding	93.575	Maryland State Department of Education	2101MDCDC6	\$ 414,966	\$ -
American Rescue Plan Act Discretionary *COVID-19 Funding	93.575	Maryland Family Network	2101MDCDC6	463,002	-
Growing Opportunities in Family Child Care *COVID-19 Funding	93.575	Maryland Family Network	2101MDCCDF	162,868	-
Professional Development Capacity Building	93.575	Maryland Family Network	2201MDCCDD	172,978	-
Infant & Toddler	93.575	Maryland Family Network	2201MDCCDD	79,731	-
Total Child Care & Development Block Grant				<u>1,293,545</u>	<u>-</u>
Crisis Stabilization Center	93.493	Frederick County, Maryland	G7754.1000.23.01	705,451	-
988 Transition	93.958	Frederick County Health Department	F971N	90,295	-
Walk-In Peer Expansion	93.958	Frederick County Health Department	F971N	61,302	-
Total Child Care & Development Grant				<u>151,597</u>	<u>-</u>
Walk-In Crisis Services	93.959	Frederick County Health Department	F846N	34,130	-
Improving Local 988	93.959	Frederick County Health Department	F634	200,756	-
Total Block Grants for Substance Use Prevention, Treatment, and Recovery Services				<u>234,886</u>	<u>-</u>
988 Supplemental	93.243	Frederick County Health Department	F552	90,909	-
988/Lifeline Crisis Hotline	93.243	Frederick County Health Department	F983N	60,347	-
Total Substance Abuse and Mental Health Services Projects of Regional and National Significance				<u>151,256</u>	<u>-</u>
Total U.S. Department of Health and Human Services and Federal Expenditures				\$ 2,536,735	\$ -

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

NOTE 1 GENERAL INFORMATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Association under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Indirect Costs

The Association has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	___X___ none reported
Noncompliance material to financial statements noted?	_____ yes	___X___ no

Federal Awards

Type of auditor's report issued on compliance for major programs:		Unmodified
Internal control over major programs:		
Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	___X___ none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	_____ yes	___X___ no

Identification of Major Programs:

<u>ALN</u>	<u>Name of Federal Program or Cluster</u>
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	_____ yes ___X___ no

MENTAL HEALTH ASSOCIATION OF FREDERICK COUNTY, INC.
Summary Schedule Findings and Questioned Costs
Year Ended June 30, 2024

SECTION II – FINANCIAL STATEMENT FINDINGS

A. Significant Deficiencies or Material Weaknesses in Internal Control Over Compliance

None noted.

B. Compliance Findings

There were no findings related to compliance during the year ended June 30, 2024.

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS

C. Significant Deficiencies or Material Weaknesses in Internal Control Over Compliance

None noted.

D. Compliance Findings

There were no findings related to the major federal awards as required to be reported in accordance with Uniform Guidance by 2 CFR Section 200.516.

SECTION IV – SCHEDULE OF PRIOR YEAR FINDINGS

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

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.

Current Status: This was corrected during the year ended June 30, 2024.