

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

AND

INDEPENDENT AUDITORS' REPORT

SHAHEEN, PALLONE & ASSOCIATES

A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

*To the Board of Directors of the
Mental Health Association of Greater Lowell, Inc.
Lowell, Massachusetts*

We have audited the accompanying statement of financial position of the Mental Health Association of Greater Lowell, Inc. (a non-profit organization) as of June 30, 2012 and the related statements of activities, cash flows and functional expenses, for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Mental Health Association of Greater Lowell, Inc., as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Shaheen, Pallone & Associates, P.C.

November 26, 2012

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

Cash and cash equivalents	\$ 699,178
Grants and accounts receivable (net of allowance for doubtful accounts of \$33,836)	317,452
Prepaid expenses	11,084
Property and equipment, net	65,319
Loan receivable - related party	33,341
Security deposits	<u>9,849</u>
Total Assets	<u>\$1,136,223</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 381,744
Capital lease obligation	3,756
Deferred revenue	<u>32,513</u>
Total Liabilities	<u>418,013</u>
Net Assets	
Unrestricted:	
Board designated	173,410
Undesignated	<u>544,800</u>
Total Net Assets	<u>718,210</u>
Total Liabilities and Net Assets	<u>\$1,136,223</u>

The accompanying notes are an integral part of these financial statements.

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

**Unrestricted
Net Assets**

Revenue, gains and other support:

Public support:

Contributions	\$ 9,881
Special events	5,330
Allocated by United Way	45,664
Grants and contracts	5,212,048

Revenue:

Program service fees	1,080,660
Interest	1,720
Other	<u>8,619</u>

Total revenues, gains, and other support 6,363,922

Expenses and Losses:

Program services:

Victim support services	59,871
Community residences	1,194,251
Individual housing supports	225,728
Residential supports	8,160
Community based flexible supports	3,085,129
Outpatient mental health services	1,155,705
Community supports residential	<u>60,586</u>

Total program services 5,789,430

Supporting services:

Management and general 510,537

Total expenses 6,299,967

Change in net assets 63,955

Net assets at beginning of year 654,255

Net assets at end of year \$ 718,210

The accompanying notes are an integral part of these financial statements.

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

Cash Flows from Operating Activities:	
Change in net assets	\$ 63,955
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation and amortization	15,060
Decrease in grants and accounts receivable	91,264
Decrease in prepaid expenses	908
Increase in accounts payable and accrued expenses	9,152
Increase in deferred revenue	<u>32,513</u>
Net cash provided by operating activities	<u>212,852</u>
Cash Flows from Investing Activities:	
Repayments from related party, net	23,757
Expenditures for property and equipment	<u>(22,248)</u>
Net cash provided by investing activities	<u>1,509</u>
Cash Flows from Financing Activities:	
Principal payments on notes payable	<u>(3,585)</u>
Net cash used in financing activities	<u>(3,585)</u>
Net increase in cash and cash equivalents	210,776
Cash and cash equivalents - July 1, 2011	<u>488,402</u>
Cash and cash equivalents - June 30, 2012	<u>\$ 699,178</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during year for interest	<u>\$ 3,633</u>
Cash paid during year for taxes	<u>\$ -0-</u>

The accompanying notes are an integral part of these financial statements.

MENTAL HEALTH ASSOCIATION of GREATER LOWELL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

PROGRAM SERVICES

	VICTIM SUPPORT SERVICES	COMMUNITY RESIDENCES	COMMUNITY SUPPORTS RESIDENTIAL	INDIVIDUAL HOUSING SUPPORTS	RESIDENTIAL SUPPORTS	COMMUNITY BASED FLEXIBLE SUPPORTS	OUTPATIENT MENTAL HEALTH SERVICES	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	TOTALS JUNE 30, 2012
Payroll	\$ 42,699	\$ 748,517	\$ 45,870	\$ 157,107	\$	\$ 2,133,618	\$ 879,013	\$ 4,006,824	\$ 338,764	\$ 4,345,588
Payroll Taxes	4,232	70,223	4,303	14,930		196,821	78,954	369,463	21,977	391,440
Fringe Benefits	4,081	77,443	4,988	16,798		177,897	48,127	329,334	26,612	355,946
Consulting & Contract Services		24,746				45,313	550	70,609	25,712	96,321
Insurance	4,028	4,263		849		8,239	1,859	15,210	13,115	28,325
Rent		78,768			7,200	160,428	65,114	315,538	11,479	327,017
Vehicle Lease & Expenses		68,238		547		11,992		80,777		80,777
Repairs & Maintenance		17,634	493	1,913		45,934	6,055	72,029	4,863	76,892
Furnishings & Small Equipment		1,170	80	765		19,499	3,730	25,244	816	26,060
Telephone	594	8,324	570	527		8,850	5,123	23,988	1,914	25,902
Advertising	469	320	295			6,982	10,569	18,930	3,290	22,220
Staff Training & Meetings	713	690				3,637	1,528	6,568	325	6,893
Computer Service	1,289	3,877				17,261	16,382	38,809	21,082	59,891
Travel	411	2,378	1,898	6,231		118,025	1,415	130,358	2,260	132,618
Office Supplies	230	4,232				12,981	5,680	23,123	5,451	28,574
Program Supplies	145	55,102	1,246	25,024	960	56,817	644	139,938	3,863	143,801
Depreciation & Amortization				742		9,468	3,020	13,230	1,830	15,060
Printing & Postage	980	205	843			17,033	19,202	38,263	2,040	40,303
Interest									2,835	2,835
Donations									775	775
Utilities		27,501				33,816	2,681	63,998		63,998
Dues, fees & permits		620				518	5,568	6,706	20,019	26,725
Miscellaneous							491	491	1,515	2,006
Total	\$ 59,871	\$ 1,194,251	\$ 60,586	\$ 225,728	\$ 8,160	\$ 3,085,129	\$ 1,155,705	\$ 5,789,430	\$ 510,537	\$ 6,299,967

The accompanying notes are an integral part of these financial statements.

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The Mental Health Association of Greater Lowell, Inc. ("MHA" or "the Organization") was organized as a non-profit corporation in the Commonwealth of Massachusetts in 1953. The organization was formed for the purpose of providing clinical, residential, and transitional employment services for deinstitutionalized mentally handicapped individuals.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP"). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of MHA and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Agency to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Support and Revenue:

MHA receives its grant and contract support primarily from the Massachusetts Departments of Mental Health and Developmental Services (see Note 2 - Summary of Grants/Contracts Funding). MHA also receives client fees, Medicaid income, and Medicare income for billable client services and recognizes these fees and income when earned.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions. MHA had no temporarily or permanently restricted net assets during the fiscal year ended June 30, 2012.

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Property and Equipment:

Property and equipment acquired by MHA are considered to be owned by MHA. However, State funding sources may maintain equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets. The State has a reversionary interest in those assets purchased with its funds.

MHA follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$5,000. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Leasehold improvements	15 years
Furniture and equipment	2 - 5 years
Vehicles	5 years

Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax Status and Uncertain Tax Positions:

The Organization is a non-profit organization, exempt from taxation under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been provided for in the accompanying financial statements.

GAAP requires the Organization to evaluate and disclose tax positions that could have an effect on its financial statements. Substantially all of the Organization's income, expenditures and activities relate to its exempt purpose, therefore, management has determined that the Organization is not subject to unrelated business income taxes and will continue to qualify as a tax-exempt not-for-profit entity.

The Organization reports its activities to the Internal Revenue Service and to the Commonwealth of Massachusetts on an annual basis. These informational returns are generally subject to audit and review by the governmental agencies for a period of three years after filing.

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 **SUMMARY OF GRANTS/CONTRACTS FUNDING**

MHA was primarily funded through the following grants and contracts for the period July 1, 2011 to June 30, 2012:

<u>Funding Source</u>	<u>Grant Contract Number</u>	<u>Grant Contract Period</u>	<u>Recognized Support</u>
Mass. Dept. of Developmental Services	113310310307	7/1/11 - 6/30/12	\$1,244,761
Mass. Dept. of Developmental Services	113310310322	7/1/11 - 6/30/12	314,792
Mass. Dept. of Developmental Services	113310311307	7/1/11 - 6/30/12	8,160
Mass. Dept. of Developmental Services	123310310320	7/1/11 - 6/30/12	79,336
Mass. Dept. of Mental Health	33100103579	7/1/11 - 6/30/12	3,414,301
City of Lowell	N/A	7/1/11 - 6/30/12	8,330
Massachusetts Office for Victim Assistance	N/A	7/1/11 - 6/30/12	66,433
Lowell Community Health Center	N/A	7/1/11 - 6/30/12	32,680
United Teen Equality Center	N/A	7/1/11 - 6/30/12	43,255
Total Grants and Contracts			<u>\$5,212,048</u>

NOTE 3 **PROPERTY AND EQUIPMENT**

A summary of property and equipment at June 30, 2012 is as follows:

Office Equipment	\$ 58,040
Equipment, Furniture and Fixtures	52,359
Motor Vehicles	62,910
Leasehold Improvements	<u>45,330</u>
Total	218,639
Less accumulated depreciation	<u>153,320</u>
 Net Book Value	 <u>\$ 65,319</u>

NOTE 4 **BANK LINE OF CREDIT**

The Mental Health Association of Greater Lowell, Inc. maintains a revolving bank line of credit with a maximum borrowing amount of \$300,000. The line, which is payable on demand and which bears interest at the bank's prime lending rate plus 1.5%, is collateralized by substantially all of the Organization's assets. The outstanding balance on the line of credit as of June 30, 2012 was \$-0-.

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 OPERATING LEASES

MHA leases various facilities throughout the Greater Lowell area under leases expiring in various years through 2016. For the year ended June 30, 2012, total rental expense for these facilities amounted to approximately \$327,000.

MHA also leases certain motor vehicles under various operating leases expiring through January, 2013. Rent expense under these leases was approximately \$23,000 for the year ended June 30, 2012.

Future minimum lease payments under noncancelable operating leases with initial or remaining terms of one year or more consist of the following at June 30, 2012:

<u>June 30,</u>	<u>Amount</u>
2013	\$215,000
2014	115,000
2015	70,000
2016	<u>47,000</u>
Total	<u>\$447,000</u>

NOTE 6 CAPITAL LEASE

The Organization leases certain equipment under an agreement that is classified as a capital lease. The capitalized cost of equipment under this capital lease is included in the Statement of Financial Position as office equipment and totaled \$13,376 at June 30, 2012. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2012 are as follows:

Total minimum lease payments for the year ending June 30, 2013	\$4,025
Less: Amount representing interest	<u>269</u>
Present value of net minimum lease payments	<u>\$3,756</u>

NOTE 7 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject MHA to credit risk consist principally of grants and accounts receivable which are primarily due from the Commonwealth of Massachusetts.

The Organization maintains its temporary cash investments with one high credit financial institution. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2012 MHA advanced funds to and received payments from Appleton Housing Corp., a non-profit organization which is related through common management. The purpose of this organization is to provide affordable rental housing to individuals with psychiatric disabilities. MHA receives a management fee from Appleton Housing Corporation on a monthly basis. The management fee income totaled \$8,619 for the year ended June 30, 2012. At June 30, 2012, the amount due from Appleton Housing Corp. was \$33,341. The loan balance is non interest bearing and has no fixed repayment schedule. Payments will be made as cash becomes available.

NOTE 9 SURPLUS REVENUE RETENTION

In accordance with the Mental Health Association of Greater Lowell, Inc.'s contracts with its principal funding source, the Commonwealth of Massachusetts, the Organization is allowed to retain a portion of its excess support and revenue over expenses in a fiscal year (the "surplus"). The Organization may retain as its surplus up to 5% of total revenue from the Commonwealth during any fiscal year. In addition, the Organization may retain a cumulative amount of surplus over a period of years not to exceed 20% of the prior year's total support and revenue from the Commonwealth. The Organization had no liability to the Commonwealth of Massachusetts related to its surplus for the year ended June 30, 2012.

NOTE 10 BOARD DESIGNATED NET ASSETS

The Board of Directors of Mental Health Association of Greater Lowell, Inc. designated \$173,410 of its unrestricted net assets as a working capital reserve to stabilize the Organization's cash flow. The board feels this is necessary because reimbursements from the MHA's primary funding sources are often not received until well after current expenditures have been made.

NOTE 11 PENSION PLAN

The Organization provides pension benefits for its employees through membership in a tax sheltered 403(b) retirement plan whereby eligible employees are allowed to make voluntary salary reduction contributions to the plan within certain limitations. The Organization does not make any contributions to the plan on behalf of its employees.

NOTE 12 SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 26, 2012, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2012 that require recognition or disclosure in these financial statements.