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**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**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 financial statements of Mental Health Association of Greater Lowell, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mental Health Association of Greater Lowell, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Shaheen, Pallone & Associates, P.C.*

North Andover, Massachusetts  
November 12, 2015

**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2015**

**ASSETS**

Cash and cash equivalents	\$ 615,035
Grants and accounts receivable (net of allowance for doubtful accounts of \$40,711)	730,316
Prepaid expenses	12,309
Property and equipment, net	529,049
Loan receivable - related party	25,556
Security deposits	<u>9,849</u>
Total Assets	<u>\$1,922,114</u>

**LIABILITIES AND NET ASSETS**

Accounts payable and accrued expenses	\$ 745,198
Current portion of long-term debt	7,800
Deferred revenue	15,126
Long-term debt, net of current portion	<u>225,935</u>
Total Liabilities	<u>994,059</u>
Net Assets	
Unrestricted:	
Board designated	205,000
Undesignated	707,574
Temporarily restricted	<u>15,481</u>
Total Net Assets	<u>928,055</u>
Total Liabilities and Net Assets	<u>\$1,922,114</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, 2015**

**Changes in unrestricted net assets:**

**Revenue, gains and other support:**

Public support:		
Contributions		\$ 19,115
Allocated by United Way		38,571
Grants and contracts		6,025,294
Revenue:		
Program service fees		1,201,846
Interest		1,929
Other		<u>8,605</u>
Total unrestricted revenues and gains		7,295,360
Net assets released from restrictions:		
Satisfaction of program restrictions		<u>9,519</u>
Total unrestricted revenues, gains, and other support		<u>7,304,879</u>

**Expenses and Losses:**

Program services:		
Community residences		1,594,846
Individual housing supports		328,367
Residential supports		14,472
Community based flexible supports		3,452,633
Outpatient mental health services		<u>1,225,334</u>
Total program services		6,615,652
Supporting services:		
Management and general		<u>579,210</u>
Total expenses		<u>7,194,862</u>

Increase in unrestricted net assets 110,017

**Changes in temporarily restricted net assets:**

Contributions		25,000
Net assets released from restrictions		<u>(9,519)</u>

Increase in temporarily restricted net assets 15,481

**Increase in Net Assets** 125,498

Net assets at beginning of year 802,557

**Net assets at end of year** \$ 928,055

*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, 2015

<b>Cash Flows from Operating Activities:</b>	
Change in net assets	\$ 125,498
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	34,728
Increase in grants and accounts receivable	(310,345)
Increase in prepaid expenses	(194)
Increase in accounts payable and accrued expenses	267,348
Decrease in deferred revenue	<u>(10,019)</u>
Net cash provided by operating activities	<u>107,016</u>
<b>Cash Flows from Investing Activities:</b>	
Net repayment of loans due from related party	7,441
Expenditures for construction in progress	<u>(435,440)</u>
Net cash used in investing activities	<u>(427,999)</u>
<b>Cash Flows from Financing Activities:</b>	
Net repayments on bank line of credit	(37,026)
Proceeds from long-term debt	303,750
Payments on long-term debt	<u>(70,015)</u>
Net cash provided by financing activities	<u>196,709</u>
Net decrease in cash and cash equivalents	(124,274)
Cash and cash equivalents - July 1, 2014	<u>739,309</u>
Cash and cash equivalents - June 30, 2015	<u>\$ 615,035</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Cash paid during year for interest	<u>\$ 1,132</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, 2015**

PROGRAM SERVICES

	COMMUNITY RESIDENCES	INDIVIDUAL HOUSING SUPPORTS	RESIDENTIAL SUPPORTS	COMMUNITY BASED FLEXIBLE SUPPORTS	OUTPATIENT MENTAL HEALTH SERVICES	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	TOTALS JUNE 30, 2015
Payroll	\$ 983,440	\$ 235,376	\$ -	\$ 2,343,807	\$ 916,586	\$ 4,479,209	\$ 334,511	\$ 4,813,720
Payroll Taxes	80,352	19,434	-	184,971	77,016	361,773	25,927	387,700
Fringe Benefits	76,254	37,108	-	202,383	57,129	372,874	17,711	390,585
Consulting & Contract Services	54,728	-	-	12,334	-	67,062	32,991	100,053
Insurance	6,798	1,548	-	12,936	2,050	23,332	16,659	39,991
Rent	93,086	-	13,512	155,314	70,922	332,834	12,526	345,360
Vehicle Lease & Expenses	11,120	-	-	-	-	11,120	-	11,120
Repairs & Maintenance	47,074	10,147	-	68,516	11,065	136,802	13,842	150,644
Furnishings & Small Equipment	19,650	-	-	76,286	4,845	100,781	6,893	107,674
Telephone	8,308	853	-	9,576	5,394	24,131	2,451	26,582
Advertising	2,666	-	-	782	4,879	8,327	300	8,627
Staff Training & Meetings	3,781	1,555	-	6,228	4,194	15,758	700	16,458
Computer Service	32,036	-	-	122,380	32,633	187,049	64,352	251,401
Travel	49,562	11,427	-	116,952	2,037	179,978	4,094	184,072
Office Supplies	2,480	-	-	11,681	6,650	20,811	3,936	24,747
Program Supplies	61,239	5,856	960	42,805	468	111,328	12,644	123,972
Depreciation & Amortization	19,405	4,450	-	8,312	2,561	34,728	-	34,728
Printing & Postage	3,757	613	-	15,376	15,969	35,715	2,908	38,623
Interest	-	-	-	-	-	-	2,982	2,982
Donations	-	-	-	-	-	-	3,050	3,050
Utilities	38,515	-	-	46,988	4,488	89,991	-	89,991
Dues, fees & permits	595	-	-	15,008	6,446	22,049	20,733	42,782
<b>Total</b>	<b>\$ 1,594,846</b>	<b>\$ 328,367</b>	<b>\$ 14,472</b>	<b>\$ 3,452,633</b>	<b>\$ 1,225,334</b>	<b>\$ 6,615,652</b>	<b>\$ 579,210</b>	<b>\$ 7,194,862</b>

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

**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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 permanently restricted net assets during the fiscal year ended June 30, 2015.

**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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.

Accounting principles generally accepted in the United States of America require the Organization to evaluate and disclose tax positions that could have an effect on the Organization's financial statements. The Organization reports its activities to the Internal Revenue Service and to the Commonwealth of Massachusetts on an annual basis. The informational returns for the fiscal years ended June 30, 2012, 2013, 2014 and 2015 are subject to audit and review by the governmental agencies. 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.

**NOTE 2**

**GRANTS AND ACCOUNTS RECEIVABLE**

Grants and accounts receivable consist primarily of fees due from the Commonwealth of Massachusetts and various other third-party payers for clinical and program services provided by the Organization to eligible participants. All receivables are non-interest bearing. The Organization's management reviews grants and accounts receivable on a periodic basis and makes allowances when there is doubt as to the collectability of individual balances. At June 30, 2015, the Organization provided for an allowance for doubtful accounts of \$40,711.



**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 3**      **RESTRICTIONS ON NET ASSETS**

The Organization had the following temporarily restricted net assets available at June 30, 2015:

Outreach Specialist - In accordance with the grant, the Organization must use these funds for their designated purpose no later than August 30, 2015.	\$ 8,561
Substance Abuse Prevention Specialist - In accordance with the grant, the Organization must use these funds for their designated purpose no later than September 30, 2015.	<u>6,920</u>
Total temporarily restricted net assets at June 30, 2015	<u>\$15,481</u>

**NOTE 4**      **SUMMARY OF GRANTS/CONTRACTS FUNDING**

MHA was primarily funded through the following grants and contracts for the period July 1, 2014 to June 30, 2015:

<u>Funding Source</u>	<u>Grant Contract Number</u>	<u>Grant Contract Period</u>	<u>Recognized Support</u>
Mass. Dept. of Developmental Services	113310310307	7/1/14 - 6/30/15	\$1,687,587
Mass. Dept. of Developmental Services	113310310322	7/1/14 - 6/30/15	388,691
Mass. Dept. of Developmental Services	113310311307	7/1/14 - 6/30/15	14,472
Mass. Dept. of Mental Health	33100103579	7/1/14 - 6/30/15	3,860,590
City of Lowell	N/A	7/1/14 - 6/30/15	34,920
United Teen Equality Center	N/A	7/1/14 - 6/30/15	<u>39,034</u>
Total Grants and Contracts			<u>\$6,025,294</u>

**NOTE 5**      **PROPERTY AND EQUIPMENT**

A summary of property and equipment at June 30, 2015 is as follows:

Office Equipment	\$ 58,040
Equipment, Furniture and Fixtures	57,413
Motor Vehicles	159,936
Leasehold Improvements	45,330
Construction in Progress	<u>435,440</u>
Total	756,159
Less accumulated depreciation	<u>(227,110)</u>
Net Book Value	<u>\$ 529,049</u>

The Organization is constructing a new group residence in Lowell, Massachusetts. Construction in progress is stated at cost, which includes the cost of acquisition, construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put to use. The estimated cost to be incurred in the fiscal year ending June 30, 2016 to complete construction of the facility is approximately \$465,000.

**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 6**      **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 \$500,000. The line, which is payable on demand and which bears interest at the Wall Street Journal Prime Rate plus .5%, is collateralized by substantially all of the Organization's assets. There was no outstanding balance on the line of credit at June 30, 2015.

**NOTE 7**      **LONG-TERM DEBT**

Long-term debt consisted of the following at June 30, 2015:

Note Payable – Bank, The balance consists of the amount due on a twenty year mortgage note dated January 30, 2015. Payments of principal and interest totaling approximately \$1,857 are payable monthly with interest computed at 4.375% per annum. The note is secured with a mortgage on certain real estate owned by the Organization and located at 480 Central Street, Lowell, Massachusetts and matures February 1, 2035.	\$ 233,735
Less: Current portion	<u>7,800</u>
Long-Term Debt, net	<u>\$ 225,935</u>

The approximate annual maturities of long-term debt at June 30, 2015 are as follows:

Fiscal Year <u>Ending</u>	<u>Amount</u>
June 30, 2016	\$ 7,800
June 30, 2017	8,100
June 30, 2018	8,500
June 30, 2019	8,800
June 30, 2020	9,200
Thereafter	<u>141,335</u>
Total	<u>\$233,735</u>

**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8**            **OPERATING LEASES**

MHA leases various facilities throughout the Greater Lowell area under leases expiring in various years through 2019. For the year ended June 30, 2015, total rental expense for these facilities amounted to approximately \$345,000.

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, 2015:

<u>June 30,</u>	<u>Amount</u>
2016	\$ 76,020
2017	28,620
2018	28,620
2019	<u>23,850</u>
Total	<u>\$157,110</u>

**NOTE 9**            **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.

**NOTE 10**           **RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2015 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 pays rent to Appleton Housing Corporation on a monthly basis. The rent expense totaled \$13,716 for the year ended June 30, 2015. MHA receives a management fee from Appleton Housing Corporation on a monthly basis. The management fee income totaled \$8,605 for the year ended June 30, 2015. At June 30, 2015, the amount due from Appleton Housing Corp. was \$25,556. The loan balance is non interest bearing and has no fixed repayment schedule. Payments will be made as cash becomes available.

**NOTE 11**           **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. At June 30, 2015, the Organization's cumulative surplus exceeded the 20% threshold by approximately \$173,000. Management has requested a waiver of the limitation from the Commonwealth of Massachusetts Operational Services Division (OSD), however, if the waiver is not granted, the Organization may be required to return the excess to the Commonwealth.

**MENTAL HEALTH ASSOCIATION OF GREATER LOWELL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 12**      **BOARD DESIGNATED NET ASSETS**

The Board of Directors of Mental Health Association of Greater Lowell, Inc. designated \$205,000 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 13**      **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 14**      **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 12, 2015, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2015 that require recognition or disclosure in these financial statements.