



**NATIONAL ASSOCIATION OF STATE
MENTAL HEALTH PROGRAM
DIRECTORS**

FINANCIAL STATEMENTS, SUPPLEMENTAL
INFORMATION, AND REPORTING ON
COMPLIANCE AND INTERNAL CONTROL

*As of and for the Years Ended September 30, 2018
and 2017*

And Report of Independent Auditor

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
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Report of Independent Auditor

To the Board of Directors
National Association of State Mental Health Program Directors
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the National Association of State Mental Health Program Directors (a non-profit organization) (the "Association"), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Association'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 Association'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 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 the Association as of September 30, 2018 and 2017, and the changes in net assets, functional expenses, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Information

Our audits were 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* (Uniform Guidance), 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 information 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 14, 2018, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Tysons Corner, Virginia
December 14, 2018

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 955,282	\$ 951,031
Investments	666,968	641,927
Accounts Receivable:		
Billed	1,679,825	1,150,950
Unbilled	151,347	181,713
Other receivables	405	572
Prepaid assets	-	18,804
Total Current Assets	<u>3,453,827</u>	<u>2,944,997</u>
Property and equipment, net	63,351	76,727
Other Assets:		
Security deposits	13,272	13,272
Total Assets	<u><u>\$ 3,530,450</u></u>	<u><u>\$ 3,034,996</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 539,726	\$ 301,251
Accrued payroll and related liabilities	224,055	197,739
Deferred rent	5,123	631
Deferred revenue	552,526	551,476
Total Current Liabilities	<u>1,321,430</u>	<u>1,051,097</u>
Long-Term Liabilities:		
Deferred rent	<u>89,658</u>	<u>94,782</u>
Total Liabilities	<u>1,411,088</u>	<u>1,145,879</u>
Net assets, unrestricted	<u>2,119,362</u>	<u>1,889,117</u>
Total Liabilities and Net Assets	<u><u>\$ 3,530,450</u></u>	<u><u>\$ 3,034,996</u></u>

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

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Revenue and Support:		
Contract revenue	\$ 7,659,513	\$ 7,821,109
Program fees	764,097	810,832
Contributions	89,375	-
Other income	12,989	11,633
Interest and investment income, net of fees	25,838	45,776
Total Revenue and Support	<u>8,551,812</u>	<u>8,689,350</u>
Expenses:		
Direct program expenses	7,141,260	7,179,823
Allocated indirect costs	1,176,765	1,363,328
Total program expenses	<u>8,318,025</u>	<u>8,543,151</u>
General and administrative expenses	<u>3,542</u>	<u>1,041</u>
Total Expenses	<u>8,321,567</u>	<u>8,544,192</u>
Change in net assets	230,245	145,158
Net assets, unrestricted, beginning of year	<u>1,889,117</u>	<u>1,743,959</u>
Net assets, unrestricted, end of year	<u>\$ 2,119,362</u>	<u>\$ 1,889,117</u>

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

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2018

	Children's Social Marketing	State Technical Assistance	Technical Assistance Coalition	Trauma Informed Care	Other Federal	Association Membership
Salaries	\$ 175,798	\$ 340,518	\$ 259,159	\$ 382,818	\$ 89,286	\$ 407,021
Fringe benefits	74,516	144,336	109,850	162,266	37,846	172,524
Consultants	31,700	110,275	106,400	131,131	1,200	52,141
Travel	50,664	935	-	103,427	13,667	46,399
Events	5,200	-	-	383	-	41,996
Communications	5,215	-	65,755	32,144	-	10,514
Other direct costs	20,948	61,280	7,459	978	-	27,942
Unallowed direct costs	635	15	-	1,269	-	-
Subcontractors	1,542,802	-	1,796,243	323,323	-	4,698
Occupancy	-	-	-	-	-	-
IT maintenance	-	-	-	-	-	-
Insurance	-	-	-	-	-	-
Office Expenses	-	-	-	-	-	-
Travel and meetings	-	-	-	-	-	-
Audit/legal/banking	-	-	-	-	-	-
Other admin	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Bids and proposals	-	-	-	-	-	-
Unallowed G&A costs	-	-	-	-	-	-
Subtotal	<u>1,907,478</u>	<u>657,359</u>	<u>2,344,866</u>	<u>1,137,740</u>	<u>141,999</u>	<u>763,235</u>
Overhead application	<u>144,479</u>	<u>197,196</u>	<u>265,331</u>	<u>265,418</u>	<u>40,119</u>	<u>228,958</u>
Total Expenses	<u>\$ 2,051,957</u>	<u>\$ 854,555</u>	<u>\$ 2,610,197</u>	<u>\$ 1,403,158</u>	<u>\$ 182,118</u>	<u>\$ 992,193</u>

The accompanying notes to the financial statements are an integral part of this statement.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2018

	Other	Total Programs	General and Administrative	Total
Salaries	\$ 63,031	\$ 1,717,632	\$ 597,689	\$ 2,315,321
Fringe benefits	26,748	728,086	253,343	981,429
Consultants	5,100	437,947	-	437,947
Travel	19,823	234,915	-	234,915
Events	-	47,579	-	47,579
Communications	394	114,022	-	114,022
Other direct costs	1,725	120,332	-	120,332
Unallowed direct costs	732	2,651	-	2,651
Subcontractors	71,029	3,738,095	-	3,738,095
Occupancy	-	-	171,520	171,520
IT maintenance	-	-	57,828	57,828
Insurance	-	-	5,511	5,511
Office Expenses	-	-	31,979	31,979
Travel and meetings	-	-	3,246	3,246
Audit/legal/banking	-	-	32,838	32,838
Other admin	-	-	9,238	9,238
Depreciation	-	-	13,375	13,375
Bids and proposals	-	-	199	199
Unallowed G&A costs	-	-	3,541	3,541
Subtotal	188,582	7,141,260	1,180,307	8,321,567
Overhead application	35,264	1,176,765	(1,176,765)	-
Total Expenses	<u>\$ 223,846</u>	<u>\$ 8,318,025</u>	<u>\$ 3,542</u>	<u>\$ 8,321,567</u>

The accompanying notes to the financial statements are an integral part of this statement.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2017

	Children's Social Marketing	State Technical Assistance	Technical Assistance Coalition	Trauma Informed Care	Other Federal	Association Membership
Salaries	\$ 187,351	\$ 372,551	\$ 212,267	\$ 381,004	\$ 58,697	\$ 404,661
Fringe benefits	75,971	151,070	86,074	154,497	23,802	164,155
Consultants	33,650	121,162	116,900	80,250	-	77,719
Travel	43,387	-	3	80,821	2,242	36,053
Events	13,026	-	-	-	-	80,371
Communications	6,653	-	62,347	35,984	-	8,749
Other direct costs	28,908	45,629	85	11,304	-	24,458
Unallowed direct costs	31	-	-	794	-	-
Subcontractors	1,630,689	-	1,792,958	288,947	(806)	7,777
Occupancy	-	-	-	-	-	-
IT maintenance	-	-	-	-	-	-
Insurance	-	-	-	-	-	-
Office Expenses	-	-	-	-	-	-
Travel and meetings	-	-	-	-	-	-
Audit/legal/banking	-	-	-	-	-	-
Other admin	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Bids and proposals	-	-	-	-	-	-
Unallowed G&A costs	-	-	-	-	-	-
Subtotal	2,019,666	690,412	2,270,634	1,033,601	83,935	803,943
Overhead application	179,686	241,368	284,140	291,312	29,626	280,922
Total Expenses	<u>\$ 2,199,352</u>	<u>\$ 931,780</u>	<u>\$ 2,554,774</u>	<u>\$ 1,324,913</u>	<u>\$ 113,561</u>	<u>\$ 1,084,865</u>

The accompanying notes to the financial statements are an integral part of this statement.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2017

	<u>Other</u>	<u>Total Programs</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 74,234	\$ 1,690,765	\$ 677,340	\$ 2,368,105
Fringe benefits	30,106	685,675	274,689	960,364
Consultants	6,063	435,744	-	435,744
Travel	11,770	174,276	-	174,276
Events	237	93,634	-	93,634
Communications	1,002	114,735	-	114,735
Other direct costs	2,546	112,930	-	112,930
Unallowed direct costs	25	850	-	850
Subcontractors	151,649	3,871,214	-	3,871,214
Occupancy	-	-	204,459	204,459
IT maintenance	-	-	70,271	70,271
Insurance	-	-	6,899	6,899
Office Expenses	-	-	33,591	33,591
Travel and meetings	-	-	3,016	3,016
Audit/legal/banking	-	-	52,058	52,058
Other admin	-	-	12,778	12,778
Depreciation	-	-	17,373	17,373
Bids and proposals	-	-	10,854	10,854
Unallowed G&A costs	-	-	1,041	1,041
Subtotal	<u>277,632</u>	<u>7,179,823</u>	<u>1,364,369</u>	<u>8,544,192</u>
Overhead application	<u>56,274</u>	<u>1,363,328</u>	<u>(1,363,328)</u>	<u>-</u>
Total Expenses	<u>\$ 333,906</u>	<u>\$ 8,543,151</u>	<u>\$ 1,041</u>	<u>\$ 8,544,192</u>

The accompanying notes to the financial statements are an integral part of this statement.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 230,245	\$ 145,158
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,375	17,373
Loss on disposal of assets	-	162
Unrealized gain on investments, net of fees	(3,269)	(32,503)
Change in assets and liabilities:		
Accounts receivable (billed and unbilled)	(498,509)	(232,777)
Other receivables	167	301
Prepaid assets	18,804	44,889
Other assets	-	37,309
Accounts payable and accrued expenses	238,475	(101,731)
Accrued payroll and related liabilities	26,316	41,416
Deferred rent	(632)	95,413
Deferred revenue	1,050	(12,600)
Net cash provided by operating activities	<u>26,022</u>	<u>2,410</u>
Cash flows from investing activities:		
Purchase of fixed assets	-	(84,842)
Purchase of investments	(21,771)	(12,562)
Net cash used in investing activities	<u>(21,771)</u>	<u>(97,404)</u>
Net change in cash and cash equivalents	4,251	(94,994)
Cash and cash equivalents, beginning of year	<u>951,031</u>	<u>1,046,025</u>
Cash and cash equivalents, end of year	<u>\$ 955,282</u>	<u>\$ 951,031</u>

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

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 1—Organization and business

The National Association of State Mental Health Program Directors (the “Association”) is organized as a non-profit corporation under the laws of the District of Columbia. Their mission is to provide for the exchange of views and experience on subjects of general importance to the directors and staff of state public mental health programs, to foster interstate cooperation, to attain greater efficiency in state administration of mental health programs, to facilitate and improve state-local relationships, to foster multi-state activities, and to vigorously represent all interests of the states which relate to public mental health programs.

Note 2—Summary of significant accounting policies

Basis of Accounting – The Association follows the accrual method of accounting. Financial statement presentation follows the recommendations of the Presentation of Financial Statements for Not-For-Profit Entities Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under this topic, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The three classes of net assets represent the following:

Unrestricted net assets are those currently available for operational purposes under the discretion of management, those designated by management for specific use, and those resources invested in property and equipment.

Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes, those with time restrictions, or those not currently available for use until commitments regarding their use have been fulfilled.

Permanently restricted net assets are those which are contributed with donor restrictions requiring that they be held in perpetuity.

The Association had no temporarily or permanently restricted net assets at September 30, 2018 and 2017.

Cash and Cash Equivalents – The Association considers highly liquid investments with original maturities of three months or less to be cash equivalents.

The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Association from time to time may have amounts on deposit in excess of the insured limits. As of September 30, 2018 and 2017, the Association’s bank balances exceeded these insured amounts by \$721,093 and \$754,840, respectively.

Use of Estimates – In preparing the financial statements in accordance with Generally Accepted Accounting Principles (“GAAP”), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

Accounts Receivable – Accounts receivable are generated primarily from prime and subcontracting arrangements with U.S. government agencies and various commercial entities. Accounts receivable are stated at cost less an allowance for uncollectible accounts. The Association's methodology of determining the allowance for uncollectible accounts is based on experience with the specific funder. There was no allowance for doubtful accounts at September 30, 2018. Amounts not billed due to contractual terms, approved provisional rate changes, or pending specific events to occur are included in unbilled receivables.

Unbilled accounts receivable result from contract costs incurred but not yet billed. Generally, unbilled accounts receivable are expected to be billed and collected within one year and have been recorded at amounts expected to be realized upon final settlement. Unbilled accounts receivable may arise from accrued award fees and indirect rate variances.

A certain portion of the Association's revenue and costs is subject to audit by a government agency. Billings under government contracts are based on provisional rates, which permit recovery of overhead and general and administrative expenses at rates approved by the government in advance. An unbilled indirect rate variance represents the difference between billings at rates using actual allowable and allocable costs incurred versus billings at provisional rates. The actual allowable costs and rates are subject to review by the government on an annual basis. When final approval of the allowable costs and rates has been made, billings may be adjusted. Management does not believe that the accompanying financial statements will be materially affected by any adjustments that may result from government review of actual rates.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Realized gains and losses on securities sold during the year and held at the beginning of the year are recognized to the extent sales proceeds exceed the security's fair market value at the beginning of the year. Donated securities are recorded at their fair market value on the date of donation.

Fair Value Measurement – The Association adopted the provisions of the Fair Value Measurements and Disclosure Topic ("Fair Value Topic") of the FASB ASC. The Fair Value Topic defines fair value, establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement, and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Money Market Funds – These investments are public investment vehicles valued using \$1 for the net asset value (“NAV”). The money market funds are classified within Level 1 of the valuation hierarchy.

Mutual Funds – These investments are valued at the closing price reported on the New York Stock Exchange Composite Listing or other active market on which these securities are traded. These securities are classified within Level 1 of the valuation hierarchy.

Property and Equipment – The Association's policy is to capitalize property and equipment with a cost of more than \$2,500 and a useful life of more than one year. Property and equipment are recorded at cost. All equipment acquired under capital lease agreements is recorded on the statements of financial position as assets and long-term obligations. Depreciation is calculated using the straight-line method over estimated useful lives of three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Deferred Revenue – Deferred revenue is comprised primarily of membership dues received during the current year that apply to the following year. At September 30, 2018 and 2017, deferred revenue totaled \$552,526 and \$551,476 respectively.

Revenue and Support – The Association receives support and funding from a variety of sources. Program funding in the form of contracts and grants is received from the federal government and its agencies. Membership dues from state, the District of Columbia, and U.S. territories mental health agencies are received to support membership services and programs. The Association also receives contributions, sponsorships, and grants from private corporations and other non-profit organizations.

Revenue Recognition – Revenues related to federal contracts consist of cost reimbursable, time and material, and fixed price awards. Revenue on cost-reimbursable contracts includes direct costs and allocated indirect costs incurred plus recognized profit. Revenue is recognized as allowable costs are incurred. Revenues on time and materials contracts are recognized on the basis of direct labor hours delivered and reimbursable costs incurred. Revenues on fixed price contracts are calculated using the percentage of completion method, based on costs incurred to date as a percentage of total estimated cost. Because of the inherent uncertainties in estimating costs, it is possible that the Association's estimates of costs will change periodically. Costs can be questioned or disallowed upon audit. Management believes such adjustment, if any, would not have a material effect on net assets.

In accordance with the *Revenue Recognition for Not-For-Profit Entities Topic of the FASB ASC*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support based on donor designations. Temporarily restricted donations are recorded as temporarily restricted support and reclassified as net assets released from restrictions in the period that donor-imposed restrictions have been satisfied. Contributions, non-federal grants, and unconditional promises to give are recognized as revenue in the period the pledge is made. Conditional promises to give are not recognized or accrued until the specific conditions have been met. The Association received no conditional promises to give in 2018 or 2017.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

Income Taxes – The Association is exempt from federal income taxes under Internal Revenue Code (“IRC”) Section 501(c)(3). Income from unrelated business activities as defined by the IRC is taxable to the Association. The Association has been determined by the Internal Revenue Service (“IRS”) not to be a “private foundation” within the meaning of Section 509(a) of the IRC.

Management has evaluated the effect of the guidance provided by GAAP on Accounting for Uncertainty in Income Taxes. Management believes that the Association continues to satisfy the requirements of a tax-exempt organization at September 30, 2018 and 2017.

Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined that the Association had no uncertain income tax positions at September 30, 2018.

Upcoming Accounting Pronouncements – In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to various stakeholders, including management, directors, lenders, and donors. Key changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets (net assets without donor restrictions and net assets with donor restrictions).
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of net assets with donor restrictions and requires additional disclosures for underwater endowment funds.
- Requires all not-for-profit entities to provide expenses by both nature and function.
- Requires disclosures, both qualitative and quantitative, of information about liquidity and the availability of resources.

This ASU is effective for fiscal years beginning after December 15, 2017. The ASU requires the provisions to be applied on a retrospective transaction approach and early adoption is permitted. The Association is currently evaluating the impact of adopting ASU 2016-14.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018, for all non-SEC filers, including not-for-profit entities. The Association has not yet selected a transition method and is currently evaluating the effect the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains consistent with U.S. GAAP. This ASU is effective for fiscal years beginning after December 15, 2019. The Association is currently evaluating the effect the ASU will have on the financial statements.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 3—Line-of-credit

The Association has a line-of-credit agreement with a commercial bank for an amount of \$500,000 for general working capital purposes. Borrowings under the line-of-credit will mature on March 1, 2019 and bear interest at the prime rate + 0.5% (5.75% and 4.25% as of September 30, 2018 and 2017, respectively). The line-of-credit is secured by all of the Association's assets. The Association had no outstanding borrowings against the line-of-credit as of September 30, 2018 and 2017.

Note 4—Fair value measurement

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of September 30, 2018:

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Growth funds	\$ 278,673	\$ -	\$ -	\$ 278,673
Index funds	61,521	-	-	61,521
Bond funds	210,811	-	-	210,811
Value equity funds	26,451	-	-	26,451
International growth fund	75,881	-	-	75,881
Money market fund	13,631	-	-	13,631
Total investments at fair value	<u>\$ 666,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 666,968</u>

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of September 30, 2017:

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Growth funds	\$ 308,643	\$ -	\$ -	\$ 308,643
Index funds	37,899	-	-	37,899
Bond funds	178,058	-	-	178,058
Value equity funds	40,440	-	-	40,440
International growth fund	57,190	-	-	57,190
Money market fund	19,697	-	-	19,697
Total investments at fair value	<u>\$ 641,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 641,927</u>

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 4—Fair value measurement (continued)

Investment income earned on the investments for the years ended September 30, 2018 and 2017 is summarized as follows:

	2018	2017
Interest and dividends	\$ 25,817	\$ 16,288
Unrealized gain	3,269	32,503
Investment fees	(3,248)	(3,015)
Investment income	<u>\$ 25,838</u>	<u>\$ 45,776</u>

Note 5—Property and equipment

Property and equipment at September 30, 2018 and 2017 consisted of:

	2018	2017
Furniture and fixtures	\$ 100,004	\$ 100,004
Computers, hardware	14,736	14,736
Leasehold improvement	59,920	59,920
	<u>174,660</u>	<u>174,660</u>
Less accumulated depreciation and amortization	(111,309)	(97,933)
	<u>\$ 63,351</u>	<u>\$ 76,727</u>

Depreciation and amortization expense was \$13,375 and \$17,373 for the years ended September 30, 2018 and 2017, respectively.

Note 6—Commitments

Operating Lease – The Association has a noncancelable operating lease agreement for office space that expires in June 2024. The operating lease includes scheduled rent escalations. The aggregate cash payments for the lease with rent escalations are expensed ratably over the lease term, resulting in the existence of deferred rent. The deferred rent liability of \$94,781 and \$95,413 as of September 30, 2018 and 2017, respectively, represents timing differences between cash payments for rent and rent expense recorded, which is recognized evenly over the term of the lease. Monthly rent payments were \$13,636 and \$13,272 as of September 30, 2018 and 2017, respectively, and are subject to annual escalations.

The following schedule summarizes future minimum commitments for the office lease at September 30, 2018:

<u>Years Ending September 30,</u>	
2019	\$ 167,396
2020	171,992
2021	176,722
2022	181,595
Thereafter	<u>330,145</u>
	<u>\$ 1,027,850</u>

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 6—Commitments (continued)

Office rent expense for the years ended September 30, 2018 and 2017 was \$162,273 and \$195,995, respectively.

Note 7—Concentrations

Approximately 87% and 86% of the Association's revenue in 2018 and 2017 is derived from contracts with agencies of the federal government. Approximately 80% of the Association's accounts receivable at September 30, 2018 and 2017, is due from these contracts.

Note 8—Retirement plan

The Association sponsors a tax-deferred savings plan, adopted on July 1, 1992, and amended on September 21, 2018, under which employees may make contributions on a salary deferral basis. The employer contribution amount is decided annually and is comprised of matching, non-elective, or combination contributions. Participants are eligible for employer contributions after completing one year of service. Participants are immediately 100% vested in elective deferrals, and are 100% vested in employer contributions after completing one year of service. Contributions made by the Association in 2018 and 2017 were \$234,269 and \$228,681, respectively.

The Association adopted a Tax Deferred Annuity Plan (the "Plan") under IRC Section 457 for the Executive Director. The Plan provides for elective deferral amounts subject to IRS limitations. The Plan also allows the Association to make an annual discretionary contribution to the Plan each January. This contribution was \$18,000 for the years ended 2018 and 2017.

Note 9—Description of programs and supporting services

Transformation Transfer Initiative – The purpose of the Transformation Transfer Initiative is to provide funding to States, the District of Columbia, and the territories to identify and adopt transformation initiatives and activities that can be implemented in the State; either through a new initiative or expansion of one already underway.

Children's Social Marketing – The contract provides communities with communications and social marketing assistance in order to develop and sustain systems of care. Also provided is technical assistance and training to help sites develop and implement strategic communication plans.

Seclusion/Restraint and Trauma & Trauma Informed Care – The contract provides support and technical assistance across the country in prevention of harmful practices through the implementation of trauma informed care across service systems that struggle with prevention of seclusion and restraint and other coercive interventions.

State Technical Assistance – The Association is responsible for coordinating technical assistance ("TA") activities related to the Community Mental Health Block Grant ("MHBG") within SAMHSA's comprehensive three-Center State TA Project. As such, NASMHPD facilitates the planning, execution, and evaluation of a wide variety of TA events and activities such as conducting educational webinars for national audiences of state mental health authority representatives, responds to state information requests and disseminates resources to state officials, and provides state-specific consultation and training.

Note 10—Subsequent events

The Association has evaluated subsequent events through December 14, 2018, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2018

<u>Federal Contractor/Grantor</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
U.S. Department of Health and Human Services Direct Programs From:			
*Substance Abuse and Mental Health Authority:			
National Center for Trauma Informed Care	93.xxx	HHSS283201200021/HHSS28342002T	\$ 1,403,157
Children's Social Marketing Technical Assistance	93.xxx	HHSS280201400001C	2,051,956
Technical Assistance Coalition	93.xxx	HHSS283201200021/HHSS28342003T	<u>2,610,197</u>
Total U.S. Department of Health and Human Services Direct Programs			<u>6,065,310</u>
U.S. Department of Justice:			
U.S. Department of Justice From:			
Office of Justice Programs, Office for Victims of Crime	13.582	2017-VF-GX-K142	<u>63,978</u>
Total U.S. Department of Justice			<u>63,978</u>
U.S. Department of Health and Human Services:			
U.S. Department of Health and Human Services Pass Through Programs From:			
JBS International - State Technical Assistance II	93.xxx	HHSS283201200002I/HHSS28342002T	854,555
The Mental Health Association of New York City - Suicide Prevention Hotline	93.243	1UR1SMO60319-03	56,612
Advocates for Human Potential - Homeless and Housing Resource Network	93.xxx	HHSS28320120008I/HHSS28342004T	13,379
Center for Social Innovation - Bringing Recovery Supports to Scale	93.xxx	HHSS283201200035I/HHSS28342002T	15,791
Westat - The Mental Health Block Grant Ten Percent Set Aside	93.xxx	HHSS283201200011I/HHSS28342008T	25,987
AHP - White Paper for Psychiatric Inpatient Care	93.xxx	HHSP233201700260A	5,248
Clinical Support System for Serious Mental Illness	93.243	SM-18-020	<u>1,124</u>
Total U.S. Department of Health and Human Services Pass Through Programs			<u>972,696</u>
Total Expenditures of Federal Awards			<u><u>\$ 7,101,984</u></u>

(*) Major Program

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2018

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the National Association of State Mental Health Program Directors (the “Association”) and is presented on the accrual basis of accounting.

Note 2—Subrecipients

Of the federal expenditures presented in this schedule, the Association provided federal awards to:

<u>Subrecipient</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures to Subrecipients</u>
The National Federation of Families	Children’s Social Marketing/Technical Assistance	93.XXX	\$ 145,731
NASMHPD Research Institute	Technical Assistance Collaboration	93.XXX	58,884
Youth Move	Children's Social Marketing/Technical Assistance	93.XXX	61,921
			<u>\$ 266,536</u>

Note 3—Relationship to basic financial statements

The Association records award revenues at approved provisional rates. Expenditures are recorded using actual allowable and allocable costs. Billings may be adjusted upon final approval of allowable and allocable costs incurred. Management does not believe that the accompanying financial statements will be materially affected by any adjustments that may result from government review of actual rates.

**REPORTING ON COMPLIANCE
AND INTERNAL CONTROL**

**Report of Independent Auditor 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
National Association of State Mental Health Program Directors
Alexandria, Virginia

We have audited, 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, the financial statements of the National Association of State Mental Health Program Directors (the “Association”), which comprise the statement of financial position as of September 30, 2018, 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 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association’s internal control over financial reporting (“internal control”) to determine the 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 the Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’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 the attention of those charged with governance.

Our consideration of internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association’s financial statements are free of 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 determination of financial statement amounts. 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Baekaert LLP". The signature is written in a cursive, flowing style.

Tysons Corner, Virginia
December 14, 2018

Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
National Association of State Mental Health Program Directors
Alexandria, Virginia

Report on Compliance for Each Major Program

We have audited the National Association of State Mental Health Program Directors' (the "Association") compliance with the types of compliance requirements described in the Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on each of the Association's major federal programs for the year ended September 30, 2018. The Association's major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its Federal Awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Association's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Award* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, the Association's 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 September 30, 2018.

Report on Internal Control over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

A handwritten signature in cursive script that reads "Cherry Baekaert LLP".

Tysons Corner, Virginia
December 14, 2018

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED SEPTEMBER 30, 2018

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over the major programs:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Type of auditors' report issued on compliance for the major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Uniform Guidance?	None noted
Identification of major programs:	
<u>Awarding Agency</u>	<u>CFDA Number</u>
Substance Abuse and Mental Health Services Administration	93.XXX
Dollar threshold used to distinguish between Type A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

B. Financial Statement Findings

None reported

C. Federal Award Findings and Questioned Costs

None reported

D. Status of Prior Year Findings

There were no prior year findings.