# Mental Health America

Financial Statements
December 31, 2010

**Contents**

McGladrey

**Independent Auditor's Report**

To the Board of Directors
Mental Health America
Alexandria, Virginia

We have audited the accompanying statement of financial position of Mental Health America. (MHA) as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of MHA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2009 financial statements which were audited by other auditors. Their report dated March 29, 2010 expressed an unqualified opinion on those financial statements before the adjustment described in Note 12.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness MHA's internal control over financial reporting. Accordingly, we express no such opinion. 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 2010 financial statements referred to above present fairly, in all material respects, the financial position of Mental Health America. as of December 31, 2010, 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.

As discussed in Note 12, the 2009 financial statements have been restated to reflect an error in recording certain bequest and life insurance contributions. We audited the adjustments necessary to restate the 2009 receivable and revenue described in Note 12. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 7, 2011, on our consideration of MHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Vienna, Virginia
April 7, 2011

**Mental Health America**

**Statement Of Financial Position**
**December 31, 2010**
**(With Comparative Totals For 2009)**

| **Assets** | **2010** | 2009 (Restated Note 12) |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | **$ 463,453** | $ 532,383 |
| Investments | **3,482,806** | 3,930,054 |
| Receivables, net of allowance for doubtful accounts of $2,045 | **755,601** | 1,316,670 |
| Bequests receivable | **240,000** | 247,495 |
| Prepaid expenses | **35,675** | 69,763 |
| Inventory | **78,558** | 108,879 |
| Property and equipment, net | **369,002** | 494,918 |
| **Total assets** | **$ 5,425,095** | $ 6,700,162 |

| **Liabilities And Net Assets** | | |
|---|---|---|
| Liabilities | | |
| Accounts payable and accrued expenses | **$ 205,587** | $ 236,455 |
| Deferred rent and lease incentives | **294,718** | 315,136 |
| Deferred revenue | **82,556** | 25,000 |
| Charitable gift annuities | **13,205** | 16,895 |
| Capital lease obligations | **155,306** | 211,066 |
| **Total liabilities** | **751,372** | 804,552 |
| Commitments and Contingencies (Notes 6 and 11) | **-** | - |
| Net Assets | | |
| Unrestricted | **2,725,602** | 2,820,627 |
| Temporarily restricted | **1,659,150** | 2,786,012 |
| Permanently restricted | **288,971** | 288,971 |
| **Total net assets** | **4,673,723** | 5,895,610 |
| **Total liabilities and net assets** | **$ 5,425,095** | $ 6,700,162 |

See Notes To Financial Statements.

**Statement Of Activities**
**Year Ended December 31, 2010**
**(With Comparative Totals For 2009)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2010 Total | 2009 Total |
|---|---|---|---|---|---|
| Support and Revenue: | | | | | |
| Grants, contracts and contributions | $ 1,027,085 | $ 1,013,100 | $ - | $ 2,040,185 | $ 2,993,455 |
| Affiliate support | 336,092 | - | - | 336,092 | 360,087 |
| In-kind contributions | 188,533 | - | - | 188,533 | 153,241 |
| Realized gains (losses) on investments | 130,431 | - | - | 130,431 | (582,469) |
| Rental and royalty income | 96,479 | - | - | 96,479 | 36,310 |
| Interest and dividend income | 89,124 | - | - | 89,124 | 111,290 |
| Conference registrations | 67,980 | - | - | 67,980 | 169,683 |
| Sales | 63,136 | - | - | 63,136 | 68,178 |
| Combined federal campaign | 62,369 | - | - | 62,369 | 56,709 |
| Net assets released from restrictions: | | | | | |
| Satisfaction of program restrictions | 2,165,942 | (2,165,942) | - | - | - |
| **Total revenue and support** | 4,227,171 | (1,152,842) | - | 3,074,329 | 3,366,484 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Constituency services | 1,352,527 | - | - | 1,352,527 | 1,567,607 |
| Advocacy | 949,543 | - | - | 949,543 | 1,175,004 |
| Education | 846,698 | - | - | 846,698 | 1,851,240 |
| Research | 193,438 | - | - | 193,438 | 352,393 |
| **Total program services** | 3,342,206 | - | - | 3,342,206 | 4,946,244 |
| Management and general | 549,769 | - | - | 549,769 | 579,862 |
| Fundraising | 452,674 | - | - | 452,674 | 471,904 |
| **Total expenses** | 4,344,649 | - | - | 4,344,649 | 5,998,010 |
| **Change in net assets before unrealized gains on investments** | (117,478) | (1,152,842) | - | (1,270,320) | (2,631,526) |
| Unrealized gains on investments | 22,453 | 25,981 | - | 48,434 | 1,441,044 |
| **Change in net assets** | (95,025) | (1,126,861) | - | (1,221,886) | $ (1,190,482) |
| Net assets: | | | | | |
| Beginning of year, as restated (Note 12) | 2,820,627 | 2,786,011 | 288,971 | 5,895,609 | |
| End of year | $ 2,725,602 | $ 1,659,150 | $ 288,971 | $ 4,673,723 | |

See Notes To Financial Statements.

**Mental Health America**

**Statement Of Functional Expenses**
**Year Ended December 31, 2010**
**(With Comparative Totals For 2009)**

| | Program Services | | | | Total | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Services | Constituency Advocacy | Education | Research | Program Services | Management And General | Fundraising | 2010 Total | 2009 Total |
| Salaries and benefits | $ 639,998 | $ 523,597 | $ 416,782 | $ 149,507 | $ 1,729,884 | $ 301,059 | $ 277,372 | $ 2,308,315 | $ 2,910,457 |
| Occupancy | 65,747 | 114,153 | 113,524 | 120 | 293,544 | 100,406 | 43,694 | 437,644 | 453,100 |
| Grants | 253,988 | 82,660 | - | - | 336,648 | - | - | 336,648 | 427,369 |
| Professional fees and contract service payments | 51,677 | 48,799 | 56,862 | 5,970 | 163,308 | 17,555 | 11,597 | 192,460 | 628,573 |
| Conference and meetings | 102,710 | 18,167 | 57,486 | 2,694 | 181,057 | 3,436 | 5,568 | 190,061 | 421,563 |
| Travel | 107,493 | 18,661 | 37,502 | 2,400 | 166,056 | 9,704 | 10,444 | 186,204 | 273,649 |
| In-kind expenses | 38,533 | 38,237 | 26,212 | 18,517 | 121,499 | 12,517 | 54,517 | 188,533 | 153,240 |
| Depreciation and amortization | 19,593 | 33,961 | 33,962 | - | 87,516 | 30,043 | 13,062 | 130,621 | 148,887 |
| Outside printing and art work | 18,517 | 8,010 | 32,487 | 7,214 | 66,228 | 21,092 | 9,539 | 96,859 | 120,746 |
| Operating fees | 12,052 | 21,234 | 20,846 | 230 | 54,362 | 18,066 | 7,920 | 80,348 | 106,501 |
| Subscription dues | 7,767 | 13,136 | 5,801 | 3,324 | 30,028 | 6,087 | 6,416 | 42,531 | 100,749 |
| Communications | 15,785 | 16,628 | 15,690 | 1,078 | 49,181 | 11,683 | 6,784 | 67,648 | 82,536 |
| Supplies | 7,835 | 2,909 | 5,300 | 446 | 16,490 | 1,657 | 1,627 | 19,774 | 57,943 |
| Postage and shipping | 4,759 | 2,089 | 7,334 | 1,458 | 15,640 | 4,258 | 1,754 | 21,652 | 41,937 |
| Bad debt expense | - | - | - | - | - | 10,982 | - | 10,982 | 36,102 |
| Direct mail expense | - | 5,130 | 9,780 | - | 14,910 | - | 1,122 | 16,032 | 18,306 |
| Photocopying | 1,922 | 1,697 | 5,720 | 480 | 9,819 | 768 | 883 | 11,470 | 14,440 |
| Equipment | 4,151 | 475 | 1,410 | - | 6,036 | 456 | 375 | 6,867 | 1,912 |
| **Total** | $ 1,352,527 | $ 949,543 | $ 846,698 | $ 193,438 | $ 3,342,206 | $ 549,769 | $ 452,674 | $ 4,344,649 | $ 5,998,010 |

See Notes To Financial Statements.

**Mental Health America**

**Statement Of Cash Flows**
**Year Ended December 31, 2010**
**(With Comparative Information For 2009)**

| | 2010 | 2009 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Change in net assets | **$ (1,221,886)** | $ (1,190,482) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation and amortization | **130,621** | 148,887 |
| Allowance for doubtful accounts receivable | **-** | (868) |
| Unrealized gains on investments | **(48,434)** | (1,441,044) |
| Realized (gains) losses on investments | **(130,431)** | 582,469 |
| Donated stock | **-** | (513) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | **561,069** | 472,472 |
| Bequests receivable | **7,494** | 458,417 |
| Prepaid expenses | **34,088** | 17,927 |
| Inventory | **30,321** | (37,577) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | **(30,868)** | (120,957) |
| Deferred rent and lease incentives | **(20,418)** | (9,991) |
| Deferred revenue | **57,556** | 21,628 |
| **Net cash used in operating activities** | **(630,888)** | (1,099,632) |
| Cash Flows From Investing Activities | | |
| Purchases of property and equipment | **(4,705)** | (30,599) |
| Proceeds from sales of investments | **1,450,000** | 3,627,788 |
| Purchases of investments | **(823,887)** | (2,389,706) |
| **Net cash provided by investing activities** | **621,408** | 1,207,483 |
| Cash Flows From Financing Activities | | |
| Principal payments on capital lease obligations | **(55,760)** | (74,608) |
| Borrowings under line of credit | **-** | 250,000 |
| Payments under line of credit | **-** | (588,750) |
| Payments under charitable gift annuities | **(3,690)** | (5,062) |
| **Net cash used in financing activities** | **(59,450)** | (418,420) |
| **Net decrease in cash and cash equivalents** | **(68,930)** | (310,569) |
| Cash And Cash Equivalents | | |
| Beginning | **532,383** | 842,952 |
| Ending | **$ 463,453** | $ 532,383 |
| Supplemental Disclosure Of Cash Flow Information | | |
| Cash paid during the year for interest | **$ 3,478** | $ 2,213 |

See Notes To Financial Statements.

## Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Mental Health America Inc. (MHA), organized in 1950, is a private voluntary health and human services advocacy organization which promotes a wide range of mental health issues through advocacy leadership, public and professional education, community and consumer services, and ongoing research. MHA's primary sources of revenue are grants, contracts and contributions from foundations, government agencies and corporations and membership dues received from affiliated organizations nationwide.

A summary of MHA's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, support and revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, MHA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Affiliates: Each of the mental health associations affiliated with MHA elects its own board of directors, conducts service programs independent of MHA, and maintains its own financial accounts. Accordingly, due to lack of control, the financial statements of MHA do not include the accounts and activities of these affiliated organizations.

Cash equivalents: MHA considers money market funds held for operating purposes to be cash equivalents. Money market funds held in certain investment portfolios are not considered cash equivalents as these amounts are not available for the general operating purposes of MHA.

Receivables: Receivables include, contract receivables, promises to give and bequests receivable. Promises to give and bequests receivables are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful receivables by identifying troubled accounts and using historical experience with its donors. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Inventory: Inventory is stated at cost on a first-in, first-out (FIFO) basis and consists of publications on hand at the end of the year. Management periodically reviews inventory for obsolete publications. Management has determined no reserve for obsolete inventory is required at December 31, 2010.

Investments: Investments are comprised of mutual funds, corporate bonds, equities, and money market funds. Investments are reported in the accompanying statement of financial position at fair value. Fair value is the price that would be received to sell an asset or liability through an orderly transaction between market participants at the measurement date. Investments include the board designated reserve fund, the net property and equipment fund, the Jo Blaylock Memorial Fund, and funds that have been permanently restricted by the donor.

Fair value of financial instruments: In accordance with the accounting standards for fair value measurements for those assets and liabilities which are measured at fair value on a recurring basis, as of December 31, 2010, MHA has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

## Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that MHA has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of December 31, 2010, only MHA's investments, as described in Note 4 of these financial statements, were measured at fair value on a recurring basis.

<u>Property and equipment and related depreciation and amortization</u>: Fixed assets are recorded at cost. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of three to seven years, with no salvage value. Equipment purchased under capital lease agreements is amortized on the straight-line basis over the life of the lease. Leasehold improvements are amortized over the shorter of the remaining term of the lease or the useful life of the improvements. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses in the accompanying statement of activities. MHA capitalizes all property and equipment purchased with a cost of $500 or more.

<u>Impairment of long lived assets</u>: MHA accounts for the valuation of long-lived assets by reviewing for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

<u>Classification of net assets</u>: The net assets of MHA are reported according to the following classes of net assets:

- Unrestricted net assets represent the portion of expendable funds that are available for support of MHA's operations. It also includes the net assets of the reserve fund, the net property and equipment fund and the Jo Blaylock Memorial Fund, all of which have been designated by the Board of Directors. (See Note 7).

- Temporarily restricted net assets represent amounts that are specifically restricted by donors for various programs or use in future periods.

- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the earnings on such amounts be used in the manner specified by the donor.

<u>Support and revenue recognition</u>: MHA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

## Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Unrestricted contributions and grants are reported as support in the year in which payments are received and/or the promises are made. Support recognized on grants and contracts are recognized in accordance with the terms of the agreement, amounts earned but not yet paid are reflected as grants and contracts receivable in the accompanying statement of financial position.

Affiliate support is recognized in the period received or when a written promise has been made. MHA recognizes bequests in the year the promise to give becomes unconditional, which is at the time the probate court declares the will valid and the proceeds are measurable in amount.

<u>In-kind contributions</u>: Donated materials, services and facilities are recorded as in-kind contributions at the estimated fair market value as of the date of the donation.

<u>Functional allocation of expenses</u>: The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on direct costs.

<u>Indirect expenses</u>: Indirect costs are charged to all awards based on a provisional rate established by MHA's oversight agency. Any variance between the provisional rate and the final negotiated rate is adjusted in the period when finalized. During the year ended December 31, 2010, MHA's indirect cost rate was calculated in accordance with its approved NICRA (Negotiated Indirect Cost Recovery Agreement).

<u>Expenses</u>: Direct costs associated with specific programs are recorded as program expenses. Fringe benefits are pooled and allocated based on salaries. General and administration expenses are unallocated in the statement of activities.

<u>Use of estimates</u>: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

<u>New pronouncements</u>: In January 2010, the FASB released Accounting Standards Update No. 2010-06 (ASU 2010-06), which provided accounting guidance that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Levels 1 and 2 and reasons for transfers; (ii) disclosure, on a gross basis, of the purchases, sales, issuances and net settlements within Level 3 measurements; (iii) disclosures by class of assets and liabilities; and (iv) a description of the evaluation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation of the level 3 activity, which is effective for interim and annual periods beginning after December 15, 2010. MHA adopted ASU 2010-06 during the year ended December 31, 2010.

<u>Income tax status</u>: MHA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to MHA tax-exempt purpose is subject to taxation as unrelated business income. MHA had no unrelated business income for the year ended December 31, 2010; therefore, no provision for income taxes has been made in these financial statements.

## Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

MHA has adopted the accounting standard on accounting for uncertainty in income taxes (FASB ASC Topic 740-10), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, MHA may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated MHA's tax positions and concluded that MHA had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, MHA is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

<u>Prior year information</u>: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MHA's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

<u>Reclassification</u>: Certain amounts in the prior year's presentation have been reclassified to conform to the current year presentation. These reclassifications have no effect on previously reported changes in net assets.

<u>Subsequent events</u>: MHA evaluated subsequent events through April 7, 2011, which is the date the financial statements were available to be issued.

## Note 2. Receivables

Receivables include grants and contracts receivable arising from unconditional promises to give from foundations and corporations. Also included in receivables is $55,367 of grants and contracts receivable from U.S. government agencies which represents billings that have been presented to grantors but remain unpaid at year end or amounts available to be drawn down as needed by MHA. Receivables are net of an allowance for uncollectable receivables of approximately $2,000 at December 31, 2010.

## Note 3. Bequests Receivable

Bequests receivable totaled $240,000 at December 31, 2010, and consists of trust agreements which are irrevocable and are administered by a trustee or fiscal agent. Distributions are to be made to MHA (lead trusts) or to the donor's designee (remainder trusts) during the terms of the agreements. At the end of the terms, a portion of the remaining trust assets, as defined in the trust agreements are to be distributed to MHA. All amounts are considered fully collectible.

## Note 4. Investments

The following table summarizes MHA's investments which are measured at fair value on a recurring basis as of December 31, 2010, aggregated by type and the fair value hierarchy level within which those measurements were made.

| | Total | Quoted Prices In Active Markets For Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Mutual finds (1) | $ 2,414,175 | $ 2,414,175 | $ - | $ - |
| Money market funds | 625,844 | 562,650 | 63,194 | - |
| Certificates of deposit | 249,911 | 249,911 | | |
| Government securities | 139,240 | 139,240 | - | - |
| Corporate bonds | 53,636 | - | 53,636 | - |
| | $ 3,482,806 | $ 3,365,976 | $ 116,830 | $ - |

(1) Mutual funds are invested in accordance with the following allocations: 46% - general equity including international funds; 54% fixed income funds.

See Note 1 of the financial statements regarding the valuation techniques used to measure fair value of the Level 1and Level 2 investments indentified above.

As of December 31, 2010, investment income consists of the following:

| | |
|---|---|
| Unrealized gains | $ 48,434 |
| Interest and dividends | 89,124 |
| Realized gains | 130,431 |
| | $ 267,989 |

## Note 5. Property And Equipment And Accumulated Depreciation And Amortization

Property and equipment are comprised of the following as of December 31, 2010:

| | |
|---|---|
| Office furniture and equipment | $ 807,092 |
| Leasehold improvements | 303,759 |
| Equipment under capital lease | 258,483 |
| | 1,369,334 |
| Less accumulated depreciation and amortization | (1,000,332) |
| **Net property and equipment** | $ 369,002 |

Depreciation and amortization expense for the year ended December 31, 2010, was $130,621.

## Note 6. Commitments And Risks

Concentration of credit risk: Financial instruments which potentially subject MHA to concentrations of credit risk consist principally of cash and cash equivalents. MHA maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. MHA has not experienced any losses in such accounts.

Financial Risk: MHA invests in a professionally managed portfolio that contains certificates of deposit, mutual funds and equities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Operating lease: MHA leases its office space under a non-cancelable operating lease that expires April 30, 2016. The lease provides for fixed annual rental increases. Under accounting principles generally accepted in the United States of America (GAAP) lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payments is reflected as deferred rent and lease incentives in the accompanying statement of financial position.

MHA also sub-leases a portion of the office space. Revenue from these sub-leases totaled $55,163 for the year ended December 31, 2010, and is included in rental income in the accompanying statement of activities. Total rent expense attributable to MHA's office space for the year ended December 31, 2010, was $437,644 and is included in occupancy expense in the accompanying statement of functional expenses.

The future minimum rental payments required under these operating leases, net of sub-lease income, as of December 31, 2010, are as follows:

| Years Ending December 31, | Total | Sublease | Net |
|---|---|---|---|
| 2011 | $ 438,222 | $ (27,000) | $ 411,222 |
| 2012 | 449,178 | - | 449,178 |
| 2013 | 460,407 | - | 460,407 |
| 2014 | 471,918 | - | 471,918 |
| 2015 | 483,716 | - | 483,716 |
| 2016 | 162,560 | - | 162,560 |
| | $ 2,466,001 | $ (27,000) | $ 2,439,001 |

Capital leases: MHA has entered into capital leases which expire at various times through 2014. The leased equipment is included in property and equipment at a cost of $258,483 with accumulated amortization of $111,726 as of December 31, 2010.

The future minimum lease payments required under MHA's capital leases are as follows:

| Years Ending December 31, | |
|---|---|
| 2011 | $ 59,239 |
| 2012 | 42,453 |
| 2013 | 39,096 |
| 2014 | 18,445 |
| **Total future minimum lease payments** | 159,233 |
| Less amounts representing interest | (3,927) |
| **Present value of net minimum lease payments** | $ 155,306 |

## Note 7. Net Assets

Board designated unrestricted net assets: The Board of Directors of MHA has designated certain unrestricted net assets into a reserve fund for MHA's general operating purposes. The objective of the reserve fund is to stabilize the financial position by providing cash availability and asset growth and to provide a method of funding programs not supported by other funding sources. The unrestricted net assets include, the gain from the sale of its building in 2002, as well as any unrestricted bequest income that was contributed to MHA. The Board has approved a policy whereby contributions to the fund are made in an amount of 20 percent of the change in unrestricted net assets before depreciation.

During 2010, there were no contributions to the fund as there was a decrease in net assets for the year, and there were no bequest contributions. During the year ended December 31, 2010, the Board authorized the release of $1,000,000 of which $750,000 has been used, from the reserve fund for MHA's general operating purposes.

Also included in unrestricted net assets is a fund designated by the Board for property and equipment. This amount is calculated by subtracting the amount owed on property and equipment (i.e., the capital lease obligations) from the net book value of total property and equipment.

The Board of MHA has also designated unrestricted net assets to create the Jo Blaylock Memorial Fund. The fund was created to recognize Mr. and Mrs. Blaylock's contribution to mental health. The $50,000 initially designated plus any investment earnings thereon are to be used for educational purposes.

The following is a summary of unrestricted net assets as of December 31, 2010:

| | | |
|---|---|---|
| Undesignated | $ | 242,789 |
| Reserve fund | | 2,210,232 |
| Net property and equipment fund | | 213,696 |
| Jo Blaylock Memorial Fund | | 58,885 |
| | $ | 2,725,602 |

Temporarily restricted net assets: Certain temporarily restricted net assets are available for use among the programs of MHA based on specific donor restrictions. Other amounts with donor restrictions that can be interpreted to cover more than one program were allocated to such programs based on prior years' experience. The amounts available as of December 31, 2010, are as follows:

| | | |
|---|---|---|
| Advocacy | $ | 590,787 |
| Education | | 511,521 |
| Constituency services | | 317,602 |
| Research | | 239,240 |
| | $ | 1,659,150 |

## Note 7. Net Assets (Continued)

Permanently restricted net assets: Permanently restricted net assets include the following:

- The Quayle Bequest which requires that the principal totaling $188,971 be invested in perpetuity and that only the income be expended to support the training and use of volunteers and/or to pay hospital attendants servicing those who are mentally ill.

- The Anna Belle Edwards Bequest which requires that the principal totaling $100,000 be invested in perpetuity and that only the income be expended to support research as to the cause and cure of mental illness giving attention to the therapeutic use of mega-vitamins.

The interest income earned and unrealized gains on the above bequests are recorded as temporarily restricted revenue in the accompanying statement of activities and are released from restriction as the program restrictions are met. For the year ended December 31, 2010, interest income earned and realized and unrealized gains on permanently restricted net assets totaled $4,966 and $16,713, respectively.

## Note 8. Permanently Restricted Net Assets

MHA's permanently restricted net assets include donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments (collectively referred to as the endowment fund), are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board of Directors of MHA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MHA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by MHA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, MHA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of MHA and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of MHA
- The investment policies of MHA

**Note 8. Permanently Restricted Net Assets (Continued)**

As of December 31, 2010, MHA's endowment fund had the following activity:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Net assets, beginning of year | $ (7,773) | $ 32,023 | $ 288,971 | $ 313,221 |
| Interest and dividends, net of investment expense | 5,572 | 4,966 | - | 10,538 |
| Net appreciation | 57,203 | 16,713 | - | 73,916 |
| Amounts appropriated for expenditure | - | - | - | - |
| **Changes in net assets** | 62,775 | 21,679 | - | 84,454 |
| **Net assets, end of year** | $ 55,002 | $ 53,702 | $ 288,971 | $ 397,675 |

As of December 31, 2010, MHA's endowment had the following net asset composition:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor restricted | $ (3,883) | $ 53,702 | $ 288,971 | $ 338,790 |
| Board restricted | 58,885 | - | - | 58,885 |
| **Endowments net assets, end of year** | $ 55,002 | $ 53,702 | $ 288,971 | $ 397,675 |

| Permanently Restricted Net Assets | |
|---|---|
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA | $ 288,971 |
| **Total endowment classified as permanently restricted net assets** | $ 288,971 |

| The Portion Of Perpetual Endowment Funds Subject To A Time Restriction Under UPMIFA | |
|---|---|
| Without purpose restrictions | $ - |
| With purpose restrictions | 53,702 |
| **Total endowment classified as temorarily restricted net assets** | $ 53,702 |

Funds with deficiencies: From time to time, the fair value of assets associated with an individual donor restricted endowment fund may fall below the level that the donor or UPMIFA requires MHA to retain as a fund of perpetual duration.

Return objectives and risk parameters: MHA has adopted investment and spending policies for endowment and board designated assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the board designated assets are invested in funds with a primary objective to achieve growth and a secondary objective to maximize income while minimizing investment risk. The objective of the permanently restricted assets is the preservation of capital.

## Note 8. Permanently Restricted Net Assets (Continued)

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, MHA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). MHA's current asset allocation for board designated funds targets a composition of between 30 percent and 55 percent in U.S. stocks, up to 10 percent of non-U.S. stocks, bonds between 30 percent and 45 percent and cash equivalents up to 15 percent. The reserve fund also permits MHA to invest in alternative investments up to 15 percent.

MHA's current asset allocation for permanently restricted net assets targets a composition of stocks between 10 percent and 30 percent, fixed income between 50 percent and 70 percent and cash equivalents between 10 percent and 30 percent.

Spending policy and how the investment objectives relate to spending policy: Expenditures from the board designated net assets are released as approved by MHA's board of directors. The earnings on the permanently restricted net assets are released from restricted funds and are used in accordance with donor stipulations described in Note 7.

## Note 9. Line Of Credit

MHA had a $1,000,000 secured revolving line of credit with Capital One, N.A. The line of credit expired on September 30, 2010, and was renewed with a borrowing line of $500,000 which expires on June 30, 2011. There were no amounts outstanding at December 31, 2010.

## Note 10. Pension Plan

Defined contribution plan: MHA has a noncontributory, defined contribution retirement plan which is available to all employees who have completed one year of service and attained 21 years of age. Employer contributions are made to the plan according to the employee's years of service based on percentages as defined in the plan document. Employees are vested in the employer contributions according to the employee's years of service with MHA as defined in the plan document. Pension expense for the year ended December 31, 2010, totaled $27,715 and is included in salary and benefits on the accompanying statement of functional expenses.

Supplemental executive retirement plan: MHA offers its executives or highly compensated employees an opportunity to defer compensation pursuant to section 457(b) of the Internal Revenue code to supplement such employees' retirement benefits under the employer's qualified retirement plan. Employees are fully vested when plan contributions are made. Under the 457(b) plan, MHA may make matching contributions; however, no matching contributions were made during the year ended December 31, 2010.

## Note 11. Hotel Contracts Contingency

MHA has entered into agreements with hotels for the provision of conference facilities and room accommodations for its meetings through June 2011. The agreements contain various clauses whereby MHA is liable for liquidated damages in the event of cancellation or lower than anticipated attendance. As of December 31, 2010, management of MHA has estimated that the maximum possible amount of liquidated damages is approximately $237,000. However, management of MHA does not believe that any losses will be incurred under these contracts.

## Note 12. Prior Period Adjustment

During the year ended December 31, 2010, MHA restated its net asset balance as of December 31, 2009, to correct an error in recording bequest revenue and the related bequest receivable from prior years. Accordingly, an adjustment was made to decrease receivables and the beginning of year net assets by $162,682 from $6,058,292 to $5,895,609. There was no effect on revenue or changes in net assets for the year ended December 31, 2009.