

Mental Health America, Inc.

Financial Report
December 31, 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Mental Health America, Inc.
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Mental Health America, Inc. (MHA), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mental Health America, Inc. as of December 31, 2015, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited MHA's December 31, 2014, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
April 15, 2016

Mental Health America, Inc.

**Statement of Financial Position
December 31, 2015
(With Comparative Totals for 2014)**

	2015	2014
Assets		
Cash and cash equivalents	\$ 366,529	\$ 533,079
Investments	2,557,014	2,742,922
Receivables, net	1,019,918	409,387
Prepaid expenses	40,839	36,369
Inventory	9,455	33,834
Property and equipment, net	100,762	130,219
	<u>\$ 4,094,517</u>	<u>\$ 3,885,810</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 196,770	\$ 98,672
Deferred rent	26,855	103,454
Deferred revenue	2,000	18,772
Capital lease obligations	77,891	73,741
Deferred compensation	109,110	138,853
Total liabilities	<u>412,626</u>	<u>433,492</u>
Commitments (Note 10)		
Net assets:		
Unrestricted:		
Undesignated	273,226	210,343
Board designated	1,533,692	1,584,593
	<u>1,806,918</u>	<u>1,794,936</u>
Temporarily restricted	1,586,002	1,368,411
Permanently restricted	288,971	288,971
	<u>3,681,891</u>	<u>3,452,318</u>
	<u>\$ 4,094,517</u>	<u>\$ 3,885,810</u>

See notes to financial statements.

Mental Health America, Inc.

**Statement of Activities
Year Ended December 31, 2015
(With Comparative Totals for 2014)**

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Nonfederal grants, contracts and contributions	\$ 1,130,655	\$ 1,767,467	\$ -	\$ 2,898,122	\$ 2,071,518
Affiliates dues	271,324	-	-	271,324	311,181
In-kind contributions	140,780	-	-	140,780	152,559
Federal contracts and grants	106,648	-	-	106,648	1,162,784
Royalties	91,670	-	-	91,670	108,708
Conference	83,346	-	-	83,346	36,075
Combined federal campaign	34,872	-	-	34,872	38,622
Sales	19,942	-	-	19,942	21,026
Investment (loss) income	(18,820)	(10,541)	-	(29,361)	110,242
Net assets released from restrictions	1,539,335	(1,539,335)	-	-	-
Total support and revenue	3,399,752	217,591	-	3,617,343	4,012,715
Expenses:					
Program services:					
Public education, policy, and advocac	987,497	-	-	987,497	776,558
Mental health programs and services	968,397	-	-	968,397	1,546,084
Constituency services	729,446	-	-	729,446	503,350
Total program services	2,685,340	-	-	2,685,340	2,825,992
Supporting services:					
Fundraising	361,772	-	-	361,772	363,433
Management and general	340,658	-	-	340,658	386,353
Total expenses	3,387,770	-	-	3,387,770	3,575,778
Change in net assets	11,982	217,591	-	229,573	436,937
Net assets:					
Beginning	1,794,936	1,368,411	288,971	3,452,318	3,015,381
Ending	\$ 1,806,918	\$ 1,586,002	\$ 288,971	\$ 3,681,891	\$ 3,452,318

See notes to financial statements.

Mental Health America, Inc.

Statement of Functional Expenses
Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015						2014 Total	
	Program Services			Supporting Services				
	Constituency Services	Education, Policy, and Advocacy	Mental Health Programs and Services	Total	Management and General	Fundraising		
Salaries and benefits	\$ 332,714	\$ 479,987	\$ 354,106	\$ 1,166,807	\$ 178,075	\$ 225,264	\$ 1,570,146	\$ 1,454,094
Occupancy	90,175	135,263	112,719	338,157	67,631	45,088	450,876	444,216
Grants	-	65,031	269,940	334,971	-	3,690	338,661	357,803
Professional fees and contract service payments	40,974	75,931	71,336	188,241	27,126	18,056	233,423	358,835
Conference and meetings	141,691	21,912	2,075	165,678	8,222	6,369	180,269	92,775
In-kind	14,078	48,763	48,763	111,604	13,840	15,336	140,780	152,559
Travel	32,289	46,041	37,735	116,065	3,184	4,229	123,478	115,120
Operating fees	15,513	22,352	18,461	56,326	11,077	8,428	75,831	65,086
Depreciation and amortization	11,418	17,126	14,272	42,816	15,748	5,709	64,273	86,831
Subscription dues	14,713	16,172	8,731	39,616	4,370	17,065	61,051	54,391
Communications	9,523	18,020	17,373	44,916	6,655	5,223	56,794	52,629
Outside printing and art work	8,474	26,920	4,499	39,893	43	17	39,953	44,740
Supplies	12,828	6,235	6,175	25,238	2,510	1,729	29,477	24,736
Postage and shipping	3,333	4,725	437	8,495	373	965	9,833	15,440
Photocopying	1,673	2,377	1,725	5,775	1,804	743	8,322	8,303
Direct mail	-	-	-	-	-	3,841	3,841	3,180
Marketing and advertising	50	642	50	742	-	20	762	245,040
Total	\$ 729,446	\$ 987,497	\$ 968,397	\$ 2,685,340	\$ 340,658	\$ 361,772	\$ 3,387,770	\$ 3,575,778

See notes to financial statements.

Mental Health America, Inc.

Statement of Cash Flows
Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 229,573	\$ 436,937
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	64,273	86,831
Unrealized and realized loss on investments, net	87,192	(21,195)
Deferred rent	(76,599)	(64,802)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(610,531)	(115,611)
Prepaid expenses	(4,470)	(1,594)
Inventory	24,379	596
Increase (decrease) in:		
Accounts payable and accrued expenses	98,098	(27,794)
Deferred revenue	(16,772)	15,148
Deferred compensation	(29,743)	(867)
Funds held for others	-	(78,291)
Net cash (used in) provided by operating activities	(234,600)	229,358
Cash flows from investing activities:		
Proceeds from sales of investments	861,117	134,868
Purchases of investments	(762,401)	(295,264)
Purchase of property and equipment	(6,045)	(21,571)
Net cash provided by (used in) investing activities	92,671	(181,967)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(24,621)	(39,601)
Net cash used in financing activities	(24,621)	(39,601)
Net (decrease) increase in cash and cash equivalents	(166,550)	7,790
Cash and cash equivalents:		
Beginning	533,079	525,289
Ending	\$ 366,529	\$ 533,079
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,863	\$ 1,742
Supplemental schedule of noncash financing and investment activities:		
Acquisition of property and equipment through capital lease obligation	\$ 73,433	\$ -
Exchange of capital lease asset and obligation	\$ 44,662	\$ -

See notes to financial statements.

Mental Health America, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Mental Health America, Inc. (MHA) – founded in 1909 – is the nation’s leading community-based nonprofit dedicated to helping all Americans achieve wellness by living mentally healthier lives. MHA’s work is driven by its commitment to promote mental health as a critical part of overall wellness, including prevention services for all, early identification and intervention for those at risk, and integrated care and treatment for those who need it, with recovery as the goal.

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 unconditional support is recognized when notification of the contribution is received, 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. MHA made grants to and received dues from affiliates, which totaled \$334,960 and \$271,324, respectively, for the year ended December 31, 2015.

Cash and cash equivalents: For purposes of reporting cash flows, MHA considers money market accounts to be cash equivalents. Cash and cash equivalents included in the investment portfolio are considered investments.

Financial risk: MHA maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. MHA has not experienced any losses in such accounts.

MHA invests in a professionally managed portfolio that contains mutual funds. 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.

Receivables: Receivables are carried at original invoice amounts less an estimate for doubtful receivables based on an annual review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At December 31, 2015, management has established an allowance for doubtful accounts of \$1,262.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Promises to give contributions are recognized when the donor makes a written promise to give to MHA that is, in substance, unconditional. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering prior history of donor and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received. Management has determined promises to give were fully collectible and no provision for doubtful promises to give was necessary. Promises to give due in greater than a year are carried at net present value.

Bequests are recognized 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.

Inventory: Inventory is stated at cost determined 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 was required at December 31, 2015.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations.

Property and equipment: MHA capitalizes all property and equipment purchased with a cost of \$500 or more. Property and equipment are stated at cost and are being depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Valuation of long-lived assets: MHA requires that long-lived assets and certain identifiable intangible assets be reviewed 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 asset to future undiscounted net cash flows expected to be generated by the asset. 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 estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. MHA had no impairments of long-lived assets during the year ended December 31, 2015.

Deferred rent: MHA has a lease agreement for rental space in Alexandria, Virginia. Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the statement of financial position. In addition, rent abatement was provided, as well as a landlord improvement allowance for leasehold improvements. The benefits are also being recognized on a straight-line basis over the life of the lease agreement.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Classification of net assets: 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, net property and equipment 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. Permanently restricted net assets represent endowment funds that are not available for use by MHA. Earnings on the endowment funds are temporarily restricted for program purposes.

Support and revenue: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed based on market trends for interest rates applicable to the years in which the promises are received.

MHA receives grants and contracts from federal agencies and private organizations. Such award instruments are to be used for specific programs. These agreements are considered exchange transactions. Revenue and expenses are recognized in accordance with the authoritative guidance issued by the FASB whereby revenue is generally recognized as the related qualifying expenses are incurred. Any excess of cash advances received over reimbursable expenditures, including advances, is recorded as deferred revenue.

Affiliates dues are billed at the beginning of the year and recognized in the period received. Amounts received in advance, if any, are recorded as deferred revenue.

In-kind contributions: Donated materials, services, and facilities are recorded as in-kind contributions at the estimated fair market value as of the date of the donation. In-kind contributions for the year ended December 31, 2015, are \$140,780.

Expenses: 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.

Direct costs associated with specific programs are recorded as program expenses. Fringe benefits are pooled and allocated based on salaries. Management and general expenses are unallocated in the statement of activities.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates: 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.

Recent accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. MHA is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Income taxes: MHA is generally exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. In addition, MHA qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. MHA had no net unrelated business income for the year ended December 31, 2015. Management evaluated MHA's tax positions and concluded that MHA had taken no uncertain tax positions that require adjustment to the financial statements. Generally, MHA is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2012.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. 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, 2014, from which summarized comparative information was derived.

Reclassification: Certain items in the December 31, 2014, summarized comparative information have been reclassified to comply with the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: MHA evaluated subsequent events through April 15, 2016, which is the date the financial statements were available to be issued.

Mental Health America, Inc.

Notes to Financial Statements

Note 2. Receivables

Receivables at December 31, 2015, consist of the following:

Promise to give	\$	900,000
Contracts, sales and other		123,281
Bequests		26,511
		<u>1,049,792</u>
Less allowance for doubtful accounts		1,262
Less discount		28,612
	\$	<u><u>1,019,918</u></u>

At December 31, 2015, the promise to give is from one donor for which MHA expects to receive the remainder in equal annual payments of \$100,000 through the year ending December 31, 2024, for which MHA recorded a present value discount of \$28,612.

Bequests consist 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 3. Investments

Investments at December 31, 2015, consist of the following:

Mutual funds	\$	1,841,119
Cash and cash equivalents		606,785
Deferred compensation plan mutual funds		109,110
	\$	<u><u>2,557,014</u></u>

Investment loss for the year ended December 31, 2015, consists of the following:

Interest and dividends	\$	57,831
Unrealized and realized loss, net		(87,192)
		<u>(29,361)</u>
Less investment fees (recorded as expense)		18,055
	\$	<u><u>(47,416)</u></u>

Note 4. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. This topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic requires disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

This topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs not corroborated by market data

To determine the appropriate levels, MHA performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets or liabilities held by MHA at December 31, 2015.

Mental Health America, Inc.

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities at December 31, 2015, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
Equity				
Diversified Emerging Mkts	\$ 51,618	\$ 51,618	\$ -	\$ -
Foreign Large Blend	61,784	61,784	-	-
Foreign Large Growth	44,893	44,893	-	-
Foreign Large Value	43,007	43,007	-	-
Global Real Estate	18,013	18,013	-	-
Large Blend	125,668	125,668	-	-
Large Growth	26,021	26,021	-	-
Large Value	282,586	282,586	-	-
Mid-Cap Blend	127,443	127,443	-	-
Mid-Cap Growth	12,162	12,162	-	-
Real Estate	48,854	48,854	-	-
Small Blend	76,703	76,703	-	-
Small Growth	20,461	20,461	-	-
Small Value	21,042	21,042	-	-
World Allocation	4,877	4,877	-	-
World Stock	15,749	15,749	-	-
	980,881	980,881	-	-
Fixed income				
Bank Loan	13,098	13,098	-	-
High Yield Bond	33,319	33,319	-	-
Inflation-Protected Bond	155,844	155,844	-	-
Intermediate-Term Bond	541,787	541,787	-	-
Short-Term Bond	13,321	13,321	-	-
World Bond	102,869	102,869	-	-
	860,238	860,238	-	-
	1,841,119	1,841,119	-	-
Deferred compensation plan:				
Mutual funds:				
Equity				
Large Growth	22,217	22,217	-	-
World Allocation	64,773	64,773	-	-
Fixed income				
World Bond	22,120	22,120	-	-
	109,110	109,110	-	-
	\$ 1,950,229	\$ 1,950,229	\$ -	\$ -
Liabilities:				
Deferred compensation	\$ 109,110	\$ -	\$ 109,110	\$ -

Mental Health America, Inc.

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The fair value of the deferred compensation liability is based on observable market data, as the underlying assets comprise Level 1 investments; however, the liability is not actively traded and as a result deferred compensation is considered a Level 2 item. The fair value of mutual funds is determined based on quoted market prices, when available, or market prices provided by a recognized broker dealer; thus, they are categorized as Level 1.

Cash equivalents and certificates of deposit in the amount of \$606,785 are recorded at cost and are therefore not included in the above schedule.

Note 5. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2015, comprise the following:

Office furniture and equipment	\$ 356,993
Leasehold improvements	303,759
Equipment under capital leases	111,924
	<u>772,676</u>
Less accumulated depreciation and amortization	671,914
	<u><u>\$ 100,762</u></u>

Depreciation and amortization expense for the year ended December 31, 2015, was \$64,273.

Note 6. Capital Leases

MHA has two capital leases which expire in 2018 and 2019. The leased equipment is included in property and equipment at a cost of \$111,924, with accumulated amortization of \$34,944 at December 31, 2015.

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

Year ending December 31:	
2016	\$ 23,028
2017	23,028
2018	19,314
2019	15,600
Total future minimum lease payments	<u>80,970</u>
Less amounts representing interest	3,079
Present value of net minimum lease payments	<u><u>\$ 77,891</u></u>

Mental Health America, Inc.

Notes to Financial Statements

Note 7. Board Designated 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 board designated 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% of the change in unrestricted net assets before depreciation and less bequest revenue recorded. Withdrawals from these funds require approval by the Board on an as needed basis.

During the year ended December 31, 2015, there were investment losses and expenditures of \$6,015 and \$11,279 to the reserve fund, respectively.

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 carrying 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.

Board designated net assets consist of the following at December 31, 2015:

Reserve fund	\$ 1,451,936
Jo Blaylock Memorial Fund	58,885
Net property and equipment	22,871
	<u>\$ 1,533,692</u>

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of donor-restricted amounts, which are only available for specific program activities or supporting services or which are designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2015, due to the expiration of time restrictions or the satisfaction of purpose restrictions. The time restricted promise to give is included in Prevention, early intervention and other for \$871,388.

Temporarily restricted net assets consist of the following at December 31, 2015:

Prevention, early intervention and other	\$ 1,047,832
Public Education, Policy and Advocacy	536,670
Constituency Services	1,500
	<u>\$ 1,586,002</u>

Notes to Financial Statements

Note 9. Permanently Restricted Net Assets

Interpretation of relevant law: The Board of Directors of MHA has interpreted the Virginia-enacted 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

Return objectives and risk parameters: MHA has adopted investment and spending policies for endowment 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. The objective of the permanently restricted assets is the preservation of capital.

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 has two permanently restricted investments: the endowment and the Charitable Gift Annuity account (CGA). MHA's current asset allocation for the endowment targets a composition of stocks between 10% and 30%, fixed income between 50% and 70%, and cash equivalents between 0% and 10%. The target for CGA is 60% equities and 40% fixed income.

Spending policy: The earnings on the permanently restricted net assets are released from restricted funds and are used in accordance with donor stipulations described in Note 8.

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.

Mental Health America, Inc.

Notes to Financial Statements

Note 9. Permanently Restricted Net Assets (Continued)

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 when appropriated for the programs.

The following table summarizes the changes in the permanently restricted endowment funds:

	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 71,269	\$ 288,971	\$ 345,588
Interest and dividends, net of investment expense	6,694	-	6,694
Unrealized and realized loss, net	(17,235)	-	(17,235)
	(10,541)	-	(10,541)
Net assets, end of year	\$ 60,728	\$ 288,971	\$ 335,047

Note 10. Commitments

Leases: MHA leases its office space under a non-cancelable operating lease that expires on April 30, 2016. The lease provides for fixed annual rental increases and, at the beginning of the lease term, the landlord granted MHA an allowance for leasehold improvements, both of which are required to be amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between cash payments and straight line rent expense is reflected as deferred rent in the accompanying statement of financial position. At December 31, 2015, future minimum rental payments required under this lease agreement is \$162,560 during the year ending December 31, 2016.

Rent expense for the year ended December 31, 2015, was \$450,876.

MHA has executed a lease agreement dated December 28, 2015 for office space to move its headquarters. The lease term is 11 years starting on April 1, 2016 and can be renewed for an additional 5 years. Annual base rent is \$209,511 in the first year and is increased annually to equal \$274,806 in the last lease year. The lease agreement also provides for conditional abatement of the base rent for the first lease year and improvement allowance of up to \$502,135.

Future minimum lease payments required under the new lease are as follows:

Year ending December 31:

2016	\$ -
2017	161,455
2018	219,713
2019	225,755
2020	224,463
2021-2026	1,598,251
	<u>\$ 2,429,637</u>

Notes to Financial Statements

Note 10. Commitments (Continued)

Employment agreement: MHA has entered into an executive employment agreement with the President/Chief Executive Officer, with an expiration date of December 31, 2020. Under certain circumstances, upon early termination of this agreement, MHA is obligated for 6 months' severance.

Note 11. Retirement Plans

Defined contribution plan: MHA has a non-contributory, defined contribution retirement plan, which is available to all employees who attained 21 years of age. Employer contributions are made based on percentages and employees are vested immediately, as defined in the plan document. Pension expense for the year ended December 31, 2015, was \$34,557 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, 2015.