Mental Health America, Inc.

Financial Report
December 31, 2014

Contents

Independent Auditor's Report	1-2
Financial Statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-15

McGladrey

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, 2014, 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 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 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, 2014, 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, 2013, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2015, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MHA's internal control over financial reporting and compliance.

McGladrey LLP

McLean, Virginia
April 22, 2015

Mental Health America, Inc.

Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)

		2014		2013
Assets				
Cash and Cash Equivalents	**$**	**533,079**	$	525,289
Investments		**2,742,922**		2,561,331
Receivables, Net		**409,387**		293,776
Prepaid Expenses		**36,369**		34,775
Inventory		**33,834**		34,430
Property and Equipment, Net		**130,219**		195,479
	$	**3,885,810**	$	3,645,080

Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**98,672**	$	126,466
Capital lease obligations		**73,741**		113,342
Deferred revenue		**18,772**		3,624
Deferred rent		**103,454**		168,256
Deferred compensation		**138,853**		139,720
Funds held for others – NCMF		**-**		78,291
Total liabilities		**433,492**		629,699
Commitment and Contingencies (Notes 10 and 12)				
Net Assets				
Unrestricted				
Undesignated		**210,343**		166,609
Board designated		**1,584,593**		1,477,987
		1,794,936		1,644,596
Temporarily restricted		**1,368,411**		1,081,814
Permanently restricted		**288,971**		288,971
		3,452,318		3,015,381
	$	**3,885,810**	$	3,645,080

See Notes to Financial Statements.

Mental Health America, Inc.

Statement of Activities
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	2013 Total
Support and Revenue					
Nonfederal grants, contracts and contributions	**$ 450,572**	**$ 1,620,946**	**$ -**	**$ 2,071,518**	$ 1,498,192
Federal grants and contracts	**1,162,784**	**-**	**-**	**1,162,784**	319,673
Affiliates dues	**311,181**	**-**	**-**	**311,181**	304,432
In-kind contributions	**152,559**	**-**	**-**	**152,559**	156,432
Investment income	**92,447**	**17,795**	**-**	**110,242**	215,256
Rental income	**108,708**	**-**	**-**	**108,708**	94,562
Combined federal campaign	**38,622**	**-**	**-**	**38,622**	46,986
Conference	**36,075**	**-**	**-**	**36,075**	62,616
Sales	**21,026**	**-**	**-**	**21,026**	26,529
Net assets released from restrictions	**1,352,144**	**(1,352,144)**	**-**	**-**	-
Total support and revenue	**3,726,118**	**286,597**	**-**	**4,012,715**	2,724,678
Expenses					
Program services:					
Constituency services	**1,067,551**	**-**	**-**	**1,067,551**	1,045,264
Advocacy	**787,752**	**-**	**-**	**787,752**	1,005,183
Education	**831,537**	**-**	**-**	**831,537**	804,431
Research	**139,531**	**-**	**-**	**139,531**	198,032
Total program services	**2,826,371**	**-**	**-**	**2,826,371**	3,052,910
Supporting services:					
Management and general	**386,462**	**-**	**-**	**386,462**	431,973
Fundraising	**362,945**	**-**	**-**	**362,945**	604,238
Total expenses	**3,575,778**	**-**	**-**	**3,575,778**	4,089,121
Change in net assets	**150,340**	**286,597**	**-**	**436,937**	(1,364,443)
Net Assets					
Beginning	**1,644,596**	**1,081,814**	**288,971**	**3,015,381**	4,379,824
Ending	**$ 1,794,936**	**$ 1,368,411**	**$ 288,971**	**$ 3,452,318**	$ 3,015,381

See Notes to Financial Statements.

Mental Health America, Inc.

Statement of Functional Expenses
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014								
	Program Services					Supporting Services			
	Constituency Services	Advocacy	Education	Research	Total	Management and General	Fundraising	Total	2013 Total
Salaries and Benefits	$ 414,581	$ 324,695	$ 284,636	$ 74,817	$ 1,098,729	$ 173,172	$ 182,193	$ 1,454,094	$ 1,739,540
Occupancy	69,691	109,306	111,491	22,211	312,699	87,532	43,985	444,216	438,725
Professional Fees and Contract Service Payments	79,452	125,970	64,699	11,281	281,402	46,465	30,968	358,835	535,008
Grants	229,900	46,637	79,511	237	356,285	970	548	357,803	278,013
Marketing and Advertising	115,485	-	126,540	1,005	243,030	1,005	1,005	245,040	8,938
In-Kind	21,256	37,023	48,512	7,628	114,419	10,884	27,256	152,559	156,432
Travel	30,002	44,039	18,828	6,777	99,646	8,160	7,314	115,120	203,704
Conference and Meetings	25,123	23,631	20,275	7,557	76,586	4,658	11,531	92,775	267,119
Depreciation and Amortization	19,154	20,516	22,006	298	61,974	8,385	16,472	86,831	94,209
Operating Fees	12,958	16,159	16,021	109	45,247	12,689	7,150	65,086	85,566
Subscription Dues	9,625	17,187	6,739	2,775	36,326	7,073	10,992	54,391	85,366
Communications	8,902	11,797	11,069	459	32,227	10,852	9,550	52,629	48,293
Outside Printing and Art Work	19,425	2,994	11,546	2,332	36,297	4,964	3,479	44,740	52,841
Supplies	5,704	4,895	5,678	620	16,897	4,065	3,774	24,736	46,382
Postage and Shipping	3,549	1,823	2,194	994	8,560	4,453	2,427	15,440	24,208
Photocopying	2,744	1,080	1,792	431	6,047	1,135	1,121	8,303	15,389
Direct Mail	-	-	-	-	-	-	3,180	3,180	9,388
TOTAL	$ 1,067,551	$ 787,752	$ 831,537	$ 139,531	$ 2,826,371	$ 386,462	$ 362,945	$ 3,575,778	$ 4,089,121

See Notes to Financial Statements.

Mental Health America, Inc.

Statement of Cash Flows
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	**$ 436,937**	$ (1,364,443)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**86,831**	94,209
Unrealized and realized gains on investments, net	**(21,195)**	(129,296)
Gain on disposal of property and equipment	**-**	(26,465)
Deferred rent	**(64,802)**	(53,292)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(115,611)**	241,648
Prepaid expenses	**(1,594)**	60,418
Inventory	**596**	6,560
Increase (decrease) in:		
Accounts payable and accrued expenses	**(27,794)**	(4,686)
Deferred revenue	**15,148**	(7,426)
Deferred compensation	**(867)**	13,547
Funds held for others	**(78,291)**	3,353
Net cash provided by (used in) operating activities	**229,358**	(1,165,873)
Cash Flows From Investing Activities		
Proceeds from sales of investments	**134,868**	1,316,223
Purchases of investments	**(295,264)**	(99,630)
Purchase of property and equipment	**(21,571)**	-
Net cash provided by (used in) investing activities	**(181,967)**	1,216,593
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	**(39,601)**	(46,991)
Net cash used in financing activities	**(39,601)**	(46,991)
Net increase in cash and cash equivalents	**7,790**	3,729
Cash and Cash Equivalents		
Beginning	**525,289**	521,560
Ending	**$ 533,079**	$ 525,289
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	**$ 1,742**	$ 2,514

See 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 non-profit 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 support and revenue are 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 $345,213 and $311,181, respectively, for the year ended December 31, 2014.

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, 2014, management has established an allowance for doubtful accounts of $1,107.

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. All promises to give are due in the year ending December 31, 2015.

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

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, 2014.

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, 2014.

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.

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.

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

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.

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.

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, 2014, are $152,559.

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.

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.

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, 2014. 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 2011.

Prior year information: 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, 2013, from which summarized comparative information was derived.

Subsequent events: MHA evaluated subsequent events through April 22, 2015, which is the date the financial statements were available to be issued.

Note 2. Receivables

Receivables at December 31, 2014, consist of the following:

Promises to give	$	359,921
Bequests		26,294
Contracts, sales and other		24,279
		410,494
Less allowance for doubtful accounts		1,107
	$	409,387

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, 2014, consist of the following:

Mutual funds	$	1,887,140
Cash and cash equivalents		716,929
Deferred compensation plan mutual funds		138,853
	$	2,742,922

Investment income for the year ended December 31, 2014, consists of the following:

Interest and dividends	$	87,476
Unrealized and realized gains, net		21,195
Other interest		1,571
		110,242
Less investment fees		16,626
	$	93,616

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

Note 4. Fair Value Measurements (Continued)

To determine the appropriate levels, MHA performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurements and Disclosures 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, 2014.

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

	Total	Level 1	Level 2	Level 3
Assets				
Mutual funds:				
Fixed income	$ 895,182	$ 895,182	$ -	$ -
Equity	991,958	991,958	-	-
	1,887,140	1,887,140	-	-
Deferred compensation plan				
Mutual funds – fixed income	138,853	138,853	-	-
	138,853	138,853	-	-
	$ 2,025,993	$ 2,025,993	$ -	$ -
Liabilities				
Deferred compensation	$ 138,853	$ -	$ 138,853	$ -

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 $716,929 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, 2014, comprise the following:

Office furniture and equipment	$ 618,316
Leasehold improvements	303,759
Equipment under capital leases	160,558
	1,082,633
Less accumulated depreciation and amortization	952,414
	$ 130,219

Depreciation and amortization expense for the year ended December 31, 2014, was $86,831.

Note 6. Capital Leases

MHA has capital leases which expire at various times through 2017. The leased equipment is included in property and equipment at a cost of $160,558, with accumulated amortization of $88,247 as of December 31, 2014.

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

Year Ending December 31,		
2015	$	32,036
2016		23,230
2017		24,044
Total future minimum lease payments		79,310
Less amounts representing interest		5,569
Present value of net minimum lease payments	$	73,741

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, 2014, there were additions and expenditures of $143,107 and $10,842 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, 2014:

Reserve fund	$	1,469,230
Net property and equipment		56,478
Jo Blaylock Memorial Fund		58,885
	$	1,584,593

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 which are designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2014, due to the expiration of time restrictions or the satisfaction of purpose restrictions. Time restricted promises to give which are included under education and advocacy below are $100,000 and $200,000, respectively.

Temporarily restricted net assets consist of the following at December 31, 2014:

Advocacy	$ 807,063
Education	458,189
Constituency services	49,068
Research	54,091
	$ 1,368,411

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.

Note 9. Permanently Restricted Net Assets (Continued)

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.

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.

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

	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 56,617	$ 288,971	$ 345,588
Interest and dividends, net of investment expense	12,761	-	12,761
Unrealized and realized gains, net	1,891	-	1,891
	14,652	-	14,652
Net assets, end of year	$ 71,269	$ 288,971	$ 360,240

Note 10. Commitment

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.

Rent expense for the year ended December 31, 2014, was $444,216.

Future minimum rental payments required under this lease agreement at December 31, 2014, are as follows:

Year Ending December 31,		
2015	$	483,716
2016		162,560
	$	646,276

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 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 their years of service with MHA, as defined in the plan document. Pension expense for the year ended December 31, 2014, totaled $1,900 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, 2014.

Note 12. Contingency

MHA participates in federally-assisted grant programs, which are subject to financial and compliance audits by the federal agencies or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.