Mental Health America

Financial Statements
December 31, 2011

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, 2011, 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 2010 financial statements and, in our report dated April 7, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. 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 2011 financial statements referred to above present fairly, in all material respects, the financial position of Mental Health America as of December 31, 2011, 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.

McGladrey & Pullen, LLP

Vienna, Virginia
April 6, 2012

Mental Health America

Statement Of Financial Position
December 31, 2011
(With Comparative Totals For 2010)

Assets		**2011**		2010
Assets				
Cash and cash equivalents	**$**	**486,018**	$	463,453
Investments		**3,557,214**		3,482,806
Receivables, net of allowance for doubtful accounts of $1,894		**583,235**		755,601
Bequests receivable		**228,416**		240,000
Prepaid expenses		**20,515**		35,675
Inventory		**73,661**		78,558
Property and equipment, net		**280,313**		369,002
Total assets	**$**	**5,229,372**	$	5,425,095

Liabilities And Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**336,361**	$	205,587
Deferred rent and lease incentives		**263,611**		294,718
Deferred compensation		**92,321**		-
Deferred revenue		**8,081**		82,556
Charitable gift annuities		**8,875**		13,205
Capital lease obligations		**98,342**		155,306
Total liabilities		**807,591**		751,372
Commitments And Contingencies (Notes 5 and 8)				
Net Assets				
Unrestricted		**469,312**		242,789
Unrestricted – Board designated		**2,510,365**		2,482,813
Temporarily restricted		**1,153,133**		1,659,150
Permanently restricted		**288,971**		288,971
Total net assets		**4,421,781**		4,673,723
Total liabilities and net assets	**$**	**5,229,372**	$	5,425,095

See Notes To Financial Statements.

Mental Health America

Statement Of Activities
Year Ended December 31, 2011
(With Comparative Totals For 2010)

	2011				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	2010 Total
Support and revenue:					
Grants, contracts, and contributions	**$ 1,686,317**	**$ 669,663**	**$ -**	**$ 2,355,980**	$ 2,040,185
Affiliate support	**298,537**	**-**	**-**	**298,537**	336,092
In-kind contributions	**173,461**	**-**	**-**	**173,461**	188,533
Rental and royalty income	**118,872**	**-**	**-**	**118,872**	96,479
Interest and dividend income	**88,826**	**20,924**	**-**	**109,750**	89,124
Combined federal campaign	**78,457**	**-**	**-**	**78,457**	62,369
Sales	**63,941**	**-**	**-**	**63,941**	63,136
Conference registrations	**53,331**	**-**	**-**	**53,331**	67,980
Realized gains on investments	**4,518**	**-**	**-**	**4,518**	130,431
Net assets released from restrictions:					
Satisfaction of program restrictions	**1,182,270**	**(1,182,270)**	**-**	**-**	-
Total revenue and support	**3,748,530**	**(491,683)**	**-**	**3,256,847**	3,074,329
Expenses:					
Program services:					
Constituency services	**872,924**	**-**	**-**	**872,924**	1,352,527
Advocacy	**745,930**	**-**	**-**	**745,930**	949,543
Education	**827,029**	**-**	**-**	**827,029**	846,698
Research	**192,266**	**-**	**-**	**192,266**	193,438
Total program services	**2,638,149**	**-**	**-**	**2,638,149**	3,342,206
Management and general	**451,379**	**-**	**-**	**451,379**	549,769
Fundraising	**377,585**	**-**	**-**	**377,585**	452,674
Total expenses	**3,467,113**	**-**	**-**	**3,467,113**	4,344,649
Change in net assets before unrealized gains (losses) on investments	**281,417**	**(491,683)**	**-**	**(210,266)**	(1,270,320)
Unrealized (losses) gains on investments	**(27,342)**	**(14,334)**	**-**	**(41,676)**	48,434
Change in net assets	**254,075**	**(506,017)**	**-**	**(251,942)**	(1,221,886)
Net assets:					
Beginning	**2,725,602**	**1,659,150**	**288,971**	**4,673,723**	5,895,609
Ending	**$ 2,979,677**	**$ 1,153,133**	**$ 288,971**	**$ 4,421,781**	$ 4,673,723

See Notes To Financial Statements.

Mental Health America

Statement Of Functional Expenses
Year Ended December 31, 2011
(With Comparative Totals For 2010)

	2011								
	Program Services					Supporting Services			
	Constituency Services	Advocacy	Education	Research	Total	Management And General	Fundraising	Total	2010 Total
Salaries and benefits	$ 464,148	$ 394,363	$ 372,420	$ 126,842	$ 1,357,773	$ 262,445	$ 219,975	$ 1,840,193	$ 2,308,315
Occupancy	64,953	129,906	129,906	21,651	346,416	43,302	43,302	433,020	437,644
Grants	73,950	250	-	-	74,200	-	-	74,200	336,648
Professional fees and contract service payments	60,488	49,247	129,800	11,868	251,403	44,618	23,587	319,608	192,460
Conference and meetings	64,851	10,596	38,661	2,225	116,333	3,158	5,472	124,963	190,061
Travel	32,871	13,370	18,100	3,859	68,200	4,650	8,820	81,670	186,204
In-kind expenses	36,951	44,257	35,172	17,026	133,406	11,025	29,030	173,461	188,533
Depreciation and amortization	19,448	38,896	38,896	-	97,240	19,448	12,965	129,653	130,621
Outside printing and art work	10,828	7,362	7,824	2,830	28,844	18,027	5,037	51,908	96,859
Operating fees	12,240	20,304	20,474	77	53,095	17,800	7,786	78,681	80,348
Subscription dues	5,500	5,641	3,491	2,482	17,114	1,985	7,099	26,198	42,531
Communications	12,249	16,631	13,778	1,156	43,814	10,754	5,690	60,258	67,648
Supplies	6,599	8,370	8,224	482	23,675	6,564	3,836	34,075	19,774
Postage and shipping	5,104	2,705	2,915	1,324	12,048	6,041	3,529	21,618	21,652
Bad debt expense	-	-	-	-	-	-	-	-	10,982
Direct mail expense	-	2,894	5,516	-	8,410	-	633	9,043	16,032
Photocopying	2,032	1,088	1,374	401	4,895	1,491	753	7,139	11,470
Equipment	712	50	478	43	1,283	71	71	1,425	6,867
Total	$ 872,924	$ 745,930	$ 827,029	$ 192,266	$ 2,638,149	$ 451,379	$ 377,585	$ 3,467,113	$ 4,344,649

See Notes To Financial Statements.

Mental Health America

Statement Of Cash Flows
Year Ended December 31, 2011
(With Comparative Totals For 2010)

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	$ (251,942)	$ (1,221,886)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	129,653	130,621
Unrealized and realized losses (gains) on investments, net	37,158	(178,865)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	172,366	561,069
Bequests receivable	11,584	7,494
Prepaid expenses	15,160	34,088
Inventory	4,897	30,321
Increase (decrease) in:		
Accounts payable and accrued expenses	130,774	(30,868)
Deferred rent and lease incentives	(31,107)	(20,418)
Deferred revenue	(74,475)	57,556
Net cash provided by (used in) operating activities	144,068	(630,888)
Cash Flows From Investing Activities		
Purchases of property and equipment	(40,964)	(4,705)
Proceeds from sales of investments	157,692	1,450,000
Purchases of investments	(176,937)	(823,887)
Net cash (used in) provided by investing activities	(60,209)	621,408
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	(56,964)	(55,760)
Payments under charitable gift annuities	(4,330)	(3,690)
Net cash used in financing activities	(61,294)	(59,450)
Net increase (decrease) in cash and cash equivalents	22,565	(68,930)
Cash And Cash Equivalents		
Beginning	463,453	532,383
Ending	$ 486,018	$ 463,453
Supplemental Disclosure Of Cash Flow Information		
Cash paid during the year for interest	$ 2,275	$ 3,478

See Notes To Financial Statements.

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Mental Health America (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 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.

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 was required at December 31, 2011.

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 measurements: 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, 2011, 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, 2011, only MHA's investments, as described in Note 3 of these financial statements, were measured at fair value on a recurring basis.

Property and equipment and related depreciation and amortization: Property and equipment is 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.

Impairment of long lived assets: 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.

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, 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 6).

- 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 recognition: 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.

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.

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, 2011, are $173,461.

Functional allocation of 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.

Indirect expenses: 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, 2011, MHA's indirect cost rate was calculated in accordance with its approved NICRA (Negotiated Indirect Cost Recovery Agreement).

Expenses: 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.

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 tax status: 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, 2011; therefore, no provision for income taxes has been made in these financial statements.

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.

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

Management evaluated MHA's tax positions and concluded that MHA has 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 2008.

Reclassification: Certain items in the December 31, 2010, financial statements have been reclassified to comply with the current year presentation. These reclassifications had no effect on previously reported change in net assets.

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, 2010, from which the summarized information was derived.

Subsequent events: MHA evaluated subsequent events through April 6, 2012, which is the date the financial statements were available to be issued.

Note 2. Bequests Receivable

Bequests receivable totaled $228,416 at December 31, 2011, and 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 And Fair Value Measurements

The following table summarizes MHA's investments which are measured at fair value on a recurring basis as of December 31, 2011, aggregated by type and the fair value hierarchy level within which those measurements are made:

	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets				
Mutual funds:				
Fixed income	$ 1,399,610	$ 1,399,610	$ -	$ -
Equity	1,047,526	1,047,526	-	-
Money market funds	620,406	620,406	-	-
Certificates of deposit	208,639	208,639	-	-
Government securities	66,149	-	66,149	-
Corporate bonds	52,661	-	52,661	-
	3,394,991	3,276,181	118,810	-
Deferred compensation				
Mutual funds:				
Fixed income	78,504	78,504	-	-
Equity	13,817	13,817	-	-
	92,321	92,321	-	-
	$ 3,487,312	$ 3,368,502	$ 118,810	$ -
Financial Liabilities				
Deferred compensation	$ 92,321	$ -	$ 92,321	$ -

MHA also has deposits held at cost in investments in the amount of $69,902. See Note 1 of the financial statements regarding the valuation techniques used to measure fair value of the Level 1 and Level 2 investments indentified above.

Note 4. Property And Equipment And Accumulated Depreciation And Amortization

Property and equipment are comprised of the following as of December 31, 2011:

Office furniture and equipment	$ 584,010
Leasehold improvements	303,759
Equipment under capital leases	258,483
	1,146,252
Less accumulated depreciation and amortization	(865,939)
	$ 280,313

Depreciation and amortization expense for the year ended December 31, 2011, was $129,653.

Note 5. Commitments And Risks

Concentration of credit risk: Financial instruments that 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 on 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 $67,200 for the year ended December 31, 2011, 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, 2011, was $433,020 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 payments received, as of December 31, 2011, are as follows:

Years Ending December 31,	Total	Sublease	Net
2012	$ 449,178	$ (79,200)	$ 369,978
2013	460,407	-	460,407
2014	471,918	-	471,918
2015	483,716	-	483,716
2016	162,560	-	162,560
	$ 2,027,779	$ (79,200)	$ 1,948,579

Capital leases: MHA has entered into capital leases which expire at various times through 2015. The leased equipment is included in property and equipment at a cost of $258,483, with accumulated amortization of $170,965 as of December 31, 2011.

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

Years Ending December 31,	
2012	$ 42,453
2013	42,923
2014	13,917
2015	700
Total future minimum lease payments	99,993
Less amounts representing interest	(1,651)
Present value of net minimum lease payments	$ 98,342

Note 6. 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% of the change in unrestricted net assets before depreciation and less bequest revenue recorded.

During 2011, there were no contributions to the fund.

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, 2011:

Undesignated	$	469,312
Reserve fund (Board designated)		2,269,508
Net property and equipment fund (Board designated)		181,972
Jo Blaylock Memorial Fund (Board designated)		58,885
	$	2,979,677

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 are allocated to such programs based on prior years' experience. The amounts available as of December 31, 2011, are as follows:

Education	$	687,926
Advocacy		229,309
Constituency services		178,571
Research		57,327
	$	1,153,133

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, 2011, interest income earned and realized and unrealized loss on permanently restricted net assets totaled $20,924 and $14,334, respectively.

Note 7. 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 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

As of December 31, 2011, MHA's endowment fund had the following activity:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 55,002	$ 53,702	$ 288,971	$ 397,675
Interest and dividends, net of investment expense	-	20,924	-	20,924
Net depreciation	-	(14,334)	-	(14,334)
Amounts appropriated for expenditure	-	-	-	-
Changes in net assets	-	6,590	-	6,590
Net assets, end of year	$ 55,002	$ 60,292	$ 288,971	$ 404,265

Note 7. Permanently Restricted Net Assets (Continued)

As of December 31, 2011, MHA's endowment had the following net asset composition:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (3,883)	$ 60,292	$ 288,971	$ 345,380
Board restricted	58,885	-	-	58,885
Endowments net assets, end of year	$ 55,002	$ 60,292	$ 288,971	$ 404,265

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 Restriction Under UPMIFA	
Without purpose restrictions	$ -
With purpose restrictions	60,292
Total endowment classified as temporarily restricted net assets	$ 60,292

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.

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% and 55% in U.S. stocks, up to 10% of non-U.S. stocks, bonds between 30% and 45%, and cash equivalents up to 15%. The reserve fund also permits MHA to invest in alternative investments up to 15%.

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

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 6.

Note 8. Line Of Credit

MHA has a $500,000 revolving line of credit with Capital One, N.A., which expires on June 30, 2012. This line of credit is secured by certain marketable securities of MHA. There were no amounts outstanding at December 31, 2011.

Note 9. Pension Plan

Defined contribution plan: MHA has a non-contributory, 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 their years of service with MHA, as defined in the plan document. Pension expense for the year ended December 31, 2011, totaled $20,683 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, 2011.