Mental Health America, Inc.

Financial Report
December 31, 2016

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Independent Auditor's Report

To the Executive Committee of 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, 2016, 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, 2016, 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, 2015, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
April 12, 2017

Mental Health America, Inc.

Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Assets		
Cash and cash equivalents	**$ 84,321**	$ 366,529
Investments	**2,554,030**	2,557,014
Receivables, net	**1,586,051**	1,019,918
Prepaid expenses	**80,099**	40,839
Inventory	**16,577**	9,455
Property and equipment, net	**839,006**	100,762
	$ 5,160,084	$ 4,094,517
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 99,358**	$ 196,770
Deferred revenue	**6,290**	2,000
Capital lease obligations	**89,253**	77,891
Deferred rent	**634,238**	26,855
Deferred compensation	**115,550**	109,110
Total liabilities	**944,689**	412,626
Commitments (Note 10)		
Net assets:		
Unrestricted:		
Undesignated	**91,489**	273,226
Board designated	**1,971,619**	1,533,692
	2,063,108	1,806,918
Temporarily restricted	**1,863,316**	1,586,002
Permanently restricted	**288,971**	288,971
	4,215,395	3,681,891
	$ 5,160,084	$ 4,094,517

See notes to financial statements.

Mental Health America, Inc.

Statement of Activities
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	2015 Total
Support and revenue:					
Nonfederal grants, contracts and contributions	**$ 983,974**	**$ 2,251,272**	**$ -**	**$ 3,235,246**	$ 2,898,122
Affiliates dues	**193,773**	**-**	**-**	**193,773**	271,324
In-kind contributions	**248,031**	**-**	**-**	**248,031**	140,780
Federal contracts and grants	**108,141**	**-**	**-**	**108,141**	106,648
Royalties	**45,121**	**-**	**-**	**45,121**	91,670
Conference	**84,464**	**-**	**-**	**84,464**	83,346
Combined federal campaign	**33,983**	**-**	**-**	**33,983**	34,872
Sales	**25,240**	**-**	**-**	**25,240**	19,942
Investment income (loss)	**125,542**	**25,285**	**-**	**150,827**	(29,361)
Net assets released from restrictions	**1,999,243**	**(1,999,243)**	**-**	**-**	-
Total support and revenue	**3,847,512**	**277,314**	**-**	**4,124,826**	3,617,343
Expenses:					
Program services:					
Public education, policy and advocacy	**1,062,004**	**-**	**-**	**1,062,004**	987,497
Mental health programs and services	**866,088**	**-**	**-**	**866,088**	968,397
Constituency services	**858,849**	**-**	**-**	**858,849**	729,446
Total program services	**2,786,941**	**-**	**-**	**2,786,941**	2,685,340
Supporting services:					
Fundraising	**430,745**	**-**	**-**	**430,745**	361,772
Management and general	**373,636**	**-**	**-**	**373,636**	340,658
Total expenses	**3,591,322**	**-**	**-**	**3,591,322**	3,387,770
Change in net assets	**256,190**	**277,314**	**-**	**533,504**	229,573
Net assets:					
Beginning	**1,806,918**	**1,586,002**	**288,971**	**3,681,891**	3,452,318
Ending	**$ 2,063,108**	**$ 1,863,316**	**$ 288,971**	**$ 4,215,395**	$ 3,681,891

See notes to financial statements.

Mental Health America, Inc.

Statement of Functional Expenses
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016							
	Program Services				Supporting Services			
	Constituency Services	Public Education, Policy and Advocacy	Mental Health Programs and Services	Total	Management and General	Fundraising	Total	2015 Total
Salaries and benefits	$ 363,545	$ 577,052	$ 438,146	$ 1,378,743	$ 195,333	$ 231,584	$ 1,805,660	$ 1,570,146
Professional fees and contract service payments	112,890	85,529	81,087	279,506	30,054	20,955	330,515	233,423
Occupancy	61,390	92,085	76,738	230,213	46,043	30,695	306,951	450,876
In-kind	14,803	50,398	150,398	215,599	16,160	16,272	248,031	140,780
Conference and meetings	154,787	40,692	2,158	197,637	17,326	11,907	226,870	180,269
Travel	48,110	42,638	23,417	114,165	3,848	5,918	123,931	123,478
Depreciation and amortization	22,264	33,396	27,830	83,490	23,883	11,132	118,505	64,273
Operating fees	16,583	24,875	20,729	62,187	12,438	9,472	84,097	76,593
Grants	10,750	53,125	-	63,875	-	3,690	67,565	338,661
Subscription dues	10,054	20,262	10,774	41,090	7,078	17,357	65,525	61,051
Supplies	19,661	14,724	15,669	50,054	7,558	5,932	63,544	29,477
Direct mail	-	-	-	-	-	56,984	56,984	3,841
Communications	9,783	16,891	15,072	41,746	6,748	5,657	54,151	56,794
Outside printing and art work	9,247	4,831	1,553	15,631	834	247	16,712	39,953
Postage and shipping	3,605	3,057	859	7,521	5,737	2,111	15,369	9,833
Photocopying	1,377	2,449	1,658	5,484	596	832	6,912	8,322
Total	$ 858,849	$ 1,062,004	$ 866,088	$ 2,786,941	$ 373,636	$ 430,745	$ 3,591,322	$ 3,387,770

See notes to financial statements.

Mental Health America, Inc.

Statement of Cash Flows
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ 533,504**	$ 229,573
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**118,505**	64,273
Unrealized and realized (gain) loss on investments, net	**(92,429)**	87,192
Deferred rent	**105,248**	(76,599)
Loss on disposal of property and equipment	**3,670**	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(566,133)**	(610,531)
Prepaid expenses	**(39,260)**	(4,470)
Inventory	**(7,122)**	24,379
Increase (decrease) in:		
Accounts payable and accrued expenses	**(97,412)**	98,098
Deferred revenue	**4,290**	(16,772)
Deferred compensation	**6,440**	(29,743)
Net cash used in operating activities	**(30,699)**	(234,600)
Cash flows from investing activities:		
Proceeds from sales of investments	**307,603**	861,117
Purchases of investments	**(212,190)**	(762,401)
Purchase of property and equipment	**(317,672)**	(6,045)
Net cash (used in) provided by investing activities	**(222,259)**	92,671
Cash flows from financing activities:		
Principal payments on capital lease obligations	**(29,250)**	(24,621)
Net cash used in financing activities	**(29,250)**	(24,621)
Net decrease in cash and cash equivalents	**(282,208)**	(166,550)
Cash and cash equivalents:		
Beginning	**366,529**	533,079
Ending	**$ 84,321**	$ 366,529
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 2,108**	$ 1,863
Supplemental schedule of noncash financing and investment activities:		
Acquisition of property and equipment through capital lease obligation	**$ 40,612**	$ 73,433
Acquisition of property and equipment through tenant allowance	**$ 502,135**	$ -
Exchange of capital lease asset and obligation	**$ -**	$ 44,662

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 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 $67,565 and $193,773, respectively, for the year ended December 31, 2016.

Cash and cash equivalents: For purposes of reporting cash flows, MHA considers all highly liquid securities with an original maturity of three months or less 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, 2016, management has established an allowance for doubtful accounts of $913.

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, 2016.

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 eight 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 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, 2016.

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 tenant 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.

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

- 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, including royalties and combined federal campaign, 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. Revenue from affiliate dues is recorded over the applicable membership period, generally one year. Amounts received in advance, if any, are recorded as deferred revenue. Revenues related to conferences are recognized during the period in which the conferences are held.

In-kind contributions: Donated materials, services and facilities are received from private donors and 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, 2016, are $248,031.

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.

Recent accounting pronouncements: In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. MHA has not yet evaluated the impact of this ASU on the financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under generally accepted accounting principles in the United States of America (U.S. GAAP). The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU No. 2014-09, as deferred one year by ASU No. 2015-14, will be effective for annual reporting periods beginning after December 15, 2018 using either of two methods (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU No. 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU No. 2014-09. MHA has not yet evaluated the impact of this ASU on the financial statements.

In July 2015, the FASB issued ASU No. 2015-11*, Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less, reasonably predictable costs of completion, disposal and transportation. ASU No. 2015-11 is effective for financial statements issued for fiscal years beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted. MHA has not yet evaluated the impact of this ASU on the financial statements.

In February 2016, the FASB issued ASU No. 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 statement of activities. 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 (IRC). 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, 2016. 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 2013.

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

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, 2015, from which summarized comparative information was derived.

Subsequent events: MHA evaluated subsequent events through April 12, 2017, which is the date the financial statements were available to be issued.

Note 2. Receivables

Receivables at December 31, 2016, consist of the following:

Contracts, sales and other	$	815,017
Promise to give		800,000
Bequests		21,000
		1,636,017
Less allowance for doubtful accounts		913
Less present value discount		49,053
	$	1,586,051

At December 31, 2016, the promise to give is from one donor. 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 $49,053.

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, 2016, consist of the following:

Mutual funds	$	1,985,126
Cash and cash equivalents		453,354
Deferred compensation plan mutual funds		115,550
	$	2,554,030

Investment income for the year ended December 31, 2016, consists of the following:

Unrealized and realized gain, net	$	92,429
Interest and dividends		58,398
		150,827
Less investment fees (recorded as expense)		19,218
	$	131,609

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, 2016.

Note 4. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities at December 31, 2016, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
Equity:				
Large value	$ 318,706	$ 318,706	$ -	$ -
Mid-cap blend	145,656	145,656	-	-
Large blend	141,917	141,917	-	-
Small blend	96,525	96,525	-	-
Diversified emerging mkts	60,633	60,633	-	-
Foreign large blend	59,755	59,755	-	-
Real estate	51,663	51,663	-	-
Foreign large value	45,425	45,425	-	-
Foreign large growth	43,970	43,970	-	-
Small value	26,750	26,750	-	-
Large growth	21,735	21,735	-	-
Mid-cap value	20,709	20,709	-	-
Small growth	20,391	20,391	-	-
Global real estate	18,258	18,258	-	-
World stock	16,293	16,293	-	-
World allocation	4,962	4,962	-	-
	1,093,348	1,093,348	-	-
Fixed income:				
Intermediate-term bond	553,836	553,836	-	-
Inflation-protected bond	162,820	162,820	-	-
World bond	109,664	109,664	-	-
High yield bond	38,576	38,576	-	-
Bank loan	13,548	13,548	-	-
Short-term bond	13,334	13,334		
	891,778	891,778	-	-
	1,985,126	1,985,126	-	-
Deferred compensation plan:				
Mutual funds:				
Equity:				
World allocation	68,183	68,183	-	-
Large growth	24,020	24,020	-	-
Fixed income:				
World bond	23,347	23,347	-	-
	115,550	115,550	-	-
	$ 2,100,676	$ 2,100,676	$ -	$ -
Liabilities:				
Deferred compensation	$ 115,550	$ -	$ 115,550	$ -

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 $453,354 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, 2016, consist of the following:

Leasehold improvements	$	600,881
Office furniture and equipment		271,625
Equipment under capital leases		152,537
		1,025,043
Less accumulated depreciation and amortization		186,037
	$	839,006

Depreciation and amortization expense for the year ended December 31, 2016, was $118,505.

Note 6. Capital Leases

MHA has three capital leases, which expire in 2018 and 2019. The leased equipment is included in property and equipment at a cost of $152,537, with accumulated amortization of $64,858 at December 31, 2016.

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

Years ending December 31:		
2017	$	37,307
2018		33,593
2019		21,550
Total future minimum lease payments		92,450
Less amounts representing interest		3,197
Present value of net minimum lease payments	$	89,253

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.

Note 7. Board Designated Net Assets (Continued)

During the year ended December 31, 2016, there were investment income, net, and expenditures of $226,313 and $13,133 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 and tenant allowance) 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, 2016:

Reserve fund	$	1,665,116
Net property and equipment		247,618
Jo Blaylock Memorial Fund		58,885
	$	1,971,619

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2016:

Prevention, early intervention and other	$	1,387,638
Public education, policy and advocacy		425,678
Constituency Services		50,000
	$	1,863,316

The time restricted promise to give is included in prevention, early intervention and other for $750,947.

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

Note 9. Permanently Restricted Net Assets (Continued)

- 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.

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	$ 60,728	$ 288,971	$ 349,699
Interest and dividends, net of investment expense	6,494	-	6,494
Unrealized and realized gain, net	18,791	-	18,791
	25,285	-	25,285
Net assets, end of year	$ 86,013	$ 288,971	$ 374,984

Note 10. Commitments

Leases: MHA leases its office space under a non-cancelable operating lease. The lease term is 11 years, which started on April 1, 2016, and can be renewed for an additional five years. The lease provides for fixed annual rental increases and, at the beginning of the lease term, the landlord granted MHA an abatement of the base rent for the first lease year and 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.

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

Years ending December 31:		
2017	$	161,455
2018		219,713
2019		225,755
2020		231,963
2021		238,342
2022-2027		1,362,409
	$	2,439,637

Rent expense for the year ended December 31, 2016, was $306,951.

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 six months' severance.

Hotel agreement: MHA has entered into a contract for hotel and conference rooms for meetings and shows in 2017. In the event of cancellation, MHA is required to pay various cancellation fees as stipulated in the contracts, the amounts of which are dependent on the dates of cancellation.

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, 2016, was $50,427 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 IRC 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, 2016.