Mental Health America, Inc.

Financial Report
December 31, 2013

Contents

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, 2013, 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, 2013, 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, 2012, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 12, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGladrey LLP

McLean, Virginia
May 29, 2014

Mental Health America, Inc.

Statement of Financial Position
December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Assets		
Cash	**$ 525,289**	$ 521,560
Investments	**2,561,331**	3,648,628
Receivables, net	**293,776**	535,424
Prepaid Expenses	**34,775**	95,193
Inventory	**34,430**	40,990
Property and Equipment, net	**195,479**	263,223
	$ 3,645,080	$ 5,105,018
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 126,466**	$ 131,152
Funds held for others – NCMF	**78,291**	74,938
Capital lease obligations	**113,342**	160,333
Deferred compensation	**139,720**	126,173
Deferred rent	**168,256**	221,548
Other	**3,624**	11,050
Total liabilities	**629,699**	725,194
Commitments and Contingencies (Notes 6, 10 and 12)		
Net Assets		
Unrestricted		
Undesignated	**166,609**	130,649
Board designated	**1,477,987**	2,646,983
	1,644,596	2,777,632
Temporarily restricted	**1,081,814**	1,313,221
Permanently restricted	**288,971**	288,971
	3,015,381	4,379,824
	$ 3,645,080	$ 5,105,018

See Notes to Financial Statements.

Mental Health America, Inc.

Statement of Activities
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013				2012
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Total
Support and Revenue					
Nonfederal grants, contracts and contributions	**$ 446,757**	**$ 1,051,435**	**$ -**	**$ 1,498,192**	$ 1,920,427
Federal grant	**319,673**	**-**	**-**	**319,673**	-
Affiliates dues	**304,432**	**-**	**-**	**304,432**	334,034
Investment income	**176,316**	**38,940**	**-**	**215,256**	268,428
In-kind contributions	**156,432**	**-**	**-**	**156,432**	163,334
Royalties	**92,562**	**-**	**-**	**92,562**	119,068
Conference	**62,616**	**-**	**-**	**62,616**	-
Combined federal campaign	**46,986**	**-**	**-**	**46,986**	63,292
Sales	**26,529**	**-**	**-**	**26,529**	33,763
Subtenant rent	**2,000**	**-**	**-**	**2,000**	47,600
Net assets released from restrictions	**1,321,782**	**(1,321,782)**	**-**	**-**	-
Total support and revenue	**2,956,085**	**(231,407)**	**-**	**2,724,678**	2,949,946
Expenses					
Program services:					
Constituency services	**1,045,264**	**-**	**-**	**1,045,264**	708,382
Advocacy	**1,005,183**	**-**	**-**	**1,005,183**	758,381
Education	**804,431**	**-**	**-**	**804,431**	666,349
Research	**198,032**	**-**	**-**	**198,032**	171,057
Total program services	**3,052,910**	**-**	**-**	**3,052,910**	2,304,169
Management and general	**431,973**	**-**	**-**	**431,973**	349,087
Fundraising	**604,238**	**-**	**-**	**604,238**	338,647
Total expenses	**4,089,121**	**-**	**-**	**4,089,121**	2,991,903
Change in net assets	**(1,133,036)**	**(231,407)**	**-**	**(1,364,443)**	(41,957)
Net Assets					
Beginning	**2,777,632**	**1,313,221**	**288,971**	**4,379,824**	4,421,781
Ending	**$ 1,644,596**	**$ 1,081,814**	**$ 288,971**	**$ 3,015,381**	$ 4,379,824

See Notes to Financial Statements.

Mental Health America, Inc.

Statement of Functional Expenses
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013								
	Program Services					Supporting Services			
	Constituency Services	Advocacy	Education	Research	Total	Management and General	Fundraising	Total	2012 Total
Salaries and Benefits	$ 400,963	$ 411,446	$ 306,489	$ 92,742	$ 1,211,640	$ 250,468	$ 277,432	$ 1,739,540	$ 1,565,768
Professional Fees and Contract Service Payments	124,323	122,543	130,602	24,923	402,391	44,584	88,033	535,008	193,301
Occupancy	67,050	108,972	109,859	21,936	307,817	43,695	87,213	438,725	443,882
Grants	214,061	45,010	18,791	10	277,872	101	40	278,013	112,415
Conference and Meetings	72,992	81,058	57,430	23,632	235,112	5,231	26,776	267,119	38,344
Travel	46,951	81,483	31,651	13,589	173,674	14,260	15,770	203,704	52,333
In-kind	23,223	37,912	49,348	8,169	118,652	10,580	27,200	156,432	163,334
Depreciation and Amortization	18,842	23,552	23,552	-	65,946	9,421	18,842	94,209	115,907
Operating Fees	17,560	21,143	21,446	114	60,263	8,502	16,801	85,566	75,577
Subscription Dues	14,772	27,871	12,061	4,802	59,506	12,298	13,562	85,366	43,968
Outside Printing and Art Work	12,323	9,949	12,087	4,067	38,426	7,863	6,552	52,841	51,371
Communications	8,374	11,652	9,786	529	30,341	9,552	8,400	48,293	56,109
Supplies	9,047	10,107	10,001	950	30,105	8,449	7,828	46,382	37,261
Postage and Shipping	5,876	5,552	4,149	1,798	17,375	3,989	2,844	24,208	22,325
Photocopying	4,438	2,239	2,710	771	10,158	2,980	2,251	15,389	10,352
Direct Mail	-	4,694	-	-	4,694	-	4,694	9,388	9,656
Marketing and Advertising	4,469	-	4,469	-	8,938	-	-	8,938	-
Total	$ 1,045,264	$ 1,005,183	$ 804,431	$ 198,032	$ 3,052,910	$ 431,973	$ 604,238	$ 4,089,121	$ 2,991,903

See Notes to Financial Statements.

Mental Health America, Inc.

Statement of Cash Flows
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	**$ (1,364,443)**	$ (41,957)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	**94,209**	115,907
Unrealized and realized gain on investments, net	**(129,296)**	(166,198)
(Gain) loss on disposal of property and equipment	**(26,465)**	36,000
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	**241,648**	276,227
Prepaid expenses	**60,418**	(74,678)
Inventory	**6,560**	32,671
(Decrease) increase in:		
Accounts payable and accrued expenses	**(4,686)**	(135,307)
Funds held for others	**3,353**	5,036
Deferred compensation	**13,547**	-
Deferred rent	**(53,292)**	(42,063)
Other	**(7,426)**	27,946
Net cash (used in) provided by operating activities	**(1,165,873)**	33,584
Cash Flows from Investing Activities		
Proceeds from sales of investments	**1,316,223**	148,648
Purchases of investments	**(99,630)**	(73,864)
Purchases of property and equipment	**-**	(12,750)
Net cash provided by investing activities	**1,216,593**	62,034
Cash Flows from Financing Activities		
Principal payments on capital lease obligations	**(46,991)**	(60,076)
Net cash used in financing activities	**(46,991)**	(60,076)
Net increase in cash	**3,729**	35,542
Cash		
Beginning	**521,560**	486,018
Ending	**$ 525,289**	$ 521,560
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	**$ 2,514**	$ 2,275
Supplemental Schedule of Noncash Investing and Financing Activities		
Capital lease obligations incurred for use of equipment	**$ -**	$ 122,067

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: Mental Health America, Inc. (MHA) was incorporated in 1950 (as a successor to an organization organized in 1908) and 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.

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, 2013, management has established an allowance for doubtful accounts of $867.

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 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, 2013.

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.

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

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 seven 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, 2013.

Funds Held for Others: This amount represents funds held by MHA for the National Consumer Memorial Fund (NCMF).

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.

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.

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.

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

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, 2013, are $156,432.

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. 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 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, 2013. 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 2010.

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. The prior year’s summarized comparative information has been derived from the financial statements for the year ended December 31, 2012.

Reclassifications: Certain amounts in the 2012 summarized comparative information have been reclassified to conform to the 2013 financial statements, with no effect on previously reported change in net assets or net assets.

Subsequent Events: MHA evaluated subsequent events through May 29, 2014, which is the date the financial statements were available to be issued.

Note 2. Receivables

Receivables at December 31, 2013, consist of the following:

Bequests	$	195,164
Contracts, sales		99,479
		294,643
Less allowance		867
	$	293,776

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, 2013, consist of the following:

Mutual funds	$	1,795,337
Cash and cash equivalents		626,274
Deferred compensation plan mutual funds		139,720
	$	2,561,331

Investment income for the year ended December 31, 2013, consists of the following:

Realized gains	$	164,039
Interest and dividends		85,960
Unrealized loss		(34,743)
	$	215,256

Note 4. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC established 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. This 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 that are corroborated by market data

Level 3 Unobservable inputs that are 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 Measurement. 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 held by MHA at December 31, 2013.

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	$ 784,626	$ 784,626	$ -	$ -
Equity	1,010,711	1,010,711	-	-
	1,795,337	1,795,337	-	-
Deferred compensation plan				
Mutual funds:				
Fixed income	139,720	139,720	-	-
	139,720	139,720	-	-
	$ 1,935,057	$ 1,935,057	$ -	$ -
Liabilities				
Deferred compensation	$ 139,720	$ -	$ 139,720	$ -

The fair value of the deferred compensation liability is based on observable market data, as the underlying assets are comprised of 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 $626,274 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, 2013, are comprised of the following:

Office furniture and equipment	$ 596,761
Leasehold improvements	303,759
Equipment under capital leases	160,558
	1,061,078
Less accumulated depreciation and amortization	865,599
	$ 195,479

Depreciation and amortization expense for the year ended December 31, 2013, was $94,209.

Note 6. Commitments

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 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, 2013, was $438,725.

Future minimum rental payments required under this lease agreement at December 31, 2013, are as follows:

Years Ending December 31,		
2014	$	471,918
2015		483,716
2016		162,560
	$	1,118,194

Capital Leases: MHA has entered into 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 $50,994 as of December 31, 2013.

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

Years Ending December 31,		
2014	$	44,730
2015		32,036
2016		23,230
2017		24,044
Total future minimum lease payments		124,040
Less amounts representing interest		10,698
Present value of net minimum lease payments	$	113,342

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 for the Board on an as needed basis.

During the year ended December 31, 2013, there were no additions to the reserve fund. Also during the year ended December 31, 2013, the Board authorized the use of reserve funds for onetime expenses not expected to recur during the year ended December 31, 2014.

Note 7. Board Designated Net Assets (Continued)

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.

Board designated net assets consists of the following at December 31, 2013:

Reserve fund	$ 1,336,965
Net property and equipment	82,137
Jo Blaylock Memorial Fund	58,885
	$ 1,477,987

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of donor-restricted amounts, which are only available for specific program activities or supporting services or which are designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2013, due to the expiration of time restrictions or the satisfaction of purpose restrictions.

Temporarily restricted net assets consist of the following at December 31, 2013:

Education	$ 540,907
Advocacy	324,544
Constituency services	162,272
Research	54,091
	$ 1,081,814

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

Note 9. Permanently Restricted Net Assets (Continued)

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'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 0% and 10%.

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	$ 90,676	$ 288,971	$ 379,647
Interest and dividends, net of investment expense	11,144	-	11,144
Unrealized and realized gains, net	22,271	-	22,271
Appropriation of endowment for expenditures	(67,474)	-	(67,474)
	(34,059)	-	(34,059)
Net assets, end of year	$ 56,617	$ 288,971	$ 345,588

Note 10. Line of Credit

MHA has a $250,000 line of credit with a bank. This line of credit expires on July 30, 2014. This line of credit is collateralized by the investments of MHA. There were no amounts outstanding at December 31, 2013.

Note 11. Retirement Plans

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, 2013, totaled $19,500 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, 2013.

Note 12. Contingency

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