# Mental Health America, Inc.

Financial Report
December 31, 2018

**Contents**

# Independent Auditor's Report

To the Executive Committee of the Board of Directors
Mental Health America, Inc.

## 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, 2018, 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, 2018, 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.

**Emphasis of Matter**
As disclosed in Note 1 to the financial statements, MHA adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

**Report on Summarized Comparative Information**
We have previously audited MHA's December 31, 2017, financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
July 22, 2019

**Mental Health America, Inc.**

**Statement of Financial Position**
**December 31, 2018**
**(With Comparative Totals for 2017)**

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 738,138** | $ 514,381 |
| Investments | **3,052,584** | 3,018,545 |
| Receivables, net | **1,054,398** | 904,702 |
| Prepaid expenses | **79,155** | 84,780 |
| Inventory | **53,225** | 42,564 |
| Property and equipment, net | **617,291** | 737,883 |
| | **$ 5,594,791** | $ 5,302,855 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | **$ 105,315** | $ 125,755 |
| Deferred revenue | **20,600** | 8,835 |
| Capital lease obligations | **56,223** | 92,404 |
| Deferred rent and incentives | **605,343** | 648,919 |
| Deferred compensation | **125,506** | 128,768 |
| **Total liabilities** | **912,987** | 1,004,681 |
| Commitments (Note 10) | | |
| Net assets: | | |
| Without donor restrictions | | |
| Undesignated | **430,951** | 180,590 |
| Board designated | **2,284,026** | 2,284,780 |
| | **2,714,977** | 2,465,370 |
| With donor restrictions | **1,966,827** | 1,832,804 |
| | **4,681,804** | 4,298,174 |
| | **$ 5,594,791** | $ 5,302,855 |

See notes to financial statements.

**Mental Health America, Inc.**

**Statement of Activities**
**Year Ended December 31, 2018**
**(With Comparative Totals for 2017)**

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** | 2017 Total |
| Support and revenue: | | | | |
| Nonfederal grants, contracts and contributions | **$ 1,962,128** | **$ 1,626,883** | **$ 3,589,011** | $ 2,872,513 |
| Affiliates dues | **237,279** | **-** | **237,279** | 217,365 |
| In-kind contributions | **52,952** | **-** | **52,952** | 138,160 |
| Federal contracts and grants | **88,516** | **-** | **88,516** | 86,998 |
| Royalties | **183,398** | **-** | **183,398** | 129,370 |
| Conference registrations | **130,471** | **-** | **130,471** | 129,961 |
| Combined federal campaign | **36,899** | **-** | **36,899** | 35,497 |
| Product and other sales | **222,959** | **-** | **222,959** | 94,332 |
| Investment (loss) income, net | **(132,593)** | **(18,291)** | **(150,884)** | 245,330 |
| Net assets released from restrictions | **1,474,569** | **(1,474,569)** | **-** | - |
| **Total support and revenue** | **4,256,578** | **134,023** | **4,390,601** | 3,949,526 |
| Expenses: | | | | |
| Program services: | | | | |
| Public education, policy and advocacy | **1,272,478** | **-** | **1,272,478** | 1,080,846 |
| Constituency services | **971,997** | **-** | **971,997** | 1,035,494 |
| Mental health programs and services | **929,565** | **-** | **929,565** | 1,035,559 |
| **Total program services** | **3,174,040** | **-** | **3,174,040** | 3,151,899 |
| Supporting services: | | | | |
| Management and general | **456,821** | **-** | **456,821** | 363,422 |
| Fundraising | **376,110** | **-** | **376,110** | 351,426 |
| **Total expenses** | **4,006,971** | **-** | **4,006,971** | 3,866,747 |
| **Change in net assets** | **249,607** | **134,023** | **383,630** | 82,779 |
| Net assets: | | | | |
| Beginning | **2,465,370** | **1,832,804** | **4,298,174** | 4,215,395 |
| Ending | **$ 2,714,977** | **$ 1,966,827** | **$ 4,681,804** | $ 4,298,174 |

See notes to financial statements.

**Mental Health America, Inc.**

**Statement of Functional Expenses**
**Year Ended December 31, 2018**
**(With Comparative Totals for 2017)**

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Program Services | | | | Supporting Services | | | |
| | Public Education, Policy and Advocacy | Constituency Services | Mental Health Programs and Services | Total Program Services | Management and General | Fundraising | 2018 Total | 2017 Total |
| Salaries and benefits | $ 750,400 | $ 448,729 | $ 592,951 | $ 1,792,080 | $262,705 | $ 237,384 | $ 2,292,169 | 2,086,506 |
| Operating fees | 28,482 | 10,967 | 21,934 | 61,383 | 13,317 | 10,184 | 84,884 | 100,572 |
| Professional fees and contracts service payments | 84,961 | 70,942 | 76,986 | 232,889 | 41,183 | 26,534 | 300,606 | 258,317 |
| Communications | 16,254 | 9,029 | 16,181 | 41,464 | 9,063 | 7,237 | 57,764 | 57,570 |
| Postage and shipping | 38,608 | 5,142 | 472 | 44,222 | 1,737 | 1,024 | 46,983 | 23,720 |
| Occupancy | 59,958 | 29,979 | 59,958 | 149,895 | 36,403 | 27,838 | 214,136 | 215,772 |
| Printing and design | 59,903 | 21,404 | 1,005 | 82,312 | 755 | 402 | 83,469 | 48,593 |
| Conference and meetings | 53,039 | 276,169 | 6,916 | 336,124 | 20,930 | 13,320 | 370,374 | 337,451 |
| Travel | 29,096 | 48,367 | 28,421 | 105,884 | 3,839 | 9,473 | 119,196 | 131,870 |
| Subscriptions and dues | 21,678 | 9,843 | 14,088 | 45,609 | 6,631 | 12,961 | 65,201 | 50,177 |
| Grants | 68,430 | 6,000 | 43,787 | 118,217 | - | - | 118,217 | 239,792 |
| Office supplies and activities | 7,156 | 10,637 | 12,353 | 30,146 | 9,296 | 7,107 | 46,549 | 42,969 |
| In-kind expenses | 17,141 | 6,103 | 17,141 | 40,385 | 7,272 | 5,295 | 52,952 | 138,160 |
| Depreciation and amortization | 37,372 | 18,686 | 37,372 | 93,430 | 22,690 | 17,351 | 133,471 | 135,278 |
| Bad debt expense | - | - | - | - | 21,000 | - | 21,000 | - |
| **Total** | $ 1,272,478 | $ 971,997 | $ 929,565 | $ 3,174,040 | $ 456,821 | $ 376,110 | $ 4,006,971 | $ 3,866,747 |

See notes to financial statements.

**Mental Health America, Inc.**

**Statement of Cash Flows**
**Year Ended December 31, 2018**
**(With Comparative Totals for 2017)**

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 383,630** | $ 82,779 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **133,471** | 135,278 |
| Change in allowance for doubtful accounts | **8,564** | - |
| Unrealized and realized loss (gain) on investments, net | **231,692** | (162,284) |
| Deferred rent and incentives | **(43,576)** | 14,681 |
| Loss on disposal of property and equipment | **2,953** | 15,492 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | **(158,260)** | 681,349 |
| Prepaid expenses | **5,625** | (4,681) |
| Inventory | **(10,661)** | (25,987) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | **(20,440)** | 26,397 |
| Deferred revenue | **11,765** | 2,545 |
| Deferred compensation | **(3,262)** | 13,218 |
| **Net cash provided by operating activities** | **541,501** | 778,787 |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments | **30,961** | 58,490 |
| Purchases of investments | **(296,692)** | (360,721) |
| Purchase of property and equipment | **(15,832)** | (11,094) |
| **Net cash used in investing activities** | **(281,563)** | (313,325) |
| | | |
| Cash flows from financing activities: | | |
| Principal payments on capital lease obligations | **(36,181)** | (35,402) |
| **Net cash used in financing activities** | **(36,181)** | (35,402) |
| | | |
| **Net increase in cash and cash equivalents** | **223,757** | 430,060 |
| | | |
| Cash and cash equivalents: | | |
| Beginning | **514,381** | 84,321 |
| Ending | **$ 738,138** | $ 514,381 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | **$ 1,132** | $ 1,951 |
| Cash paid during the year for taxes | **$ 5,600** | $ - |
| | | |
| Supplemental schedule of noncash financing and investment activities: | | |
| Acquisition of property and equipment through capital lease obligation | **$ -** | $ 38,553 |

See notes to financial statements.

## Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Mental Health America, Inc. (MHA) was founded in 1909 and 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.

**Adoption of recent accounting pronouncement:** In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions.

MHA adopted this guidance during the year ended December 31, 2018. As a result, there are additional quantitative and qualitative disclosures to communicate information related to MHA's liquidity. Also, there were changes in the presentation of net assets within the statements of financial position and activities, and disclosures. The remaining provision are not applicable to MHA's financial statement presentation or were optional under past accounting guidance and were previously elected to be included in MHA's financial statements.

**Basis of presentation:** The financial statement presentation follows the recommendations of the 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 two classes of net assets: those without donor restrictions and those with donor restrictions.

**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 $118,217 and $237,279, respectively, for the year ended December 31, 2018.

**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.

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

**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, 2018, management has established an allowance for doubtful accounts of $14,050.

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, or net realizable value 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, 2018.

**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 $1,000 or more. Property and equipment are stated at cost and are being depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the improvements.

**Valuation of long-lived assets:** MHA requires that long-lived assets 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, 2018.

**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 abatement and improvement allowance are also being recognized on a straight-line basis over the life of the lease agreement.

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

**Classification of net assets:** The net assets of MHA are reported according to the following classes of net assets:

Net assets without donor restrictions 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 8).

Net assets with donor restrictions represent the portion of net assets that are subject to donor-imposed restrictions that will be met by the passage of time or other events specified by the donor, or those that require resources to be maintained in perpetuity and that only the earnings on such amounts be used in the manner specified by the donor, which includes endowment funds. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Support and revenue:** Unconditional contributions, including combined federal campaign, received are recorded as net assets without or with donor restrictions, 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. Revenue related to conferences is recognized during the period in which the conferences are held. Royalty revenue related to mineral rights from a contribution received in a prior year is recognized in the period when the new rights are discovered. Product and other sales revenue is recognized when the product is shipped to the buyer.

**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, 2018, are $52,952.

**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 and programmatic time codes charged in timesheets. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of MHA and are allocated based on management's assessment of employee work.

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

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. MHA is currently evaluating the impact of the adoption of this guidance on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. 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 adoption of this guidance on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resources providers. Where MHA is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. Where MHA is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. MHA is currently evaluating the impact of the adoption of this guidance 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 approximately $23,000 of unrelated business income for the year ended December 31, 2018 under the Tax Cuts and Jobs Act, which resulted in $6,049 in taxes.

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 2015.

## 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 U.S. GAAP. Accordingly, such information should be read in conjunction with MHA's financial statements for the year ended December 31, 2017, from which summarized comparative information was derived.

**Reclassifications:** Certain reclassifications were made to the 2017 financial statements to conform to the 2018 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

**Subsequent events:** MHA evaluated subsequent events through July 22, 2019, which is the date the financial statements were available to be issued.

## Note 2. Liquidity

MHA regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2018, the following financial assets are available to meet annual operating needs of the 2019 fiscal year:

| | |
|---|---|
| Cash and cash equivalents | $ 738,138 |
| Investments | 3,052,584 |
| Receivable, net | 1,054,398 |
| Total financial assets | 4,845,120 |
| | |
| Less assets with donor restrictions | 1,466,827 |
| Less deferred compensation investments | 125,506 |
| Less long term receivables | 500,000 |
| Less assets with Board designations | 2,284,026 |
| Financial assets available for general expenditure in 2019 | $ 468,761 |

MHA manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability.
- Maintaining a sufficient level of asset liquidity.
- Monitoring and maintaining reserves to provide reasonable assurance that long-term commitments and obligations related to donor restrictions will continue to be met.

MHA receives donor restricted promises to give from time to time, which are not available for general expenditures. MHA's Board of Directors has also designated funds for an operating reserve in the event of unforeseen revenue shortfalls. These Board designated funds are not immediately available to cover general expenditures unless approved by the Board of Directors upon management's request in the event of unforeseen circumstances.

## Note 3. Receivables

Receivables at December 31, 2018, consist of the following:

| | | |
|---|---|---|
| Contracts, sales and other | $ | 405,863 |
| Promise to give | | 700,000 |
| | | 1,105,863 |
| Less allowance for doubtful accounts | | 14,050 |
| Less present value discount | | 37,415 |
| | $ | 1,054,398 |

At December 31, 2018, 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 $37,415 using a rate of 2.65%.

## Note 4. Investments

Investments at December 31, 2018, consist of the following:

| | | |
|---|---|---|
| Mutual funds | $ | 2,366,457 |
| Cash and cash equivalents | | 560,621 |
| Deferred compensation plan mutual funds | | 125,506 |
| | $ | 3,052,584 |

Investment loss for the year ended December 31, 2018, consists of the following:

| | | |
|---|---|---|
| Unrealized and realized loss, net | $ | (231,692) |
| Interest and dividends | | 104,915 |
| Investment fees | | (24,107) |
| | $ | (150,884) |

## Note 5. 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 U.S. 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, 2018.

## Note 5. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities at December 31, 2018, measured at fair value on a recurring basis by level within the hierarchy:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Mutual funds: | | | | |
| Equity: | | | | |
| Diversified emerging markets | $ 127,372 | $ 127,372 | $ - | $ - |
| Foreign large blend | 125,307 | 125,307 | - | - |
| Foreign large growth | 94,724 | 94,724 | - | - |
| Foreign large value | 96,652 | 96,652 | - | - |
| Global real estate | 23,607 | 23,607 | - | - |
| Large blend | 198,473 | 198,473 | - | - |
| Large growth | 27,889 | 27,889 | - | - |
| Large value | 377,552 | 377,552 | - | - |
| Mid cap blend | 117,959 | 117,959 | - | - |
| Mid cap value | 9,973 | 9,973 | - | - |
| Real estate | 60,860 | 60,860 | - | - |
| Small blend | 95,924 | 95,924 | - | - |
| Small growth | 10,905 | 10,905 | - | - |
| Small value | 38,954 | 38,954 | - | - |
| | 1,406,151 | 1,406,151 | - | - |
| Fixed income: | | | | |
| Bank loan | 17,240 | 17,240 | - | - |
| Corporate bond | 19,518 | 19,518 | - | - |
| Emerging markets bond | 5,403 | 5,403 | - | - |
| High yield bond | 51,604 | 51,604 | - | - |
| Inflation-protected bond | 164,004 | 164,004 | - | - |
| Intermediate-term bond | 582,831 | 582,831 | - | - |
| Multisector bond | 119,706 | 119,706 | - | - |
| | 960,306 | 960,306 | - | - |
| | 2,366,457 | 2,366,457 | - | - |
| Deferred compensation plan: | | | | |
| Mutual funds: | | | | |
| Equity: | | | | |
| Large growth | 27,386 | 27,386 | - | - |
| World allocation | 23,399 | 23,399 | - | - |
| Fixed income: | | | | |
| Intermediate-term bond | 49,275 | 49,275 | - | - |
| World bond | 25,446 | 25,446 | - | - |
| | 125,506 | 125,506 | - | - |
| | $ 2,491,963 | $ 2,491,963 | $ - | $ - |
| Liabilities: | | | | |
| Deferred compensation | $ 125,506 | $ - | $ 125,506 | $ - |

## Note 5. Fair Value Measurements (Continued)

Cash and cash equivalents in the amount of $560,621 are recorded at cost and are therefore not included in the above schedule.

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.

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.

## Note 6. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2018, consist of the following:

| | | |
|---|---|---|
| Leasehold improvements | $ | 283,712 |
| Office furniture and equipment | | 585,530 |
| Website | | 15,832 |
| Equipment under capital leases | | 152,598 |
| | | 1,037,672 |
| Less accumulated depreciation and amortization | | 420,381 |
| | $ | 617,291 |

Depreciation and amortization expense for the year ended December 31, 2018, was $133,471.

## Note 7. Capital Leases

MHA has three active capital leases, which expire in 2019 and 2023. The leased equipment is included in property and equipment at a cost of $152,598, with accumulated amortization of $101,860 at December 31, 2018.

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

| | | |
|---|---|---|
| Years ending December 31: | | |
| 2019 | $ | 28,990 |
| 2020 | | 7,440 |
| 2021 | | 7,440 |
| 2022 | | 7,440 |
| 2023 | | 5,580 |
| Total future minimum lease payments | | 56,890 |
| Less amounts representing interest | | 667 |
| Present value of net minimum lease payments | $ | 56,223 |

### Note 8. Board Designated Net Assets

The Board of Directors of MHA has designated certain net assets without donor restrictions 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 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 of Directors has approved a policy whereby contributions to the fund are made in an amount of 20% of the change in net assets without donor restrictions before depreciation and less bequest revenue recorded. Withdrawals from these funds require approval by the Board of Directors on an as needed basis.

During the year ended December 31, 2018, there were additions of investment income, net of investment fees of $55,998 and expenditures of $17,990, to the reserve fund.

Also included in net assets without donor restrictions is a fund designated by the Board of Directors for property and equipment. This amount is calculated by subtracting the amount owed on property and equipment (e.g., the capital lease obligations and tenant allowance) from the net carrying value of total property and equipment.

The Board of Directors of MHA has also designated net assets without donor restrictions 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, 2018:

| | | |
|---|---|---|
| Reserve fund | $ | 2,040,674 |
| Net property and equipment | | 184,467 |
| Jo Blaylock Memorial Fund | | 58,885 |
| | $ | 2,284,026 |

### Note 9. Donor Restricted Net Assets

Donor restricted net assets consist of the following at December 31, 2018:

| | | |
|---|---|---|
| Donor restrictions for time and purpose: | | |
| Public education, policy and advocacy | $ | 667,027 |
| Constituency services | | 125,500 |
| Prevention, early intervention and other | | 771,873 |
| | | 1,564,400 |
| Donor restrictions to be held in perpetuity: | | |
| Prevention, early intervention and other | | 402,427 |
| | $ | 1,966,827 |

The time restricted promise to give is included in prevention, early intervention and other and totals $562,584.

## Note 9. Donor Restricted Net Assets (Continued)

Net assets with donor restrictions held in perpetuity include the following:

**The Quayle Bequest:** Contribution that requires that the principal 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 principal and accumulated earnings total $269,947 at December 31, 2018.

**The Anna Belle Edwards Bequest:** Contribution that requires that the principal 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 principal and accumulated earnings total $132,480 at December 31, 2018.

The interest income earned and unrealized gains on the above bequests are recorded as donor restricted revenue in the accompanying statement of activities and are released from restriction when appropriated for the programs. The investment loss, net of fees, allocated to donor restricted net assets for purpose and then released from restriction in accordance with the spending policy below, totaled $18,291 for the year ended December 31, 2018.

**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 net assets with donor restrictions the original value of gifts donated to the donor restricted endowment, the original value of subsequent gifts to the donor restricted endowment and accumulations to the donor restricted 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 is classified as such until those amounts are appropriated for expenditure by MHA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, MHA considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of MHA and the donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of MHA
- The investment policies of MHA

**Return objectives and risk parameters:** MHA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the organization must hold in perpetuity. The objective of the net assets with donor restrictions is the preservation of capital.

## Note 9. Donor Restricted Net Assets (Continued)

**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 restricted investments, the endowment and the charitable gift annuity account (CGA). MHA's current asset allocation for the endowment targets a composition of equities between 50% and 70%, fixed income between 30% and 50%, and cash equivalents between 0% and 10%. The target for CGA is 50% equities, 45% fixed income, and 5% cash equivalents.

**Spending policy:** The earnings on the net assets with donor restrictions are released from restricted funds and are used in accordance with donor stipulations.

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

| | | |
|---|---|---|
| Endowment net assets, beginning of the year | $ | 417,537 |
| Investment loss | | (15,110) |
| Endowment net assets, end of the year | $ | 402,427 |

## 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 and incentives in the accompanying statement of financial position.

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

| | | |
|---|---|---|
| Years ending December 31: | | |
| 2019 | $ | 225,755 |
| 2020 | | 231,963 |
| 2021 | | 238,342 |
| 2022 | | 244,897 |
| 2023 | | 251,631 |
| Thereafter | | 865,881 |
| | $ | 2,058,469 |

Occupancy expense for the year ended December 31, 2018, was $214,136.

**Employment agreement:** MHA has entered into an executive employment agreement with the President/Chief Executive Officer, with an expiration date of December 31, 2023. Under certain circumstances, upon early termination of this agreement, MHA is obligated for six months of base pay as a severance.

**Hotel agreement:** MHA has entered into a contract for hotel and conference rooms for meetings and shows through June 2022. 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, 2018, was $57,478 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, 2018.