

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of Mental Health America, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mental Health America, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, the Organization adopted Accounting Standards Codification Topic 842, *Leases*, as of January 1, 2022, using the modified retrospective method. Our opinion is not modified with respect to this matter.

### Uncertainty Regarding Impacts of Recent Disruptions in U.S. Banking System

As discussed in Note 13 to the financial statements, in March 2023, the shutdown of certain financial institutions raised economic concerns over disruption to the U.S. banking system. Given the uncertainty of the situation, the related financial statement impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mental Health America, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mental Health America, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mental Health America, Inc.'s ability to continue as a going concern for a reasonable period of time.

**Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CERTIFIED PUBLIC ACCOUNTANTS

Fairfax, Virginia  
June 15, 2023

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 5,641,171	\$ 6,334,127
Account receivables, net	547,399	2,131,758
Inventory	52,061	43,398
Prepaid expenses and other assets	156,100	144,424
Investments	5,378,761	5,028,891
Property and equipment, net	388,260	512,882
Finance lease right-of-use assets, net	61,786	-
Operating lease right-of-use assets, net	<u>718,712</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 12,944,250</u></b>	<b><u>\$ 14,195,480</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 425,368	\$ 403,967
Deferred revenue	52,508	12,292
Refundable advance	532,436	-
Deferred compensation	141,791	174,739
Operating lease liability	1,087,644	-
Finance lease liabilities	64,195	45,637
Deferred rent	<u>-</u>	<u>437,692</u>
Total liabilities	<u>2,303,942</u>	<u>1,074,327</u>
Commitments and contingencies (Notes 8, 11 and 13)		
Net assets:		
Without donor restrictions:		
Undesignated	4,317,703	5,542,748
Board designated	<u>4,505,504</u>	<u>4,184,640</u>
	8,823,207	9,727,388
With donor restrictions	<u>1,817,101</u>	<u>3,393,765</u>
Total net assets	<u>10,640,308</u>	<u>13,121,153</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 12,944,250</u></b>	<b><u>\$ 14,195,480</u></b>

See accompanying notes to financial statements.

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue:			
Nonfederal contributions	\$ 2,715,065	\$ 3,303,580	\$ 6,018,645
Contracts and exchange transactions	254,830	-	254,830
Affiliate dues	115,000	-	115,000
In-kind contributions	77,664	-	77,664
Federal contracts and grants	468,224	-	468,224
Royalties	113,258	-	113,258
Conference registrations	113,204	-	113,204
Combined federal campaign	31,011	-	31,011
Product and other sales	219,258	-	219,258
Investment loss, net	(753,525)	(81,425)	(834,950)
Net assets released from restrictions	<u>4,798,819</u>	<u>(4,798,819)</u>	<u>-</u>
Total support and revenue	<u>8,152,808</u>	<u>(1,576,664)</u>	<u>6,576,144</u>
Expenses:			
Program services:			
Policy and advocacy	1,731,660	-	1,731,660
Education	2,084,553	-	2,084,553
Constituency services	1,832,239	-	1,832,239
Research	<u>1,754,725</u>	<u>-</u>	<u>1,754,725</u>
Total program services	<u>7,403,177</u>	<u>-</u>	<u>7,403,177</u>
Supporting services:			
Management and general	803,414	-	803,414
Fundraising	<u>850,398</u>	<u>-</u>	<u>850,398</u>
Total supporting services	<u>1,653,812</u>	<u>-</u>	<u>1,653,812</u>
Total expenses	<u>9,056,989</u>	<u>-</u>	<u>9,056,989</u>
Changes in net assets	(904,181)	(1,576,664)	(2,480,845)
Net assets - beginning	<u>9,727,388</u>	<u>3,393,765</u>	<u>13,121,153</u>
<b>NET ASSETS - ENDING</b>	<u><u>\$ 8,823,207</u></u>	<u><u>\$ 1,817,101</u></u>	<u><u>\$ 10,640,308</u></u>

See accompanying notes to financial statements.

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue:			
Nonfederal contributions	\$ 4,677,131	\$ 3,390,679	\$ 8,067,810
Contracts and exchange transactions	286,286	-	286,286
Affiliate dues	117,813	-	117,813
In-kind contributions	697,678	-	697,678
Federal contracts and grants	1,012,082	-	1,012,082
Royalties	84,207	-	84,207
Conference registrations	36,846	-	36,846
Combined federal campaign	29,573	-	29,573
Product and other sales	309,844	-	309,844
Investment income, net	467,702	56,181	523,883
Net assets released from restrictions	<u>3,122,136</u>	<u>(3,122,136)</u>	<u>-</u>
Total support and revenue	<u>10,841,298</u>	<u>324,724</u>	<u>11,166,022</u>
Expenses:			
Program services:			
Policy and advocacy	1,496,861	-	1,496,861
Education	1,935,087	-	1,935,087
Constituency services	1,245,115	-	1,245,115
Research	<u>1,181,214</u>	<u>-</u>	<u>1,181,214</u>
Total program services	<u>5,858,277</u>	<u>-</u>	<u>5,858,277</u>
Supporting services:			
Management and general	602,105	-	602,105
Fundraising	<u>651,678</u>	<u>-</u>	<u>651,678</u>
Total supporting services	<u>1,253,783</u>	<u>-</u>	<u>1,253,783</u>
Total expenses	<u>7,112,060</u>	<u>-</u>	<u>7,112,060</u>
Changes in net assets	3,729,238	324,724	4,053,962
Net assets - beginning	<u>5,998,150</u>	<u>3,069,041</u>	<u>9,067,191</u>
<b>NET ASSETS - ENDING</b>	<u><u>\$ 9,727,388</u></u>	<u><u>\$ 3,393,765</u></u>	<u><u>\$ 13,121,153</u></u>

See accompanying notes to financial statements.



**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

2022

	Program services				Total program services	Supporting services		
	Policy and advocacy	Education	Constituency services	Research		Management and general	Fundraising	Total
Salaries and benefits	\$ 1,061,362	\$ 1,371,239	\$ 911,073	\$ 670,881	\$ 4,014,555	\$ 413,360	\$ 671,055	\$ 5,098,970
Professional fees and contracts								
service payments	244,795	208,574	170,532	123,260	747,161	64,247	48,210	859,618
Occupancy	33,340	60,429	33,340	33,340	160,449	31,257	16,670	208,376
Printing and design	8,277	88,529	37,352	2,120	136,278	287	783	137,348
Depreciation and amortization	21,190	38,407	21,190	21,190	101,977	19,865	10,595	132,437
Operating fees	18,187	32,964	18,187	18,187	87,525	17,051	9,094	113,670
Grants	107,042	60,425	302,443	772,812	1,242,722	-	-	1,242,722
Subscriptions and dues	18,000	56,491	27,406	22,626	124,523	16,777	35,072	176,372
Postage and shipping	1,104	39,310	5,643	660	46,717	6,654	23,713	77,084
In-kind expenses	393	9,998	7,124	13,658	31,173	42,831	3,660	77,664
Communications	8,969	14,576	8,993	7,947	40,485	7,321	4,578	52,384
Conference and meetings	118,615	69,417	191,654	44,648	424,334	81,006	7,952	513,292
Office supplies and activities	4,543	7,575	7,074	4,222	23,414	3,836	2,211	29,461
Travel	<u>85,843</u>	<u>26,619</u>	<u>90,228</u>	<u>19,174</u>	<u>221,864</u>	<u>98,922</u>	<u>16,805</u>	<u>337,591</u>
<b>TOTAL</b>	<b><u>\$ 1,731,660</u></b>	<b><u>\$ 2,084,553</u></b>	<b><u>\$ 1,832,239</u></b>	<b><u>\$ 1,754,725</u></b>	<b><u>\$ 7,403,177</u></b>	<b><u>\$ 803,414</u></b>	<b><u>\$ 850,398</u></b>	<b><u>\$ 9,056,989</u></b>

See accompanying notes to financial statements.

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

2021

	Program services				Total program services	Supporting services		
	Policy and advocacy	Education	Constituency services	Research		Management and general	Fundraising	Total
Salaries and benefits	\$ 943,196	\$ 1,029,380	\$ 648,199	\$ 589,903	\$ 3,210,678	\$ 315,292	\$ 434,585	\$ 3,960,555
Professional fees and contracts service payments	248,907	186,662	154,946	128,859	719,374	77,044	58,541	854,959
Occupancy	38,496	51,328	21,716	38,496	150,036	35,535	11,845	197,416
Printing and design	4,578	114,589	20,176	2,657	142,000	1,123	883	144,006
Depreciation and amortization	34,670	46,227	19,557	34,670	135,124	31,088	10,668	176,880
Operating fees	31,010	41,308	17,538	31,034	120,890	29,710	9,575	160,175
Grants	58,125	82,000	26,815	11,250	178,190	-	-	178,190
Subscriptions and dues	11,026	50,631	18,118	19,724	99,499	13,601	19,873	132,973
Postage and shipping	1,169	50,400	6,192	917	58,678	1,578	23,172	83,428
In-kind expenses	373	196,911	131,709	262,860	591,853	39,877	65,948	697,678
Communications	12,547	15,410	7,468	12,001	47,426	10,352	4,244	62,022
Conference and meetings	74,876	51,727	136,869	34,130	297,602	35,142	6,975	339,719
Office supplies and activities	6,600	7,685	6,978	6,864	28,127	5,291	2,243	35,661
Travel	<u>31,288</u>	<u>10,829</u>	<u>28,834</u>	<u>7,849</u>	<u>78,800</u>	<u>6,472</u>	<u>3,126</u>	<u>88,398</u>
<b>TOTAL</b>	<b>\$ <u>1,496,861</u></b>	<b>\$ <u>1,935,087</u></b>	<b>\$ <u>1,245,115</u></b>	<b>\$ <u>1,181,214</u></b>	<b>\$ <u>5,858,277</u></b>	<b>\$ <u>602,105</u></b>	<b>\$ <u>651,678</u></b>	<b>\$ <u>7,112,060</u></b>

See accompanying notes to financial statements.

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,480,845)	\$ 4,053,962
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	132,437	176,880
Non-cash lease expense	176,147	-
Unrealized and realized gain (loss) on investments, net	1,007,870	(385,334)
Changes in assets and liabilities:		
Account receivables	1,584,359	(693,698)
Inventory	(8,663)	(1,044)
Prepaid expenses	(11,676)	127,856
Accounts payable and accrued expenses	21,401	33,763
Deferred revenue	40,216	(109,387)
Refundable advance	532,436	(432,438)
Deferred rent	-	(62,206)
Deferred compensation	(32,948)	7,966
Operating lease liabilities	<u>(244,897)</u>	<u>-</u>
Net cash provided by operating activities	<u>715,837</u>	<u>2,716,320</u>
Cash flows from investing activities:		
Proceeds from sales of investments	104,150	455,858
Purchases of investments	(1,461,888)	(536,652)
Purchases of property and equipment	<u>(29,932)</u>	<u>(86,199)</u>
Net cash used in investing activities	<u>(1,387,670)</u>	<u>(166,993)</u>
Cash flows from financing activities:		
Repayment of capital lease obligation	-	(21,770)
Repayment of finance lease liabilities	<u>(21,123)</u>	<u>-</u>
Net cash used in financing activities	<u>(21,123)</u>	<u>(21,770)</u>
Net increase (decrease) in cash and cash equivalents	(692,956)	2,527,557
Cash and cash equivalents - beginning	<u>6,334,127</u>	<u>3,806,570</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 5,641,171</u></u>	<u><u>\$ 6,334,127</u></u>
Supplemental schedules for non-cash investing and financing activities:		
Operating lease liability recognized in connection with implementation of ASC 842 on January 1, 2022	<u><u>\$ 1,317,247</u></u>	<u><u>\$ -</u></u>
Operating lease right-of-use assets recognized in connection with implementation of ASC 842 on January 1, 2022	<u><u>\$ 879,555</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 1. ORGANIZATION**

Mental Health America, Inc. ("MHA" or the "Organization") advances the mental health and well-being of all Americans through direct service, public education, research, advocacy, and public policy. MHA drives progress with a public health perspective through community-based solutions and a national agenda. Since its founding in 1909 by Clifford W. Beers, MHA has continued to achieve positive reform in the landscape of American mental health through its public mental health approach, which emphasizes prevention, access, equity, and effective intervention.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting

The Organization presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis of presentation

MHA reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* - Net assets available for use in support of MHA's general operations. The board of directors has designated, from net assets without donor restrictions, net assets for a reserve fund, net property and equipment, and the Jo Blaylock Memorial Fund (see Note 9).

*Net assets with donor restrictions* - Net assets 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 include endowment funds.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

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 received dues from affiliates, which totaled \$115,000 and \$117,813 for the years ended December 31, 2022 and 2021, respectively. MHA made grants to affiliates, which totaled \$1,078,120 and \$161,500 for the years ended December 31, 2022 and 2021, respectively. Grants to affiliates are included within "Grants" expenses in the accompanying statements of functional expenses.

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 within 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 risk and credit risk. 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

Accounts receivable 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, 2022 and 2021, management has established an allowance for doubtful accounts of \$3,680 and \$5,828, respectively.

Promises to give receivables 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 collectibility 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. 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.

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 basis, or net realizable value and consists of merchandise on hand at the end of the year. Management periodically reviews inventory for obsolete merchandise. Management has determined no reserve for obsolete inventory was required at December 31, 2022 and 2021.

**MENTAL HEALTH AMERICA, INC.**  
**(A Nonprofit Organization)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Investments

Investments with readily determinable fair values are reflected at fair value. To adjust the carrying value of these investments, the change in fair value is recorded as unrealized gains and losses as a component of investment income, net, in the statements of activities.

Property and equipment

MHA capitalizes all property and equipment purchased with a cost of \$1,000 or more. Maintenance and repair costs are charged to expense as incurred. When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the change in net assets for the respective period. 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.

Leases

The Organization has an operating lease agreement for certain office space, expiring in 2027, and finance leases for copier and postage equipment expiring through 2027. The Organization determines if an arrangement is a lease at the inception of the contract. At the lease commencement date, each lease is evaluated to determine whether it will be classified as an operating or finance lease. For leases with a lease term of 12 months or less (a "Short-term" lease), any fixed lease payments are recognized on a straight-line basis over such term, and are not recognized on the statements of financial position.

Lease terms include the noncancellable portion of the underlying leases along with any reasonably certain lease periods associated with available renewal periods, termination options and purchase options. The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices. The Organization uses the risk-free discount rate when the rate implicit in the lease is not readily determinable at the commencement date in determining the present value of lease payments.

Certain leases contain fixed and determinable escalation clauses for which the Organization recognizes rental expense under these leases on the straight-line basis over the lease terms, which include the period of time from when the Organization takes possession of the leased space; the cumulative expense recognized on the straight-line basis in excess of the cumulative payments is included in deferred rent through 2021 prior to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 2016-02, *Leases* (Topic 842) ("ASC 842"). The lease agreements do not contain any material residual value guarantees or material restrictive covenants. In connection with the adoption of ASC 842 as of January 1, 2022, the Organization reclassified these deferred rent liabilities to the operating lease right-of-use asset. In 2021, in accordance with ASC 840, a deferred rent obligation was recorded and amortized to income over the lease term as a reduction of rent expense.

**MENTAL HEALTH AMERICA, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Leases (continued)

Leases with an initial term of 12 months or less are not recorded on the statements of financial position; the Organization recognizes lease expense for these leases on a straight-line basis over the lease term. There are no such leases during 2022.

Recently adopted accounting standards

In February 2016, FASB issued ASC 842 as amended, which requires the recording of operating lease right-of-use assets and lease liabilities and expanded disclosure for operating and finance leasing arrangements. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statements of activities. The Organization adopted ASC 842 under the alternative modified retrospective method on January 1, 2022.

The Organization adopted the package of practical expedients available at transition that retained the lease classification under ASC 840 and initial direct costs for any leases that existed prior to adoption of the standard. Contracts entered into prior to adoption were not reassessed for leases or embedded leases. The Organization did not elect the practical expedient to use hindsight in determining its lease terms. The Organization made the accounting policy election to not recognize Short-term leases on the statements of financial position and to utilize the risk-free discount rate when the rate implicit in the lease is not readily determinable.

The Organization performed an analysis of contracts containing leases as of January 1, 2022. Upon adoption of ASC 842, leases previously accounted for as capital leases in prior reporting periods were reassessed as financing leases.

In addition, at the date of initial application, the Organization recorded aggregate operating lease liabilities and operating lease right-of-use assets in the amount of \$1,317,247, and \$879,555, respectively.

In September 2020, FASB issued Accounting Standards Update ("ASU") No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), which is intended to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The Organization adopted ASU 2020-07 as of January 1, 2022.

Valuation of long-lived assets

The Organization's long-lived assets, including the Organization's right-of-use assets, are reviewed 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 years ended December 31, 2022 and 2021.

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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Support and revenue

Unconditional contributions, including combined federal campaign support, are recognized when received. Conditional contributions and promises to give are reported at fair value when the conditions are substantially met. Contributions that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions based on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), donor-restricted net assets are reclassified to without donor-restricted net assets and reported in the statements of activities as net assets released from restrictions.

Revenue from contracts with customers is derived from exchange contracts, affiliate dues, royalties, conference registrations and product and other sales. MHA recognizes revenue in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), which provides a five-step model for recognizing revenue from contracts with customers, which are as follows: (i) identify the contract with the customer, (ii) identify performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to performance obligations, and (v) recognize revenue when (or as) performance obligations are satisfied.

Exchange contracts are recorded as deferred revenue at time of cash receipt and recognized as revenue as the performance obligation is satisfied. Affiliates' dues are billed at the beginning of the year. In exchange for their dues, MHA's performance obligation is to provide training, toolkits and technical assistance to the affiliates on issues including, but not limited to, implementation of the Affordable Care Act, mental health parity advocacy, and public education about mental health issues and wellness strategies. Therefore, affiliate dues provide economic, as well as other, benefits to affiliates and are accounted for as exchange transactions. MHA's performance obligations are available and consumed throughout the membership period and therefore recognized over time over the applicable membership period, which generally is one year. Amounts received in advance, if any, are recorded as deferred revenue.

Royalty revenues are related to interest in mineral rights contributed by various donors in previous years. Revenue is recognized at a point in time when the new rights are discovered and as production occurs during the year. MHA receives monthly statement division orders detailing the royalty received based on stated rates. Conference registrations are recognized over time when the conferences are held and performance obligations satisfied.

Product and other sales revenue are recognized at a point in time when the product is shipped to the buyer. There are no rights of return or refunds for any revenue streams. Payments from contracts with customers are typically due upon receipt of invoice by the customer. MHA did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers. The level of revenue generated through contracts with customers can fluctuate due to overall economic factors.



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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Support and revenue (continued)

Disaggregation of revenue

The following table discloses revenues recognition for revenues subject to ASC 606 for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Point in time	\$ 445,721	\$ 863,335
Over time	<u>838,054</u>	<u>983,742</u>
	<u>\$ 1,283,775</u>	<u>\$ 1,847,077</u>

In-kind contributions

In-kind contributions consist of contributed nonfinancial assets in the form of professional services and are valued and reported at the estimated fair value in the financial statements based on current rates for similar services. In-kind contributions for the years ended December 31, 2022 and 2021, are \$77,664 and \$697,678, respectively.

Functional expenses

The costs of program and supporting services activities have been summarized on a functional basis in the accompanying statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Occupancy	Full time equivalent
Depreciation and amortization	Full time equivalent

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassification adjustments had no effect on the Organization's previously reported change in net assets.

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 years ended December 31, 2022 and 2021.

MHA files informational returns in the U.S. federal jurisdiction and in various state and local jurisdictions. In accordance with FASB ASC 740, *Income Taxes*, the Organization has applied the "more likely than not" threshold to the recognition and derecognition of tax positions in its financial statements. Management has evaluated the Organization's

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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Income taxes (continued)

tax positions and has concluded there are no uncertain tax positions that qualified for either recognition or disclosure in the financial statements as of December 31, 2022 and 2021.

Subsequent events

MHA evaluated subsequent events through June 15, 2023, the date on which the financial statements were available to be issued. Except as disclosed in Note 13, MHA is not aware of any material events that require recognition or disclosure in the accompanying financial statements.

**NOTE 3. LIQUIDITY AND AVAILABILITY**

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, 2022 and 2021, the following financial assets are available to meet annual operating needs over the following 12 months:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 5,641,171	\$ 6,334,127
Accounts receivables, net	547,399	1,831,758
Investments	<u>5,378,761</u>	<u>5,028,891</u>
Total financial assets at year end	11,567,331	13,194,776
Less: amounts not available to be used within one year:		
Deferred compensation assets	141,791	174,739
Net assets with donor restrictions, less pledges to be collected within one year	1,817,101	2,900,019
Net assets with board designations	<u>4,505,504</u>	<u>4,184,640</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 5,102,935</u>	<u>\$ 5,935,378</u>

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 are met.

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**NOTE 3. LIQUIDITY AND AVAILABILITY (CONTINUED)**

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 4. RECEIVABLES**

Receivables at December 31, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Contracts, sales and other	\$ 551,079	\$ 1,145,264
Promises to give	<u>-</u>	<u>1,000,000</u>
	551,079	2,145,264
Less: allowance for doubtful accounts	3,680	5,828
Less: present value discount	<u>-</u>	<u>7,678</u>
	<u>\$ 547,399</u>	<u>\$ 2,131,758</u>

MHA invoices the customer as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Generally, revenue recognition occurs before billing, resulting in contract assets. These contract assets are referred to as unbilled receivables and are reported within "Contracts, sales and other" in the table above.

Promises to give are summarized as follows at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Gross promises to give expected to be collected in:		
Less than one year	\$ -	\$ 700,000
One year to five years	<u>-</u>	<u>300,000</u>
	-	1,000,000
Less: discount for present value	<u>-</u>	<u>7,678</u>
Promises to give, net	<u>\$ -</u>	<u>\$ 992,322</u>

**NOTE 5. INVESTMENTS**

Investments at December 31, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Mutual funds	\$ 5,145,479	\$ 4,772,581
Cash and cash equivalents	91,491	81,571
Deferred compensation plan mutual funds	<u>141,791</u>	<u>174,739</u>
	<u>\$ 5,378,761</u>	<u>\$ 5,028,891</u>

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**NOTE 5. INVESTMENTS (CONTINUED)**

Net investment income (loss) for the years ended December 31, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Unrealized and realized gain (loss), net	\$ (978,185)	\$ 385,334
Interest and dividends	172,920	177,506
Investment fees	<u>(29,685)</u>	<u>(38,957)</u>
	<u>\$ (834,950)</u>	<u>\$ 523,883</u>

**NOTE 6. FAIR VALUE MEASUREMENTS**

FASB ASC Topic 820, *Fair Value Measurement*, 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.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Under this standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. To determine the appropriate levels, MHA performs a detailed analysis of the assets and liabilities that are subject to the *Fair Value Measurement* topic.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - inputs that utilize unadjusted quoted prices in active markets for identical assets or liabilities that MHA has the ability to access at the measurement date.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 - inputs which are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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**NOTE 6. FAIR VALUE MEASUREMENTS (CONTINUED)**

The tables below present the balances of assets and liabilities at December 31, 2022 and 2021, measured at fair value on a recurring basis by level within the hierarchy:

	2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
Equity funds:				
Large cap	\$ 1,545,503	\$ 1,545,503	\$ -	\$ -
International	676,014	676,014	-	-
Emerging markets	278,803	278,803	-	-
Mid cap	477,388	477,388	-	-
Small cap	180,170	180,170	-	-
Real estate	<u>142,148</u>	<u>142,148</u>	-	-
	<u>3,300,026</u>	<u>3,300,026</u>	-	-
Fixed income funds:				
Corporate bond	56,568	56,568	-	-
International bond	3,299	3,299	-	-
High yield bond	119,204	119,204	-	-
Inflation-protected bond	6,455	6,455	-	-
Intermediate government	29,406	29,406	-	-
Intermediate-term bond	982,301	982,301	-	-
Multisector bond	<u>648,220</u>	<u>648,220</u>	-	-
	<u>1,845,453</u>	<u>1,845,453</u>	-	-
	<u>5,145,479</u>	<u>5,145,479</u>	-	-
Deferred compensation plan:				
Mutual funds:				
Equity funds:				
Large cap	<u>38,121</u>	<u>38,121</u>	-	-
Fixed income funds:				
Intermediate core-plus bond	81,079	81,079	-	-
Instl US govt money market	2,558	2,558	-	-
International bond	<u>20,033</u>	<u>20,033</u>	-	-
	<u>103,670</u>	<u>103,670</u>	-	-
Total investments at fair value	5,287,270	<u>\$ 5,287,270</u>	<u>\$ -</u>	<u>\$ -</u>
Cash, held at cost	<u>91,491</u>			
Total investments	<u>\$ 5,378,761</u>			
Liabilities:				
Deferred compensation	<u>\$ 141,791</u>	<u>\$ -</u>	<u>\$ 141,791</u>	<u>\$ -</u>

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**NOTE 6. FAIR VALUE MEASUREMENTS (CONTINUED)**

	2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
Equity funds:				
Large cap	\$ 1,491,359	\$ 1,491,359	\$ -	\$ -
International	504,072	504,072	-	-
Emerging markets	458,799	458,799	-	-
Mid cap	318,275	318,275	-	-
Small cap	192,047	192,047	-	-
Real estate	<u>191,546</u>	<u>191,546</u>	-	-
	<u>3,156,098</u>	<u>3,156,098</u>	-	-
Fixed income funds:				
Corporate bond	50,420	50,420	-	-
High yield bond	19,153	19,153	-	-
Inflation-protected bond	79,099	79,099	-	-
Intermediate government	3,901	3,901	-	-
Intermediate-term bond	39,000	39,000	-	-
Multisector bond	888,641	888,641	-	-
International bond	<u>536,269</u>	<u>536,269</u>	-	-
	<u>1,616,483</u>	<u>1,616,483</u>	-	-
	<u>4,772,581</u>	<u>4,772,581</u>	-	-
Deferred compensation plan:				
Mutual funds:				
Equity funds:				
Large cap	<u>55,205</u>	<u>55,205</u>	-	-
Fixed income funds:				
Intermediate core-plus bond	94,702	94,702	-	-
Instl US govt money market	2,000	2,000	-	-
World bond	<u>22,832</u>	<u>22,832</u>	-	-
	<u>119,534</u>	<u>119,534</u>	-	-
Total investments at fair value	4,947,320	<u>\$ 4,947,320</u>	<u>\$ -</u>	<u>\$ -</u>
Cash, held at cost	<u>81,571</u>			
Total investments	<u>\$ 5,028,891</u>			
Liabilities:				
Deferred compensation	<u>\$ 174,739</u>	<u>\$ -</u>	<u>\$ 174,739</u>	<u>\$ -</u>

Cash and cash equivalents in the amount of \$91,491 and \$81,571 are recorded at cost for the years ended December 31, 2022 and 2021, respectively, and are therefore not included in the fair value hierarchy. Of this amount, \$38,121 and \$55,205 is held in cash for the deferred compensation plan assets for the years ended December 31, 2022 and 2021, respectively.

The fair value of mutual funds is determined based on the closing price reported in the active markets in which they are traded; 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.

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**NOTE 7. PROPERTY AND EQUIPMENT**

At December 31, 2022 and 2021, property and equipment and accumulated depreciation consisted of the following:

	<u>2022</u>	<u>2021</u>
Office furniture and equipment	\$ 335,709	\$ 417,914
Leasehold improvements	587,952	587,952
Websites	<u>238,937</u>	<u>238,937</u>
	1,162,598	1,244,803
Less: accumulated depreciation and amortization	<u>774,338</u>	<u>731,921</u>
	<u>\$ 388,260</u>	<u>\$ 512,882</u>

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, was \$132,437 and \$176,880, respectively.

**NOTE 8. COMMITMENTS**

Finance leases

The Organization acquired copiers and postage equipment under finance leases with interest rates ranging from 0.75% to 2.658%, expiring through October 2027.

Components of finance lease expense for the year ended December 31, 2022, were as follows:

Finance lease costs:	
Amortization of finance lease liabilities	\$ 20,079
Interest on lease liabilities	<u>1,044</u>
Total finance lease costs	<u>\$ 21,123</u>

Operating lease

In addition to the finance leases, the Organization also has an operating lease for certain office space. Total operating lease expense was \$176,137 for each of the years ended December 31, 2022 and 2021.

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**NOTE 8. COMMITMENTS (CONTINUED)**

Maturities of lease liabilities as of December 31, 2022, are as follows:

<u>Year ending December 31:</u>	<u>Finance leases</u>	<u>Operating leases</u>
2023	\$ 17,600	\$ 251,631
2024	13,880	258,551
2025	13,544	265,661
2026	12,540	272,967
2027	<u>10,450</u>	<u>68,703</u>
Net minimum lease payments	68,014	1,117,513
Less: interest	<u>3,819</u>	<u>29,869</u>
Present value of lease liabilities	<u>\$ 64,195</u>	<u>\$ 1,087,644</u>

Supplemental cash flow information related to leases was as follows:

	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	<u>\$ 244,897</u>
Operating cash flows from finance leases	<u>\$ 1,044</u>
Finance cash flows from finance leases	<u>\$ 21,123</u>
Weighted-average remaining lease term (in years)	
Finance leases	4.48
Operating leases	4.25
Weighted-average discount rate (%)	
Finance leases	2.64
Operating leases	1.28

Hotel agreements

MHA has entered into contracts for hotel and conference rooms for meetings and shows through December 2023. 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 9. NET ASSETS**

*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. The bequest portion of this



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**NOTE 9. NET ASSETS (CONTINUED)**

*Board-designated net assets (continued)*

transfer policy was suspended for 2021. Withdrawals from these funds require approval by the board of directors on an as-needed basis.

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 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 consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Operating reserve fund	\$ 4,429,699	\$ 3,898,165
Property and equipment reserve	16,920	227,590
Jo Blaylock Memorial Fund	<u>58,885</u>	<u>58,885</u>
	<u>\$ 4,505,504</u>	<u>\$ 4,184,640</u>

*Net assets with donor restrictions*

Donor-restricted net assets consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Donor restrictions for time and purpose:		
Public education, policy and advocacy	\$ 857,368	\$ 1,516,582
Constituency services	354,302	579,601
Prevention, early intervention and other	<u>316,460</u>	<u>1,008,611</u>
	1,528,130	3,104,794
Donor restrictions to be held in perpetuity:		
Public education, policy and advocacy	<u>288,971</u>	<u>288,971</u>
Total net assets with donor restrictions	<u>\$ 1,817,101</u>	<u>\$ 3,393,765</u>

During the years ended December 31, 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying purpose restrictions or by the passage of time.:

	<u>2022</u>	<u>2021</u>
Programs:		
Public education, policy and advocacy	\$ 2,232,823	\$ 1,906,727
Constituency services	1,500,516	361,809
Prevention, early intervention and other	<u>1,065,480</u>	<u>853,600</u>
Total programs	<u>\$ 4,798,819</u>	<u>\$ 3,122,136</u>

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**NOTE 10. ENDOWMENT FUNDS**

MHA has the following endowments:

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 is \$320,273 and \$373,199 at December 31, 2022 and 2021, respectively.

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 is \$157,255 and \$185,754 at December 31, 2022 and 2021, respectively.

The interest income earned and unrealized gains (losses) on the above bequests are recorded as donor-restricted revenue in the accompanying statements of activities and are released from restriction when appropriated for the programs.

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

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**NOTE 10. ENDOWMENT FUNDS (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 net assets with donor restrictions 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 the endowment targets a composition of equities between 50% and 70%, fixed income between 30% and 50%, and cash equivalents between 0% and 10%.

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 years ended December 31, 2022 and 2021, are as follows:

	Restricted in perpetuity	Accumulated gains and other	Total
Endowment net assets - December 31, 2020	\$ 288,971	\$ 213,801	\$ 502,772
Investment income, net	<u>-</u>	<u>56,181</u>	<u>56,181</u>
Endowment net assets - December 31, 2021	288,971	269,982	558,953
Investment loss, net	<u>-</u>	<u>(81,425)</u>	<u>(81,425)</u>
Endowment net assets - December 31, 2022	<u>\$ 288,971</u>	<u>\$ 188,557</u>	<u>\$ 477,528</u>

**NOTE 11. REFUNDABLE ADVANCES AND CONDITIONAL PROMISES TO GIVE**

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law to provide emergency assistance and health care response for individuals, families and businesses affected by the 2020 coronavirus pandemic. Under the CARES Act, MHA applied for a Paycheck Protection Program ("PPP") loan with a bank that is administered by the Small Business Administration (the "SBA"), and received \$432,438 during April 2020. The PPP loan has a 1.0% rate of interest and a six-month deferral of principal and interest payments; thereafter, if not forgiven, monthly principal and interest payments are due over consecutive months, with a final payment in April 2022. The loan can be prepaid without penalty at any time. MHA used the full amount of the PPP funds for payroll and other qualified expenses and expected the loan to be forgiven when the submission was approved by the bank and the SBA.

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**NOTE 11. REFUNDABLE ADVANCES AND CONDITIONAL PROMISES TO GIVE**  
**(CONTINUED)**

U.S. GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allows for the selection of accounting policies amongst acceptable alternatives. Based on the facts and circumstances, MHA has determined it most appropriate to account for the PPP loan proceeds under the conditional contribution model within ASC Topic 958-605, *Revenue Recognition* ("ASC 958-605"). Under the conditional contribution model, MHA recognizes the proceeds received as a refundable advance, and subsequently recognizes grant revenue as the conditions are met. MHA deemed the conditional contribution model to be the most appropriate accounting policy for this arrangement based on the nature of the PPP loan program. The conditions related to the right of return and barrier of the conditional contribution were met upon the acceptance of MHA's PPP loan forgiveness application in June 2021. Therefore, MHA recognized \$432,438 as grant revenue during the year ended December 31, 2021.

In August 2022, MHA received funding of \$1,166,666 from one donor. This funding was received under the conditional contribution model with ASC 958-605. Under the conditional contribution model, MHA recognized \$634,230 in income as performance obligations were met. The remaining funds were recorded as a refundable advance of \$532,436 as of December 31, 2022.

**NOTE 12. 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 years ended December 31, 2022 and 2021, was \$139,908 and \$103,736, respectively, and is included in "Salaries and benefits" in the accompanying statements 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 ("457(b) plan") 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 years ended December 31, 2022 and 2021.

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**NOTE 13. RECENT EVENTS RELATING TO THE DISRUPTION IN THE U.S. BANKING SYSTEM**

In March 2023, the shutdown of certain financial institutions raised economic concerns over disruption in the U.S. banking system. The U.S. government took certain actions to strengthen public confidence in the U.S. banking system. However, there can be no certainty that actions taken by the U.S. government will be effective in mitigating the effects of financial institution failures on the economy, which may include limits on access to short-term liquidity in the near term or other adverse effects. As disclosed in Note 2, the Organization maintains cash amounts in excess of federally insured limits in the aggregate amount of \$4,988,996, as of December 31, 2022, and has certain concentrations of credit risk that expose the Organization to risk of loss if the counterparty is unable to perform as a result of future disruptions in the U.S. banking system or economy. Given the uncertainty of the situation, the related financial impact cannot be reasonably estimated at this time.