Financial Statements

For the Year Ended December 31, 2007
(With Summarized Financial Information for the Year Ended December 31, 2006)

and
Report Thereon

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mental Health America

We have audited the accompanying statement of financial position of Mental Health America, (MHA) as of December 31, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of MHA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from MHA's 2006 financial statements and, in our report dated May 15, 2007; we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MHA as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

RAFFA, P.C.

Washington, DC
March 21, 2008

MENTAL HEALTH AMERICA

STATEMENT OF FINANCIAL POSITION
December 31, 2007
(With Summarized Financial Information as of December 31, 2006)

	2007	2006
ASSETS		
Cash and cash equivalents	$ 1,249,053	$ 554,092
Accounts receivable, net of allowance for doubtful accounts of $1,177 in 2007	89,504	300,679
Grants and contracts receivable	946,868	822,520
Bequests receivable	543,328	594,537
Prepaid expenses	75,991	51,808
Inventory	75,941	96,392
Investments	5,091,889	3,553,140
Property and equipment, net	590,847	691,021
TOTAL ASSETS	$ 8,663,421	$ 6,664,189
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 433,220	$ 264,522
Charitable gift annuities	33,517	45,077
Capital lease obligations	199,720	290,948
Deferred lease incentives	324,944	283,508
Deferred revenue	25,000	109,206
TOTAL LIABILITIES	1,016,401	993,261
Net Assets		
Unrestricted	4,479,789	3,539,872
Temporarily restricted	2,878,260	1,842,085
Permanently restricted	288,971	288,971
TOTAL NET ASSETS	7,647,020	5,670,928
TOTAL LIABILITIES AND NET ASSETS	$ 8,663,421	$ 6,664,189

The accompanying notes are an integral part of these financial statements.

MENTAL HEALTH AMERICA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007
(With Summarized Financial Information for the Year Ended December 31, 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
REVENUE AND SUPPORT					
Grants, contracts and contributions	$ 859,763	$ 6,186,408	$ -	$ 7,046,171	$ 6,669,678
Bequests	1,078,950	-	-	1,078,950	303,464
Affiliate support	497,417	-	-	497,417	554,443
Investment income	308,034	22,756	-	330,790	253,782
Sales	74,063	-	-	74,063	58,223
Combined federal campaign	49,427	-	-	49,427	55,445
In-kind contributions	34,743	-	-	34,743	173,106
Rental income	27,057	-	-	27,057	19,229
Special events	-	-	-	-	95,000
Net assets released from restrictions:					
Satisfaction of program restrictions	5,172,989	(5,172,989)	-	-	-
TOTAL REVENUE AND SUPPORT	8,102,443	1,036,175	-	9,138,618	8,182,370
EXPENSES					
Program Services					
Education	2,200,065	-	-	2,200,065	2,003,706
Advocacy	1,562,068	-	-	1,562,068	1,260,890
Constituency services	1,499,891	-	-	1,499,891	2,274,108
Research	565,943	-	-	565,943	1,117,019
Total Program Services	5,827,967	-	-	5,827,967	6,655,723
Management and general	768,251	-	-	768,251	820,219
Fundraising	566,308	-	-	566,308	434,134
TOTAL EXPENSES	7,162,526	-	-	7,162,526	7,910,076
Change in Net Assets	939,917	1,036,175	-	1,976,092	272,294
NET ASSETS, BEGINNING OF YEAR	3,539,872	1,842,085	288,971	5,670,928	5,398,634
NET ASSETS, END OF YEAR	$ 4,479,789	$ 2,878,260	$ 288,971	$ 7,647,020	$ 5,670,928

The accompanying notes are an integral part of these financial statements.

MENTAL HEALTH AMERICA

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2007
(With Summarized Financial Information for the Year Ended December 31, 2006)

	Program Services					Supporting Services			
	Education	Advocacy	Constituency Services	Research	Total Program Services	Management and General	Fundraising	2007 Total	2006 Total
Salaries and benefits	$ 975,713	$ 848,861	$ 879,134	$ 338,127	$ 3,041,835	$ 446,078	$ 315,380	$ 3,803,293	$ 4,389,145
Professional fees and contract service payments	344,524	244,947	192,275	114,335	896,081	87,387	93,553	1,077,021	850,218
Conference and meetings	137,722	116,332	156,006	70,530	480,590	19,726	22,988	523,304	547,089
Occupancy	144,412	146,834	54,810	3,617	349,673	100,123	46,723	496,519	478,066
Grants	263,500	9,500	72,790	5,000	350,790	-	-	350,790	407,355
Depreciation and amortization	44,408	37,245	14,325	-	95,978	32,947	14,325	143,250	112,198
Outside printing and art work	78,308	8,056	21,770	7,720	115,854	12,498	15,951	144,303	235,980
Subscription dues	29,670	37,390	26,498	8,560	102,118	10,941	12,755	125,814	111,327
Direct mail expense	58,398	30,635	-	-	89,033	-	6,701	95,734	49,363
Operating Fees	29,779	23,884	10,218	288	64,169	20,979	9,698	94,846	91,904
Travel	18,478	14,922	31,431	8,687	73,518	7,628	10,894	92,040	201,033
Telephone	24,480	17,944	12,739	2,156	57,319	9,177	5,630	72,126	123,931
Supplies	12,679	10,919	6,653	1,121	31,372	7,749	4,059	43,180	55,399
Postage and shipping	24,216	4,515	5,531	1,689	35,951	2,814	2,915	41,680	51,715
In-kind expenses	7,779	7,022	11,235	2,951	28,987	2,878	2,878	34,743	53,159
Photocopying	3,502	2,738	3,294	1,136	10,670	7,137	1,729	19,536	18,896
Equipment	1,655	324	1,182	26	3,187	189	129	3,505	1,599
Bad debt expense	842	-	-	-	842	-	-	842	-
Donations to affiliates	-	-	-	-	-	-	-	-	119,947
Loss on disposal of equipment under capital lease	-	-	-	-	-	-	-	-	11,752
TOTAL	$ 2,200,065	$ 1,562,068	$ 1,499,891	$ 565,943	$ 5,827,967	$ 768,251	$ 566,308	$ 7,162,526	$ 7,910,076

The accompanying notes are an integral part of these financial statements.

MENTAL HEALTH AMERICA

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007
(With Summarized Financial Information for the Year Ended December 31, 2006)
Increase (Decrease) in Cash and Cash Equivalents

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,976,092	$ 272,294
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	143,250	112,198
Allowance for doubtful accounts receivable	177	-
Loss on disposition of equipment	-	11,752
Unrealized loss (gain) on investments	5,831	(71,078)
Realized gain on investments	(42,980)	(1,280)
Donated stock	(2,803)	(1,893)
Changes in assets and liabilities:		
Accounts receivable	210,998	(65,185)
Grants and contracts receivable	(124,348)	44,943
Bequests receivable	51,209	(8,521)
Prepaid expenses	(24,183)	24,333
Inventory	20,451	98,627
Accounts payable and accrued expenses	168,698	(272,173)
Deferred lease incentives	41,436	283,508
Deferred revenue	(84,206)	76,875
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,339,622	504,400
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(43,076)	(389,871)
Proceeds from sales of investments	4,931,087	5,142,061
Purchases of investments	(6,429,884)	(5,978,964)
NET CASH USED IN INVESTING ACTIVITIES	(1,541,873)	(1,226,774)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments under charitable gift annuities	(11,560)	(9,068)
Principal payments on capital lease obligations	(91,228)	(73,835)
NET CASH USED IN FINANCING ACTIVITIES	(102,788)	(82,903)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	694,961	(805,277)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	554,092	1,359,369
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,249,053	$ 554,092
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 5,573	$ 6,082
NONCASH INVESTING ACTIVITIES		
Donated stock	$ 2,803	$ 1,893
NONCASH FINANCING ACTIVITIES		
Equipment acquired under a capital lease	$ -	$ 143,920
Obligation for equipment acquired under capital lease	-	(143,920)
Net Cash Outlay	$ -	$ -

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

The National Mental Health Association, organized in 1950, doing business as Mental Health America (MHA), is a private voluntary health and human services advocacy organization which promotes a wide range of mental health issues through advocacy leadership, public and professional education, community and consumer services, and ongoing research. MHA's primary sources of revenue are grants and contributions from foundations, government agencies and corporations and membership dues received from affiliated organizations nationwide.

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, the financial statements of MHA do not include the accounts and activities of these affiliated organizations.

Cash and Cash Equivalents

MHA considers money market funds and certificates of deposit purchased with an original maturity of three months or less to be cash and cash equivalents. Money market funds held in certain investment portfolios are not considered cash and cash equivalents as these amounts are not available for the general operating purposes of MHA.

Inventory

Inventory is stated at cost on a first-in, first-out (FIFO) basis and consists of publications on hand at the end of the year.

Investments

Investments are comprised of mutual funds, corporate bonds, government and agency securities, equities and money market funds and are recorded in the financial statements at fair value. Investments include the board designated reserve fund, building reserve fund, the net property and equipment fund, the Jo Blaylock Memorial Fund, and funds that have been permanently restricted by the donor.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Depreciation and Amortization

Fixed assets are recorded at cost. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of 3 to 7 years, with no salvage value. Equipment purchased under capital lease agreements is amortized on the straight-line basis over the life of the lease. Leasehold improvements are amortized over the shorter of the remaining term of the lease or the useful life of the improvements. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses in the accompanying statement of activities.

Classification of Net Assets

The net assets of MHA are reported in three self-balancing groups as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of MHA's operations. It also includes the net assets of the reserve fund, the building reserve fund, the net property and equipment fund and the Jo Blaylock Memorial fund, all of which have been designated by the Board of Directors. (See Note 8)
- Temporarily restricted net assets represent amounts that are specifically restricted by donors for various programs or use in future periods.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the earnings on such amounts be used in the manner specified by the donor.

Revenue Recognition

MHA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Unrestricted contributions and grants are reported as revenue in the year in which payments are received and/or the promises are made. Revenue recognized on grants that have been committed to MHA, but have not been received, is reflected as grants and contracts receivable in the accompanying statement of financial position.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Affiliate support is recognized in the period received or a written promise has been made.

MHA recognizes bequests in the year the promise to give becomes unconditional, which is at the time the probate court declares the will valid and the proceeds are measurable in amount.

In-Kind Contributions

Donated materials, services and facilities are recorded as in-kind contributions at the estimated fair market value as of the date of the donation.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on direct costs.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contracts Receivable

Grants and contracts receivable include $385,000 of unconditional promises to give from foundations and corporations. Also included in grants and contracts receivable is $561,868 of grants and contracts receivable from U.S. government agencies which represents billings that have been presented to grantors but remain unpaid at year end or amounts available to be drawn down as needed by MHA. All amounts are considered fully collectible and are due within one year.

Continued

3. Bequests Receivable

Bequests receivable totaled $543,328 at December 31, 2007 and consists of trust agreements which are irrevocable and are administered by a trustee or fiscal agent. Distributions are to be made to MHA (lead trusts) or to the donor's designee (remainder trusts) during the terms of the agreements. At the end of the terms, a portion of the remaining trust assets, as defined in the trust agreements, are to be distributed to MHA. All amounts are considered fully collectible and due in one to five years.

4. Investments

Investments as of December 31, 2007 consisted of the following:

	Fair Value
Mutual funds	$ 4,165,768
Equities	482,005
Money market funds	293,837
Government & agency securities	100,263
Corporate bonds	50,016
Total	$ 5,091,889

As of December 31, 2007, investment income consisted of the following:

Interest and dividends	$ 293,641
Realized gain	42,980
Unrealized loss	(5,831)
Total	$ 330,790

5. Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment are comprised of the following as of December 31, 2007:

Office furniture and equipment	$ 747,800
Leasehold improvements	303,759
Equipment under capital lease	386,400
Total	1,437,959
Less: accumulated depreciation and amortization	(847,112)
Net property and equipment	$ 590,847

Continued

6. Commitments

Operating Leases

MHA leases its office space under a non-cancelable operating lease that expires April 30, 2016. The lease provides for fixed annual rental increases. Under accounting principles generally accepted in the United State of America (GAAP) lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payments is reflected as deferred lease incentives in the accompanying statement of financial position. Under GAAP all rental payments, including fixed rent increases are recognized on a straight-line basis over the term of the lease. Rent expense has not been recorded on a straight-line basis in the accompanying financial statements as the difference is not material to the financial statements.

MHA also sub-leases a portion of the office space. Revenue from these sub-leases totaled $27,057 for the year ended December 30, 2007 and is included in rental income in the accompanying statement of activities. Total rent expense attributable to MHA's office space for the year ended December 31, 2007 was $463,319 and is included in occupancy expense in the accompanying statement of functional expenses.

The future minimum rental payments required under these operating leases, net of sub-lease income, as of December 31, 2007 are as follows:

For the Years Ending December 31,	Total	Sublease	Net
2008	440,133	15,195	424,938
2009	453,106	-	453,106
2010	448,534	-	448,534
2011	438,222	-	438,222
2012	449,178	-	449,178
Thereafter	2,229,174	-	2,229,174
Total	$ 4,458,347	$ 15,195	$ 4,443,152

7. Capital Leases

MHA leases office equipment under three capital leases which expire at various times through 2010. The leased equipment is included in property and equipment at a cost of $386,400 with accumulated amortization of $166,484 as of December 31, 2007.

7. Capital Leases (continued)

The future minimum lease payments required for these capital leases at December 31, 2007 are as follows:

For the Year Ending December 31,	
2008	$ 104,425
2009	66,680
2010	33,772
Total future minimum lease payments	204,877
Less: amount representing interest	(5,157)
Present value of net minimum lease payments	$ 199,720

8. Net Assets

Board Designated Unrestricted Net Assets

The Board of Directors of MHA has designated certain unrestricted net assets for the purpose of establishing a reserve fund. The Board has approved a policy whereby annual contributions to the fund are made in an amount of 20% of the change in unrestricted net assets before depreciation. During the year ended December 31, 2007 a contribution of $35,269 was made to the fund. Additionally, the Board has approved a policy whereby all bequest income is contributed to the fund which for the year ended December 31, 2007 was a total of $1,078,950. The Board of Directors may approve annual contributions in excess of the amounts prescribed by these funding policies. 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.

MHA's Board has also designated the gain from the sale of its building in 2002 to be invested and used to purchase a new building in the future.

Also included in unrestricted net assets is a fund designated by the Board for property and equipment. This amount is calculated by subtracting the amount owed on property and equipment (i.e., the capital lease obligations) from the net book value of total property and equipment.

Continued

8. Net Assets (continued)

Board Designated Unrestricted Net Assets (continued)

The Board of MHA has also designated unrestricted net assets to create the Jo Blaylock Memorial Fund. The fund was created to recognize Mr. and Mrs. Blaylock's contribution to mental health. The $50,000 initially designated plus any investment earnings thereon are to be used for educational purposes.

The following is a summary of unrestricted net assets as of December 31, 2007:

Undesignated	$ (287,703)
Reserve fund	1,979,643
Building reserve fund	2,591,263
Net property and equipment fund	137,994
Jo Blaylock Memorial fund	58,592
Total	$ 4,479,789

Temporarily Restricted Net Assets

Certain temporarily restricted net assets are available for use among the programs of MHA based on specific donor restrictions. Other amounts with donor restrictions that can be interpreted to cover more than one program were allocated to such programs based on prior years' experience. The amounts available as of December 31, 2007 are as follows:

Advocacy	$ 1,100,430
Education	942,171
Constituency services	654,631
Research	181,028
Total	$ 2,878,260

Permanently Restricted Net Assets

Permanently restricted net assets include the following:

- The Quayle Bequest which 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 Anna Belle Edwards Bequest which 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 for such illness.

Continued

8. Net Assets (continued)

Permanently Restricted Net Assets (continued)

The interest income earned on the above bequests is recorded as temporarily restricted revenue in the accompanying statement of activities and is released from restriction as the program restrictions are met. Interest income earned on permanently restricted net assets totaled $22,756 for 2007.

9. Line of Credit

MHA has a $1,000,000 secured revolving line of credit with Chevy Chase bank. The interest rate is calculated based on a 90 day London Interbank offered rate (LIBOR) plus 1.75% which, as of December 31, 2007, was 6.35%. The line of credit expires on September 30, 2008. As of December 31, 2007, there was no balance outstanding on this line of credit. MHA is required to meet various covenants in accordance with the terms of the agreement.

10. Pension Plan

Defined Contribution Plan

MHA has a noncontributory, defined contribution retirement plan which is available to all employees who have completed one year of service and attained 21 years of age. Employer contributions are made to the plan according to the employee's years of service based on percentages as defined in the plan document. Employees are vested in the employer contributions according to the employee's years of service with MHA as defined in the plan document. Pension expense for the year ended December 31, 2007 totaled $46,418 and is included in salary and benefits on the accompanying statement of functional expenses.

Supplemental Executive Retirement Plan

MHA offers its executives or highly compensated employees an opportunity to defer compensation pursuant to section 457(b) of the Internal Revenue code to supplement such employees' retirement benefits under the employer's ERISA 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, 2007.

Continued

11. Hotel Contracts Contingency

MHA has entered into agreements with several hotels for the provision of conference facilities and room accommodations for its meetings through June 2008. The agreements contain various clauses whereby MHA is liable for liquidated damages in the event of cancellation or lower than anticipated attendance. As of December 31, 2007, management of MHA has estimated that the maximum possible amount of liquidated damages is approximately $147,851. However, management of MHA does not believe that any losses will be incurred under these contracts.

12. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, MHA is exempt from the payment of taxes on income other than unrelated business income. For the year ended December 31, 2007 no provision for income taxes was made as MHA did not have any net unrelated business income.

13. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the MHA's financial statements for the year ended December 31, 2006, from which the summarized information was prepared.

14. Reclassifications

Certain 2006 amounts have been reclassified to conform with the 2007 presentation.