Financial Statements

For the Year Ended December 31, 2008
(With Summarized Financial Information for the Year Ended December 31, 2007)

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, 2008, 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 2007 financial statements and, in our report dated March 21, 2008, we expressed an unqualified opinion on those statements. As discussed in note 11 of the financial statements, MHA has restated its 2007 financial statements during the current year to correct an error in accounting for a multi year grant. Our report on the 2007 financial statements dated March 21, 2008 was before the restatement.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MHA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008, 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
April 1, 2009

MENTAL HEALTH AMERICA

STATEMENT OF FINANCIAL POSITION
December 31, 2008
(With Summarized Financial Information as of December 31, 2007)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 842,952	$ 1,249,053
Accounts receivable, net of allowance for doubtful accounts of $1,177	172,786	89,504
Grants and contracts receivable	1,615,488	1,509,368
Bequests receivable	968,594	543,328
Prepaid expenses	87,690	75,991
Inventory	71,302	75,941
Investments	4,309,048	5,091,889
Property and equipment, net	435,550	590,847
TOTAL ASSETS	$ 8,503,410	$ 9,225,921
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 357,412	$ 433,220
Line of Credit	338,750	-
Charitable gift annuities	21,957	33,517
Capital lease obligations	108,018	199,720
Deferred rent and lease incentives	325,127	324,944
Deferred revenue	3,372	25,000
TOTAL LIABILITIES	1,154,636	1,016,401
Net Assets		
Unrestricted	2,978,488	4,479,789
Temporarily restricted	4,081,315	3,440,760
Permanently restricted	288,971	288,971
TOTAL NET ASSETS	7,348,774	8,209,520
TOTAL LIABILITIES AND NET ASSETS	$ 8,503,410	$ 9,225,921

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

MENTAL HEALTH AMERICA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008
(With Summarized Financial Information For the Year Ended December 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
REVENUE AND SUPPORT					
Grants, contracts and contributions	$ 1,073,205	$ 4,616,404	$ -	$ 5,689,609	$ 7,608,671
Bequests	159,854	1,007,160	-	1,167,014	1,078,950
Affiliate support	473,488	-	-	473,488	497,417
In-kind contributions	63,524	-	-	63,524	34,743
Combined federal campaign	53,563	-	-	53,563	49,427
Sales	31,656	-	-	31,656	74,063
Rental income	30,158	-	-	30,158	27,057
Interest and dividend income	202,399	8,582	-	210,981	293,641
Realized (losses) gains on investments	(199,087)	-	-	(199,087)	42,980
Net assets released from restrictions:					
Satisfaction of program restrictions	4,944,462	(4,944,462)	-	-	-
TOTAL REVENUE AND SUPPORT	6,833,222	687,684	-	7,520,906	9,706,949
EXPENSES					
Program Services					
Education	2,195,580	-	-	2,195,580	2,200,065
Advocacy	1,420,214	-	-	1,420,214	1,562,068
Constituency services	1,646,969	-	-	1,646,969	1,499,891
Research	434,762	-	-	434,762	565,943
Total Program Services	5,697,525	-	-	5,697,525	5,827,967
Management and general	758,707	-	-	758,707	768,251
Fundraising	562,629	-	-	562,629	566,308
TOTAL EXPENSES	7,018,861	-	-	7,018,861	7,162,526
Change in net assets before unrealized losses on investments	(185,639)	687,684	-	502,045	2,544,423
Unrealized losses on investments	(1,315,662)	(47,129)	-	(1,362,791)	(5,831)
CHANGE IN NET ASSETS	(1,501,301)	640,555	-	(860,746)	2,538,592
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	4,479,789	3,440,760	288,971	8,209,520	5,670,928
NET ASSETS, END OF YEAR	$ 2,978,488	$ 4,081,315	$ 288,971	$ 7,348,774	$ 8,209,520

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

MENTAL HEALTH AMERICA

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2008
(With Summarized Financial Information For the Year Ended December 31, 2007)

	Program Services					Supporting Services			
	Education	Constituency Services	Advocacy	Research	Total Program Services	Management and General	Fundraising	2008 Total	2007 Total
Salaries and benefits	$ 936,717	$ 732,218	$ 709,658	$ 237,511	$ 2,616,104	$ 406,026	$ 301,646	$ 3,323,776	$ 3,803,293
Professional fees and contract service payments	441,978	292,610	241,854	104,939	1,081,381	121,957	118,064	1,321,402	1,077,021
Occupancy	140,498	53,308	143,247	1,815	338,868	105,330	45,322	489,520	496,519
Travel	99,767	160,808	87,572	51,476	399,623	25,027	25,139	449,789	92,040
Grants	226,407	147,881	25,000	-	399,288	-	-	399,288	350,790
Conference and meetings	79,347	110,744	51,647	9,165	250,903	5,999	5,264	262,166	523,304
Depreciation and amortization	55,579	17,929	46,614	-	120,122	41,236	17,929	179,287	143,250
Subscription dues	36,833	33,243	39,529	9,790	119,395	15,667	17,738	152,800	125,814
Outside printing and art work	71,410	32,098	7,355	7,967	118,830	6,264	6,300	131,394	144,303
Operating Fees	30,006	11,581	24,879	828	67,294	20,887	9,839	98,020	94,846
In-kind expenses	14,028	19,153	12,942	5,365	51,488	6,275	5,761	63,524	34,743
Telephone	16,700	11,302	13,165	1,348	42,515	7,384	4,311	54,210	72,126
Postage and shipping	22,077	6,549	2,561	1,243	32,430	753	2,351	35,534	41,680
Direct mail expense	14,750	-	7,737	-	22,487	-	1,693	24,180	95,734
Photocopying	4,767	5,194	4,080	1,887	15,928	(2,563)	844	14,209	19,536
Supplies	2,939	9,457	1,374	1,336	15,106	(2,203)	2	12,905	43,180
Equipment	1,777	2,894	1,000	92	5,763	668	426	6,857	3,505
Bad debt expense	-	-	-	-	-	-	-	-	842
TOTAL	$ 2,195,580	$ 1,646,969	$ 1,420,214	$ 434,762	$ 5,697,525	$ 758,707	$ 562,629	$ 7,018,861	$ 7,162,526

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

MENTAL HEALTH AMERICA

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008
(With Summarized Financial Information for the Year Ended December 31, 2007)
Increase (Decrease) in Cash and Cash Equivalents

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (860,746)	$ 2,538,592
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	179,287	143,250
Allowance for doubtful accounts receivable	-	177
Unrealized losses on investments	1,362,791	5,831
Realized losses (gains) on investments	199,087	(42,980)
Donated stock	(707)	(2,803)
Changes in assets and liabilities:		
Accounts receivable	(83,282)	210,998
Grants and contracts receivable	(106,120)	(686,848)
Bequests receivable	(425,266)	51,209
Prepaid expenses	(11,699)	(24,183)
Inventory	4,639	20,451
Accounts payable and accrued expenses	(75,808)	168,698
Deferred lease incentives	183	41,436
Deferred revenue	(21,628)	(84,206)
NET CASH PROVIDED BY OPERATING ACTIVITIES	160,731	2,339,622
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(23,990)	(43,076)
Proceeds from sales of investments	1,809,508	4,931,087
Purchases of investments	(2,587,838)	(6,429,884)
NET CASH USED IN INVESTING ACTIVITIES	(802,320)	(1,541,873)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under line of credit	395,000	-
Payments under line of credit	(56,250)	-
Payments under charitable gift annuities	(11,560)	(11,560)
Principal payments on capital lease obligations	(91,702)	(91,228)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	235,488	(102,788)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(406,101)	694,961
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,249,053	554,092
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 842,952	$ 1,249,053
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 3,389	$ 5,573
NONCASH INVESTING ACTIVITIES		
Donated stock	$ 707	$ 2,803

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

1. Organization and Summary of Significant Accounting Policies

Organization

Mental Health America (MHA), organized in 1950, 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 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 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, money market funds and a leveraged index return note. Investments in mutual funds, corporate bonds, government and agency securities, and equities are reported in the accompanying statement of financial position at fair market value based on quoted market prices. The estimated fair value of the leveraged index return note is provided by an external investment manager and is based on historical cost, appraisals, obtainable prices for similar assets or other data. Because of the inherent uncertainty of valuation for MHA's leveraged index return note and in certain of the underlying investments held by the fund manager, the values of this investment may differ from values that would have been used had a ready market for the investments existed. Investments include the board designated reserve fund, the building reserve fund, the net property and equipment fund, the Jo Blaylock Memorial Fund, and funds that have been permanently restricted by the donor.

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 7)
- Temporarily restricted net assets represent amounts that are specifically restricted by donors for various programs or use in future periods.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the earnings on such amounts be used in the manner specified by the donor.

Endowment Funds

In August 2008, the Financial Accounting Standards Board issued Staff Position (FSP) Financial Accounting Standard (FAS) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.* This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FSP also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds). MHA has made the required disclosures in Note 14, Endowment and Board Designated Funds.

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

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.

Affiliate support is recognized in the period received or when 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 $1,200,000 of unconditional promises to give from foundations and corporations. Also included in grants and contracts receivable is $415,488 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.

3. Bequests Receivable

Bequests receivable totaled $968,594 at December 31, 2008 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, 2008 consisted of the following:

	Fair Value
Fixed income mutual funds	$ 1,909,277
Equity mutual funds	1,799,988
Leveraged index return note	280,350
Money market funds	217,607
Corporate bonds	50,513
Government & agency securities	50,313
Total	$ 4,309,048

As of December 31, 2008, investment income consisted of the following:

Interest and dividends	$ 210,981
Realized loss	(199,087)
Unrealized loss	(1,362,791)
Total	$ (1,350,897)

5. Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment are comprised of the following as of December 31, 2008:

Office furniture and equipment	$ 771,790
Leasehold improvements	303,759
Equipment under capital lease	386,400
Total	1,461,949
Less: accumulated depreciation and amortization	(1,026,399)
Net property and equipment	$ 435,550

6. Commitments and Risks

Concentration of Credit Risk

Financial instruments which potentially subject MHA to concentrations of credit risk consist principally of cash and cash equivalents. MHA maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. As of December 31, 2008 the amount in excess of the Federal Deposit Insurance Corporation insured limit of $250,000 was approximately $637,000. MHA has not experienced any losses in such accounts.

Operating Lease

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 rent and lease incentives in the accompanying statement of financial position.

MHA also sub-leases a portion of the office space. Revenue from these sub-leases totaled $30,158 for the year ended December 30, 2008 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, 2008 was $453,220 and is included in occupancy expense in the accompanying statement of functional expenses.

6. Commitments and Risks (continued)

Operating Lease (continued)

The future minimum rental payments required under these operating leases, net of sub-lease income, as of December 31, 2008 are as follows:

For the Years Ending December 31,	Total	Sublease	Net
2009	$ 417,106	$ 11,250	$ 405,856
2010	427,534	-	427,534
2011	438,222	-	438,222
2012	449,178	-	449,178
2013	460,407	-	460,407
Thereafter	1,119,185	-	1,119,185
Total	$ 3,311,632	$ 11,250	$ 3,300,382

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 $279,380 as of December 31, 2008.

Subsequent to year end MHA entered into two new capital leases for equipment with a cost of $182,934 which expire in 2013. The future minimum lease payments required for these capital leases including the two leases acquired subsequent to year end are as follows:

For the Year Ending December 31,	
2009	$ 56,996
2010	39,096
2011	39,096
2012	39,096
2013	39,096
Total future minimum lease payments	213,380
Less: amount representing interest	(10,096)
Present value of net minimum lease payments	$ 203,284

The total principal payments for the two new leases signed subsequent to year end which are included in the payment schedule above was $95,266.

7. 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, 2008 a contribution of $41,133, related to the 2007 net profit, was made to the fund. Additionally, the Board has approved a policy whereby all unrestricted bequest income is contributed to the fund which for the year ended December 31, 2008 was a total of $159,854. 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.

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, 2008:

Undesignated	$ (321,827)
Reserve fund	1,137,101
Building reserve fund	1,999,847
Net property and equipment fund	104,775
Jo Blaylock Memorial fund	58,592
Total	$ 2,978,488

7. Net Assets (continued)

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, 2008 are as follows:

Advocacy	$ 1,769,848
Education	1,607,681
Constituency services	522,759
Research	181,027
Total	$ 4,081,315

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.

The interest income earned and unrealized losses on the above bequests are recorded as temporarily restricted revenue in the accompanying statement of activities and are released from restriction as the program restrictions are met. For the year ended December 31, 2008, interest income earned and unrealized losses on permanently restricted net assets totaled $8,582 and $47,129, respectively.

8. 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, 2008, was 5.6325%. The line of credit expires on September 30, 2009. As of December 31, 2008, there was a balance of $338,750 outstanding on this line of credit. The line of credit has financial covenants including maintaining a specified unrestricted net assets minimum of not less than $3,800,000 and an unrestricted liquid assets minimum of not less than $2,000,000. As of December 31, 2008 MHA was not in compliance with the minimum unrestricted net asset covenant. However, the bank waived MHA's noncompliance with the financial covenant.

9. 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, 2008 totaled $49,410 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, 2008.

10. 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 2009. 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, 2008, management of MHA has estimated that the maximum possible amount of liquidated damages is approximately $276,200. However, management of MHA does not believe that any losses will be incurred under these contracts.

11. Prior Period Adjustment

During the year ended December 31, 2008, MHA restated its net asset balance as of December 31, 2007 to correct an error in recording a multi year grant. Accordingly, an adjustment was made to increase grants, contracts and contributions revenue and the related grants and contracts receivable by $562,500. The effect of this adjustment was to increase temporarily restricted net assets and the change in temporarily restricted net assets as of December 31, 2007 by $562,500.

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, 2008 no provision for income taxes was made as MHA did not have any net unrelated business income.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN-48-3, *Effective Date of FASB Interpretation No.48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. MHA has elected to defer the application of Interpretation 48 for the year ended December 31, 2008. MHA evaluates its uncertain tax positions using the provisions of FASB Statement 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

Continued

13. Fair Value Measurements

MHA adopted Financial Accounting Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*s (FAS 157) for financial assets measured on a recurring basis, effective January 1, 2008. FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure about fair value measurements. FAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FAS 157 established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable whereby the market participant assumptions are developed based on market data obtained from independent sources and, unobservable whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy under FAS 157 are described as follows:

Level 1-inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities *accessible* at the measurement date.

Level 2-inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3-unobservable inputs for the asset or liability including the reporting entity's own assumptions in determining the fair value measurement.

13. Fair Value Measurements (continued)

The following table summarizes MHA's assets measured at fair value on a recurring basis as of December 31, 2008, aggregated by the fair value hierarchy level within which those measurements were made.

December 31, 2008	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Investments	$ 4,309,048	$ 4,028,698	$ 280,350
Total Assets	$ 4,309,048	$ 4,028,698	$ 280,350

See Note 1 of the financial statements regarding the valuation techniques used to measure fair value of the Level 1 investments indentified above.

As of December 31, 2008, investments valued via Level 3 consist of a leveraged index return note (LIRN). The LIRN is linked to a Global Equity Index Basket (the Basket) due September 8, 2009, which provides a leveraged return for investors, if the value of the Basket increases from the starting value of the Basket on the pricing date to the ending value of the Basket, determined on valuation dates shortly prior to the maturity date of the note. The Basket is comprised of the S&P 500 Index, the Dow Jones EURO STOXX 50 Index and the Nikkei 225 Index.

A roll forward of the fair value measurements using unobservable inputs (Level 3) as of December 31, 2008, were as follows:

January 1, 2008	$ 437,850
Total unrealized losses included in changes in net assets	(157,500)
December 31, 2008	$ 280,350

14. Endowment and Board Designated Funds

MHA's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments/board designated funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of MHA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MHA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by MHA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, MHA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

14. Endowment and Board Designated Funds (continued)

As of December 31, 2008, MHA's endowment and board designated net assets had the following activity:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$4,767,492	$ 42,143	$ 288,971	$5,098,606
Interest and dividends, net of investment expense	174,901	8,582	-	183,483
Net appreciation (depreciation)	(1,493,065)	(47,129)	-	(1,540,194)
Contributions	200,987	-	-	200,987
Amounts appropriated for expenditure	(350,000)	-	-	(350,000)
Changes in Net Assets	(1,467,177)	(38,547)	-	(1,505,724)
Net assets, end of year	$3,300,315	$ 3,596	$ 288,971	$3,592,882

As of December 31, 2008, MHA's endowment and board designated net assets had the following net asset composition:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ -	$ 288,971	$ 288,971
Temporarily restricted	-	3,596	-	3,596
Board restricted	3,300,315	-	-	3,300,315
Endowment net assets, end of year	$ 3,300,315	$ 3,596	$ 288,971	$3,592,882

14. Endowment and Board Designated Funds (continued)

Permanently Restricted Net Assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 288,971
Total endowment funds classified as permanently restricted net assets	$ 288,971
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	$ -
With purpose restrictions	3,596
Total endowment funds classified as temporarily restricted net assets	$ 3,596

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor restricted endowment fund may fall below the level that the donor or UPMIFA requires MHA to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2008.

Return Objectives and Risk Parameters

MHA has adopted investment and spending policies for endowment and board designated 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 as well as board-designated funds. Under this policy, as approved by the Board of Directors, the board designated assets are invested in funds with a primary objective to achieve growth and a secondary objective to maximize income while minimizing investment risk. The objective of the permanently restricted assets is the preservation of capital.

14. Endowment and Board Designated Funds (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's current asset allocation for board designated funds targets a composition of between 30% and 55% in U.S. stocks, 0% and 10% of non-U.S. stocks, bonds between 30% and 45% and cash equivalents between 0% and 15%. The building reserve fund also permits MHA to invest in alternative investments between 0% and 15%. MHA's current asset allocation for permanently restricted net assets targets a composition of stocks between 10% and 30%, fixed income between 50% and 70% and cash equivalents between 10% and 30%.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Expenditures from the board designated net assets are released as approved by MHA's board of directors. The earnings on the permanently restricted net assets are released from restricted funds and are used in accordance with donor stipulations described in Note 7.

15. 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 MHA's audited financial statements for the year ended December 31, 2007, from which the summarized information was prepared and note 11 of the December 31, 2008 financial statements.