



**NATIONAL MENTAL HEALTH ASSOCIATION
AND SUBSIDIARY**
Consolidated Financial Statements

*For the Year Ended December 31, 2001
(With Summarized Financial Information for the Year Ended December 31, 2000)*



**and
Report Thereon**



**Reports Required in Accordance with Office of
Management and Budget Circular A-133**

For the Year Ended December 31, 2001



NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

TABLE OF CONTENTS

	<i>Page</i>
Independent Auditor's Report.....	1
Financial Statements	
Consolidated Statement of Financial Position.....	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-14
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	15-16
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	17-18
Schedule of Expenditures of Federal Awards.....	19
Notes to Schedule of Expenditures of Federal Awards.....	20
Schedule of Findings and Questioned Costs.....	21-23

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
National Mental Health Association

We have audited the accompanying consolidated statement of financial position of the National Mental Health Association (NMHA) and subsidiary (collectively referred to as the Association) as of December 31, 2001, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Association'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 the Association's 2000 financial statements and, in our report dated May 10, 2001, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Association as of December 31, 2001, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2002 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Raffa & Associates, P.C.

Washington, DC
May 8, 2002

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2001
(With Summarized Financial Information as of December 31, 2000)

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 317,401	\$ 92,639
Accounts receivable	202,184	229,139
Due from NAMHPAC	-	77,831
Grants and contracts receivable, current portion	918,971	1,729,609
Bequests receivable	750,218	895,575
Prepaid expenses	182,321	129,106
Inventory	160,088	171,107
Total Current Assets	2,531,183	3,325,006
Grants and contracts receivable, net of current portion	77,000	405,935
Bequests receivable, net of current portion	150,000	198,360
Investments	484,460	399,967
Property and equipment, net	2,348,822	2,553,848
TOTAL ASSETS	\$ 5,591,465	\$ 6,883,116
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 563,669	\$ 1,206,387
Note payable, current portion	65,711	60,711
Capital lease obligations, current portion	84,180	78,910
Total Current Liabilities	713,560	1,346,008
Note payable, net of current portion	955,757	1,021,724
Capital lease obligations, net of current portion	162,211	248,149
Deposits held	16,833	4,708
TOTAL LIABILITIES	1,848,361	2,620,589
Risks and Contingencies		
Net Assets		
Unrestricted		
Undesignated	660,493	668,543
Board designated as reserve funds	586,386	326,538
Net investment in property and equipment	1,080,963	1,144,354
Jo Blaylock memorial fund	52,055	50,000
Total Unrestricted	2,379,897	2,189,435
Temporarily restricted	1,074,236	1,784,121
Permanently restricted	288,971	288,971
TOTAL NET ASSETS	3,743,104	4,262,527
TOTAL LIABILITIES AND NET ASSETS	\$ 5,591,465	\$ 6,883,116

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

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2001
(With Summarized Financial Information for the Year Ended December 31, 2000)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2001 Total	2000 Total
REVENUE AND SUPPORT					
Grants and contributions	\$ 4,444,467	\$ 5,398,355	\$ -	\$ 9,842,822	\$ 9,674,236
Bequests	729,490	-	-	729,490	1,206,981
Affiliate support	713,925	-	-	713,925	609,226
Sales	123,845	-	-	123,845	124,840
Special events	109,750	-	-	109,750	190,414
In-kind contributions	57,759	-	-	57,759	16,735
Combined federal campaign	52,382	-	-	52,382	52,233
Investment income	12,329	3,224	-	15,553	33,388
Rental income	7,800	-	-	7,800	6,996
Subscriptions income	1,910	-	-	1,910	248
Net assets released from restrictions:					
Satisfaction of program restrictions	6,111,464	(6,111,464)	-	-	-
TOTAL REVENUE AND SUPPORT	12,365,121	(709,885)	-	11,655,236	11,915,297
EXPENSES					
Program Services					
Constituency services	4,911,715	-	-	4,911,715	3,803,560
Education	3,244,960	-	-	3,244,960	3,217,705
Research	1,651,932	-	-	1,651,932	1,686,082
Advocacy	1,351,005	-	-	1,351,005	1,256,376
Total Program Services	11,159,612	-	-	11,159,612	9,963,723
Management and general	689,294	-	-	689,294	618,760
Fundraising	325,753	-	-	325,753	379,876
TOTAL EXPENSES	12,174,659	-	-	12,174,659	10,962,359
Change in Net Assets	190,462	(709,885)	-	(519,423)	952,938
NET ASSETS, BEGINNING OF YEAR	2,189,435	1,784,121	288,971	4,262,527	3,309,589
NET ASSETS, END OF YEAR	\$ 2,379,897	\$ 1,074,236	\$ 288,971	\$ 3,743,104	\$ 4,262,527

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

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2001

(With Summarized Financial Information for the Year Ended December 31, 2000)

	Program Services				Total Program Services	Supporting Services		2001 Total	2000 Total
	Constituency Services	Education	Research	Advocacy		Management and General	Fundraising		
Salaries and benefits	\$ 2,820,245	\$ 2,305,330	\$ 1,092,944	\$ 1,093,264	\$ 7,311,783	\$ 424,831	\$ 194,405	\$ 7,931,019	\$ 5,756,260
Professional fees and contract service payments	436,686	144,385	179,540	30,181	790,792	74,960	27,301	893,053	1,077,716
Conference and meetings	402,059	211,270	90,823	14,017	718,169	-	3,937	722,106	1,131,893
Grants	611,550	-	-	-	611,550	-	-	611,550	573,341
Travel	202,343	61,529	97,419	31,618	392,909	6,127	16,126	415,162	736,588
Outside printing and art work	53,450	295,519	1,819	27,669	378,457	2,561	-	381,018	384,885
Occupancy	82,760	66,208	33,104	43,035	225,107	72,829	33,104	331,040	233,477
Depreciation and amortization	59,467	47,573	23,787	30,923	161,750	52,331	23,787	237,868	239,645
Telephone	88,497	38,867	52,788	26,844	206,996	18,827	-	225,823	216,713
Postage and shipping	45,284	28,225	42,139	21,073	136,721	1,693	9,051	147,465	182,169
Supplies	60,425	14,096	11,171	4,885	90,577	16,729	6,691	113,997	243,063
Interest	20,916	16,733	8,366	10,876	56,891	18,406	8,366	83,663	88,536
Miscellaneous	28,033	15,225	18,032	16,620	77,910	-	2,985	80,895	98,073
TOTAL	<u>\$ 4,911,715</u>	<u>\$ 3,244,960</u>	<u>\$ 1,651,932</u>	<u>\$ 1,351,005</u>	<u>\$ 11,159,612</u>	<u>\$ 689,294</u>	<u>\$ 325,753</u>	<u>\$ 12,174,659</u>	<u>\$ 10,962,359</u>

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

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2001
(With Summarized Financial Information for the Year Ended December 31, 2000)
Increase (Decrease) in Cash and Cash Equivalents

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (519,423)	\$ 952,938
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	237,868	239,645
Unrealized loss on investments	2,165	9,548
Realized loss on investments	1,471	-
Changes in assets and liabilities		
Accounts receivable	26,955	(81,143)
Due from NAMHPAC	77,831	(73,779)
Grants and contracts receivable	1,139,573	(907,407)
Bequests receivable	193,717	(824,920)
Prepaid expenses	(53,215)	(27,477)
Inventory	11,019	(15,518)
Accounts payable and accrued expenses	(642,718)	1,037,159
Deposits held	12,125	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	487,368	309,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(32,842)	(175,345)
Proceeds from sales of investments	210,930	36,295
Purchases of investments	(299,059)	(318,701)
NET CASH USED IN INVESTING ACTIVITIES	(120,971)	(457,751)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(60,967)	(56,665)
Principal payments on capital lease obligations	(80,668)	(79,006)
NET CASH USED IN FINANCING ACTIVITIES	(141,635)	(135,671)
Net Increase (Decrease) in Cash and Cash Equivalents	224,762	(284,376)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	92,639	377,015
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 317,401	\$ 92,639
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 83,663	\$ 88,536
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligation for equipment	\$ -	\$ 107,050

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

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

Organized in 1950, the National Mental Health Association, Inc. (NMHA) 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. NMHA's primary sources of revenue are grants and contributions from foundations, government agencies and private industry and membership dues received from affiliated organizations nationwide.

The Musicians for Mental Health, LLC is a limited liability corporation incorporated in Virginia by NMHA in 2001. The Musicians for Mental Health, LLC is organized to raise awareness of mental health through concerts and other special events.

Principles of Consolidation

The consolidated financial statements include the account balances of NMHA and the Musicians for Mental Health, LLC (collectively referred to as the Association). NMHA and the Musicians for Mental Health, LLC have been consolidated due to the presence of common control and economic interest as required under accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in the consolidation.

Each of the mental health associations affiliated with the Association elects its own board of directors, conducts service programs independent of the Association, and maintains its own financial accounts. Accordingly, the financial statements of the Association do not include the accounts and activities of these affiliated organizations.

Cash and Cash Equivalents

The Association 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 the Association.

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.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investments

Investments are comprised of equity and bond mutual funds and money market funds and are recorded in the financial statements at fair value. Investments that are part of the board designated reserve fund or that have been permanently restricted by the donor are classified as long-term investments.

Property and Equipment and Related Depreciation and Amortization

Land, building, building improvements, furniture and equipment are stated at cost and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets as follows:

Building	45 years
Furniture and Equipment	3 - 5 years

Building improvements are depreciated on the straight-line basis over the remaining life of the building. Equipment purchased under capital leases is amortized on the straight-line basis over the life of the lease. 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.

Classification of Net Assets

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

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Association's operations. It also includes the net assets of the reserve fund which are designated by the Board of Directors.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors for various programs.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the interest earned on such amounts be used in the manner specified by the donor.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

The Association 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 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 unconditional promises are made. Revenue recognized on grants that have been committed to the Association, but have not been received, is reflected as grants and contracts receivable in the accompanying consolidated statement of financial position.

The Association has grants and contracts from United States government agencies. Revenue from these grants and contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses at a provisional rate. Revenue recognized on grants for which billings have not been presented to or collected from grantors is reflected as grants and contracts receivable in the accompanying consolidated statement of financial position.

Affiliate support is recognized in the period received.

The Association 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 their 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 consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on direct costs.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 \$779,407 of unconditional promises to give from foundations and corporations. Also included in grants and contracts receivable is \$216,564 of grant and contract revenue receivable from United States government agencies which represents billings that have been presented to grantors but remain unpaid at year end. All amounts are considered fully collectible and are due as follows:

Due in less than one year	\$ 918,971
Between one to three years	<u>77,000</u>
Total grants and contracts receivable	<u>\$ 995,971</u>

3. Investments

Investments as of December 31, 2001 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Bond mutual funds	\$ 114,000	\$ 123,015
Equity mutual funds	76,558	63,971
Money market funds	<u>297,474</u>	<u>297,474</u>
Total	<u>\$ 488,032</u>	<u>\$ 484,460</u>

Continued

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment are comprised of the following as of December 31, 2001:

Building and improvements	\$ 2,128,516
Land	545,700
Office furniture and equipment	859,578
Equipment under capital lease	<u>397,605</u>
Total	3,931,399
Less: accumulated depreciation and amortization	<u>(1,582,577)</u>
Net property and equipment	<u>\$ 2,348,822</u>

5. Note Payable

The Association entered into a note payable agreement with First Virginia Bank for \$1,265,000. This loan is collateralized by a first deed of trust on the building at 1021 Prince Street and the related improvements and is repaid in monthly installments of \$12,052 of principal and interest, which accrues at 7.96% for the first five years.

On October 24, 2001, the Association entered into an agreement to sell its building at 1021 Prince Street. This agreement was contingent upon the Association obtaining a replacement facility for its operations. In the event the Association did not inform the buyer whether a replacement facility was obtained within 135 days, the agreement automatically terminated. On May 2, 2002, the Association accepted and signed the agreement to sell the building for \$3,800,000. A portion of the proceeds from the sale of the building will be used to repay the note payable to First Virginia Bank and other closing costs. Management intends to invest the remaining portion on the proceeds, \$2,686,000, in U.S. Government bonds and the funds will be used to purchase a new building in future years.

6. Capital Leases

NMHA leases office equipment under six leases which expire through 2005. The leased equipment is included in property and equipment at a cost of \$397,605 with accumulated amortization of \$197,165 as of December 31, 2001.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Capital Leases (continued)

The future minimum lease payments required for these capital leases at December 31, 2001 are as follows:

For the Year Ending December 31,	
2002	\$ 98,544
2003	98,544
2004	75,644
2005	<u>777</u>
Total future minimum lease payments	273,509
Less: amount representing interest	<u>(27,118)</u>
Present value of net minimum lease payments	246,391
Less: current portion	<u>(84,180)</u>
Long-term portion	<u>\$ 162,211</u>

7. Net Assets

Board Designated Unrestricted Net Assets

The Board of Directors of the Association has designated unrestricted net assets for the purpose of establishing a reserve fund. The Board has approved annual contributions to the fund in an amount that equals 20% of the change in unrestricted net assets before depreciation, which for the year ended December 31, 2001 totaled \$86,386. The Board of Directors may approve annual contributions in excess of the amount prescribed by the funding policy. For the year ended December 31, 2001, the Board of Directors approved an additional contribution of \$173,462. Board designated unrestricted net assets as of December 31, 2001 totaled \$586,386, of which \$390,897 has been temporarily loaned to the Association's general fund against an outstanding receivable as permitted by the NMHA Board Reserve Fund Policy. The objective of the reserve fund is to meet expenses occurring during times of financial shortfall and to provide a method of funding programs not supported by other funding sources.

The Board of Directors of the Association has also designated \$50,000 of 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 and will be used for educational purposes.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Net Assets (continued)

Board Designated Unrestricted Net Assets (continued)

Also included in unrestricted net assets is the Association's investment in property and equipment. This amount is calculated by subtracting the amount owed on the property and equipment (i.e. the note payable and the capital lease obligations) from the net book value of total property and equipment.

Temporarily Restricted

Certain temporarily restricted net assets are available for use among the programs of the Association 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, 2001 are as follows:

Constituency services	\$ 377,159
Education	294,206
Research	100,315
Advocacy	<u>302,556</u>
Total	<u>\$ 1,074,236</u>

Permanently Restricted Net Assets

Permanently restricted net assets includes 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.

Because the interest income earned on the above bequests is restricted for stated purposes, it is recorded as temporarily restricted revenue on the statement of activities and is released from restriction as the program restrictions are met. Interest income earned on permanently restricted net assets totaled \$3,224 for 2001.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Line of Credit

The Association has an unsecured \$600,000 line of credit with First Virginia Bank to provide interim funding for payroll and operating expenses which expires August 16, 2002. Funds drawn against this line accrue interest at prime, which as of December 31, 2001 was 4.75%. The terms of the line of credit require the Association to maintain a depository account with First Virginia as long as the commitment is in effect. As of December 31, 2001, the Association had no outstanding balance on the line of credit.

9. Pension Plan

The Association 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 the Association as defined in the plan document. The Association's pension expense for the year ended December 31, 2001 totaled \$242,275 and is included in salary and benefits on the accompanying consolidated statement of functional expenses.

10. Risks and Contingencies

Cash

Cash is comprised of amounts in accounts at various financial institutions. While the amount at a given bank at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation (FDIC) and, therefore, bears some risk, the Association has not experienced, nor does it anticipate any loss of funds. As of December 31, 2001, the amount in excess of the FDIC limit was \$66,860.

Indirect cost

Billings under cost reimbursable government grants are calculated using provisional rates which permit recovery of indirect costs. These rates are subject to a final audit and approval by the Federal government. For the year ended December 31, 2001, the government has not audited and issued a final approval of the Association's indirect cost rate. In the opinion of management, adjustments, if any, from such an audit will not have any material effect on the Association's financial position as of December 31, 2001 or results of operations for the year then ended.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Musicians for Mental Health, LLC

The Musicians for Mental Health, LLC, was incorporated during the year ended December 31, 2001. During the year ended December 31, 2001, costs were incurred to set up the organization. In addition, period related costs were incurred in preparation for a fundraising event that will take place in May 2002. The financial statements of the Musicians for Mental Health, LLC prior to the elimination of intercompany balances, as of and for the year ended December 31, 2001 are as follows:

<u>Balance Sheet</u>		<u>Statement of Operations</u>	
Assets	<u>\$ -</u>	Revenue	\$ 45,350
Liabilities	\$ 79,299	Expenses	<u>(124,649)</u>
Accumulated Deficit	<u>(79,299)</u>	Net loss	<u>\$ (79,299)</u>
Total	<u>\$ -</u>		

12. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, NMHA is exempt from the payment of taxes on income other than unrelated business income. The Musicians for Mental Health, LLC is considered a disregarded entity by the Internal Revenue Service for tax purposes and therefore any net unrelated business income is reported on NMHA's federal tax return. For the year ended December 31, 2001 no provision for income taxes was made as neither NMHA nor the Musicians for Mental Health, LLC had any net unrelated business income.

13. Prior Year Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2001, from which the summarized information was derived.

14. Reclassifications

Certain 2000 amounts have been reclassified to conform with the 2001 presentation.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
National Mental Health Association

We have audited the consolidated financial statements of the National Mental Health Association (NMHA) and subsidiary (collectively referred to as the Association) as of and for the year ended December 31, 2001, and have issued our report thereon dated May 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Administration Committee, the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Raffa & Associates, P.C.

Washington, DC

May 8, 2002

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of the
National Mental Health Association

Compliance

We have audited the compliance of the National Mental Health Association (NMHA) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2000. NMHA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of NMHA's management. Our responsibility is to express an opinion on NMHA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NMHA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NMHA's compliance with those requirements.

In our opinion, NMHA complied in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

The management of NMHA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered NMHA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Administration Committee, the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Raffa & Associates, P.C.

Washington, DC
May 8, 2002

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2001

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Agency or Pass-through Grant Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Consolidated Knowledge Development and Application Program Cluster</i>			
Violence Prevention Coordinating Center	1 UR1 SM53039-01	93.230	\$3,006,976
Consumer Supporter Technical Assistance Center	6 KD1 SM52566-01-2	93.230	<u>400,000</u>
Total Consolidated Knowledge Development and Application Program Cluster			3,406,976
Children Linkage Project	1 H48 MC00018-01	93.110	<u>185,291</u>
Total U.S. Department of Health and Human Services			3,592,267
U.S. DEPARTMENT OF JUSTICE			
Effective Prison Mental Health Service	00P20GIN5	16.603	<u>66,009</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$3,658,276</u>

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2001

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

2. Amount Provided to Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Association provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Consumer Supporter Technical Assistance Center	93.230	\$104,800

3. Reconciliation of Federal Revenue and Expenditures

Grants and contributions revenue in the accompanying statement of activities includes \$6,184,546 of grants and contributions revenue from nonfederal sources and \$3,658,276 from federal sources.

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2001

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Qualified
 Adverse Disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted: Yes No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified Qualified
 Adverse Disclaimer

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Subpart B, Section 510?

Yes No

Identification of Major Program(s):

<u>CFDA #</u>	<u>Cluster Title</u>
<u>93.230</u>	<u>Consolidated Knowledge Development and Application Program Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? Yes No

Continued

NATIONAL MENTAL HEALTH ASSOCIATION AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2001

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None