

NAMI

Financial Statements
and Independent Auditors' Report

OMB Circular A-133 Reports

December 31, 2011 and 2010

NAMI

Financial Statements
December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of NAMI

We have audited the accompanying statements of financial position of NAMI as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of NAMI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide 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 NAMI at December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 February 23, 2012 on our consideration of NAMI's internal control over financial reporting and on our test of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purposes of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. 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 financial statements of NAMI. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia
February 23, 2012

NAMI

Statements of Financial Position December 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---------------------------------------|-----------------------------|-----------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,465,158 | \$ 2,085,871 |
| Accounts receivable | 1,139,953 | 1,104,011 |
| Inventory | 57,549 | 92,260 |
| Investments | 5,316,792 | 5,466,706 |
| Prepaid expenses | 276,144 | 253,454 |
| Property and equipment, net | 936,992 | 855,744 |
| Deposits | 46,900 | 46,900 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$ 10,239,488</u> | <u>\$ 9,904,946</u> |
| | | |
| Liabilities and Net Assets | | |
| | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,089,901 | \$ 972,176 |
| Deferred revenue | 135,978 | 256,381 |
| Deferred rent and lease incentive | 767,396 | 776,615 |
| Charitable gift annuities | 265,903 | 261,071 |
| | <u> </u> | <u> </u> |
| Total liabilities | <u>2,259,178</u> | <u>2,266,243</u> |
| | | |
| Net Assets | | |
| Unrestricted | 4,629,555 | 4,440,434 |
| Temporarily restricted | 2,805,992 | 2,658,106 |
| Permanently restricted | 544,763 | 540,163 |
| | <u> </u> | <u> </u> |
| Total net assets | <u>7,980,310</u> | <u>7,638,703</u> |
| | | |
| Total liabilities and net assets | <u>\$ 10,239,488</u> | <u>\$ 9,904,946</u> |

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Statement of Activities
For the Year Ended December 31, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Revenue and Support | | | | |
| Contributions | \$ 3,838,557 | \$ 3,851,909 | \$ 4,600 | \$ 7,695,066 |
| Walks | 875,983 | - | - | 875,983 |
| Federal grants and contracts | 767,505 | - | - | 767,505 |
| Registrations | 425,745 | - | - | 425,745 |
| Dues | 309,906 | - | - | 309,906 |
| Investment income | 196,132 | - | - | 196,132 |
| Sales | 163,344 | - | - | 163,344 |
| Other revenue | 37,606 | - | - | 37,606 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 1,884,023 | (1,884,023) | - | - |
| Satisfaction of time restrictions | 1,820,000 | (1,820,000) | - | - |
| Total revenue and support | 10,318,801 | 147,886 | 4,600 | 10,471,287 |
| Expenses | | | | |
| Program services: | | | | |
| Program and membership support | 4,845,915 | - | - | 4,845,915 |
| Education services | 1,297,357 | - | - | 1,297,357 |
| Advocacy | 1,698,255 | - | - | 1,698,255 |
| Total program services | 7,841,527 | - | - | 7,841,527 |
| Supporting services: | | | | |
| Administration | 1,096,874 | - | - | 1,096,874 |
| Development | 1,191,279 | - | - | 1,191,279 |
| Total supporting services | 2,288,153 | - | - | 2,288,153 |
| Total expenses | 10,129,680 | - | - | 10,129,680 |
| Change in Net Assets | 189,121 | 147,886 | 4,600 | 341,607 |
| Net Assets, beginning of year | 4,440,434 | 2,658,106 | 540,163 | 7,638,703 |
| Net Assets, end of year | \$ 4,629,555 | \$ 2,805,992 | \$ 544,763 | \$ 7,980,310 |

See accompanying notes.

NAMI

Statement of Activities
For the Year Ended December 31, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Revenue and Support | | | | |
| Contributions | \$ 2,972,228 | \$ 3,753,672 | \$ 4,250 | \$ 6,730,150 |
| Federal grants and contracts | 867,022 | - | - | 867,022 |
| Walks | 716,030 | - | - | 716,030 |
| Dues | 329,103 | - | - | 329,103 |
| Investment income | 315,681 | - | - | 315,681 |
| Registrations | 306,488 | - | - | 306,488 |
| Sales | 227,243 | - | - | 227,243 |
| Other revenue | 44,006 | - | - | 44,006 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 2,989,409 | (2,989,409) | - | - |
| Satisfaction of time restrictions | 2,260,000 | (2,260,000) | - | - |
| Total revenue and support | 11,027,210 | (1,495,737) | 4,250 | 9,535,723 |
| Expenses | | | | |
| Program services: | | | | |
| Program and membership support | 4,873,701 | - | - | 4,873,701 |
| Education services | 1,845,101 | - | - | 1,845,101 |
| Advocacy | 1,691,204 | - | - | 1,691,204 |
| Total program services | 8,410,006 | - | - | 8,410,006 |
| Supporting services: | | | | |
| Administration | 1,227,404 | - | - | 1,227,404 |
| Development | 1,276,053 | - | - | 1,276,053 |
| Total supporting services | 2,503,457 | - | - | 2,503,457 |
| Total expenses | 10,913,463 | - | - | 10,913,463 |
| Change in Net Assets | 113,747 | (1,495,737) | 4,250 | (1,377,740) |
| Net Assets, beginning of year | 4,326,687 | 4,153,843 | 535,913 | 9,016,443 |
| Net Assets, end of year | \$ 4,440,434 | \$ 2,658,106 | \$ 540,163 | \$ 7,638,703 |

NAMI

Statement of Functional Expenses
For the Year Ended December 31, 2011

| | Program Services | | | Total Program Services | Supporting Services | | Total Supporting Services | Total |
|-------------------------------|--------------------------------------|-----------------------|---------------------|------------------------------|---------------------|---------------------|---------------------------------|----------------------|
| | Program and Membership Support | Education Services | Advocacy | | Administration | Development | | |
| Personnel costs | \$ 2,700,013 | \$ 825,957 | \$ 1,196,414 | \$ 4,722,384 | \$ 989,829 | \$ 617,243 | \$ 1,607,072 | \$ 6,329,456 |
| Occupancy | 14,337 | - | - | 14,337 | 700,240 | 25 | 700,265 | 714,602 |
| Printing and copying | 292,859 | 41,627 | 60,420 | 394,906 | (25,634) | 138,475 | 112,841 | 507,747 |
| Travel | 254,536 | 99,150 | 36,163 | 389,849 | 3,525 | 49,385 | 52,910 | 442,759 |
| Postage and shipping | 178,039 | 18,831 | 30,522 | 227,392 | 8,828 | 106,728 | 115,556 | 342,948 |
| Meetings | 218,200 | 76,651 | 19,855 | 314,706 | 2,309 | 16,340 | 18,649 | 333,355 |
| Subcontractors | 168,376 | 18,963 | 61,447 | 248,786 | 23,124 | 44,570 | 67,694 | 316,480 |
| Computer costs | 314,801 | 74,243 | 106,525 | 495,569 | (329,982) | 66,686 | (263,296) | 232,273 |
| Depreciation and amortization | - | - | - | - | 178,700 | - | 178,700 | 178,700 |
| Office supplies | 98,062 | 6,516 | 2,860 | 107,438 | 11,546 | 14,491 | 26,037 | 133,475 |
| Telephone | 52,395 | 13,737 | 16,352 | 82,484 | 36,618 | 7,992 | 44,610 | 127,094 |
| Taxes and fees | 15,482 | 25 | - | 15,507 | 94,644 | 494 | 95,138 | 110,645 |
| Professional fees | 12,848 | 12,000 | - | 24,848 | 72,919 | - | 72,919 | 97,767 |
| Grants and scholarships | 57,583 | 5,000 | 7,000 | 69,583 | - | - | - | 69,583 |
| Dues and subscriptions | 17,091 | 175 | 14,676 | 31,942 | 6,968 | 22,961 | 29,929 | 61,871 |
| Equipment and maintenance | 800 | - | - | 800 | 49,857 | 345 | 50,202 | 51,002 |
| Temporary labor | 17,677 | - | - | 17,677 | - | - | - | 17,677 |
| Miscellaneous and allocation | 432,816 | 104,482 | 146,021 | 683,319 | (726,617) | 105,544 | (621,073) | 62,246 |
| Total Expenses | \$ 4,845,915 | \$ 1,297,357 | \$ 1,698,255 | \$ 7,841,527 | \$ 1,096,874 | \$ 1,191,279 | \$ 2,288,153 | \$ 10,129,680 |

See accompanying notes.

NAMI

Statement of Functional Expenses
For the Year Ended December 31, 2010

| | Program Services | | | Total Program Services | Supporting Services | | Total Supporting Services | Total |
|-------------------------------|--------------------------------------|-----------------------|---------------------|------------------------------|---------------------|---------------------|---------------------------------|----------------------|
| | Program and Membership Support | Education Services | Advocacy | | Administration | Development | | |
| Personnel costs | \$ 2,702,769 | \$ 1,002,204 | \$ 1,109,677 | \$ 4,814,650 | \$ 758,169 | \$ 593,844 | \$ 1,352,013 | \$ 6,166,663 |
| Occupancy | 17,884 | 166 | - | 18,050 | 637,245 | - | 637,245 | 655,295 |
| Subcontractors | 312,956 | 97,234 | 168,546 | 578,736 | 36,238 | 29,251 | 65,489 | 644,225 |
| Travel | 302,971 | 148,332 | 101,997 | 553,300 | 2,302 | 35,311 | 37,613 | 590,913 |
| Printing and copying | 184,209 | 96,593 | 46,853 | 327,655 | (24,414) | 282,335 | 257,921 | 585,576 |
| Meetings | 234,420 | 89,298 | 49,293 | 373,011 | 389 | 4,794 | 5,183 | 378,194 |
| Grants and scholarships | 197,237 | 137,500 | 1,810 | 336,547 | - | - | - | 336,547 |
| Postage and shipping | 111,700 | 33,079 | 18,504 | 163,283 | 10,470 | 158,122 | 168,592 | 331,875 |
| Computer costs | 103,404 | 2,050 | 3,612 | 109,066 | 195,599 | 9,536 | 205,135 | 314,201 |
| Depreciation and amortization | - | - | - | - | 190,357 | - | 190,357 | 190,357 |
| Office supplies | 96,872 | 21,692 | 6,056 | 124,620 | 18,048 | 5,470 | 23,518 | 148,138 |
| Telephone | 61,848 | 28,077 | 16,149 | 106,074 | 34,719 | 7,078 | 41,797 | 147,871 |
| Taxes and fees | 29,694 | 1 | - | 29,695 | 97,130 | 8 | 97,138 | 126,833 |
| Professional fees | 25,994 | 16,940 | 1,300 | 44,234 | 60,447 | - | 60,447 | 104,681 |
| Dues and subscriptions | 19,780 | 3,444 | 13,309 | 36,533 | 1,580 | 34,525 | 36,105 | 72,638 |
| Equipment and maintenance | - | - | - | - | 46,641 | 129 | 46,770 | 46,770 |
| Temporary labor | 16,802 | - | - | 16,802 | - | 760 | 760 | 17,562 |
| Miscellaneous and allocation | 455,161 | 168,491 | 154,098 | 777,750 | (837,516) | 114,890 | (722,626) | 55,124 |
| Total Expenses | \$ 4,873,701 | \$ 1,845,101 | \$ 1,691,204 | \$ 8,410,006 | \$ 1,227,404 | \$ 1,276,053 | \$ 2,503,457 | \$ 10,913,463 |

See accompanying notes.

NAMI

Statements of Cash Flows For the Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|----------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 341,607 | \$ (1,377,740) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net realized gain on investments | (32,685) | (6,819) |
| Unrealized gain on investments | (35,647) | (197,929) |
| Donated investments | (70,615) | (35,622) |
| Contributions restricted for long-term purposes | (4,600) | (4,250) |
| Change in value of charitable gift annuities | 33,973 | 35,162 |
| Depreciation and amortization | 178,700 | 190,357 |
| Change in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (35,942) | 1,628,327 |
| Inventory | 34,711 | 11,383 |
| Prepaid expenses | (22,690) | (7,343) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 117,725 | (190,300) |
| Deferred revenue | (120,403) | 173,306 |
| Deferred rent and lease incentive | (9,219) | 7,834 |
| | 374,915 | 226,366 |
| Cash Flows from Investing Activities | | |
| Proceeds from sales of investments | 996,943 | 2,384,878 |
| Purchases of investments | (708,082) | (2,060,161) |
| Purchases of property and equipment | (259,948) | (60,837) |
| | 28,913 | 263,880 |
| Cash Flows from Financing Activities | | |
| Payments on charitable gift annuity obligations | (29,141) | (29,141) |
| Contributions restricted for long-term purposes | 4,600 | 4,250 |
| | (24,541) | (24,891) |
| Net Increase in Cash and Cash Equivalents | 379,287 | 465,355 |
| Cash and Cash Equivalents, beginning of year | 2,085,871 | 1,620,516 |
| Cash and Cash Equivalents, end of year | \$ 2,465,158 | \$ 2,085,871 |

See accompanying notes.

NAMI

Notes to Financial Statements December 31, 2011 and 2010

1. Nature of Operations

NAMI is the nation's largest grassroots mental health organization, dedicated to improving the lives of people living with serious mental illness and their families. Founded in 1979, NAMI is the nation's voice on mental illness. Voting membership is given to any affiliate group of five or more individuals that supports NAMI's mission and pays annual dues of \$35 per member. The activities of NAMI are funded primarily through grants, contributions and dues.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis of accounting following generally accepted accounting and reporting principles for not-for-profit organizations. Revenue is recognized when earned and expenses are recognized when incurred. Net assets are reported based on the presence or absence of donor-imposed restrictions in the following classes:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support NAMI's operations. Included in unrestricted net assets are Board-designated net assets, which are currently available to support NAMI's daily operations. As of December 31, 2011 and 2010, there was \$2,882,293 and \$2,806,610, respectively, in the Board-designated operating reserve.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of NAMI or the passage of time.
- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for the general operations of NAMI or the restricted purpose imposed by the donors.

Cash and Cash Equivalents

NAMI considers all highly liquid investments, including money market funds not held for long-term investment purposes and certificates of deposits with maturities of three months or less when purchased, to be cash equivalents.

Investments

Investments are comprised of money market funds, certificates of deposit, and mutual funds. Investments are recorded at fair value based on quoted market prices.

NAMI

Notes to Financial Statements
December 31, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are stated at their net realizable value. Management periodically reviews the status of all accounts receivable balances and assesses their collectability. All receivables deemed uncollectible are written off directly to bad debt expenses. No allowance for doubtful accounts is recorded at December 31, 2011 and 2010, as management believes that all amounts are fully collectible.

Inventory

Inventory consists of books, videotapes, brochures, and other resource materials held for resale, and is stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out basis.

Property and Equipment

Property and equipment valued at over \$2,000 with a useful life longer than one year are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements and assets under capital leases are amortized over the shorter of the terms of the related leases or estimated useful lives of the assets, using the straight-line method. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

Capitalized Software Costs

NAMI capitalizes certain costs associated with computer software developed or obtained for internal use in accordance with the provisions of Accounting Standards Codification (ASC) 350-40, *Internal Use Software*. NAMI's policy provides for the capitalization of external direct costs of materials and services. Costs associated with preliminary project state activities, training, maintenance, and post implementation stage activities are expensed as incurred. Capitalized costs are recorded as work in progress at December 31, 2011, until it will be put in the process in mid-2012, when it will be amortized over its estimated useful life on a straight-line basis.

NAMI

Notes to Financial Statements
December 31, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions are reported as unrestricted support available for general operations unless specifically restricted by the donor. NAMI 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 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 statements of activities as net assets released from restrictions.

NAMI has contracts with the federal government and pass-through agencies in exchange for services. Revenue from these contracts is recognized as direct costs are incurred on the basis of direct costs plus allowable indirect costs or based on the percentage of the task completed for fixed-fee contracts. Revenue recognized on the contracts for which billings have not been presented to the grantor or received from the grantor is reflected as accounts receivable in the accompanying statements of financial position.

NAMI also organizes affiliate walks to raise awareness of mental health issues. Walks revenue is recorded in the accompanying statements of activities based on cash received or promised from participant walk sites.

Membership dues are considered contributions and are recorded when promised or received.

Registration fees are recognized at the time the event takes place. Amounts received in advance of the event are included in deferred revenue in the accompanying statements of financial position.

Revenue from all other sources is recognized when earned.

Fair Value Measurements

NAMI follows ASC 820, *Fair Value Measurements and Disclosures*, for measuring financial assets and liabilities. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and level 3 is based on unobservable inputs.

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Notes to Financial Statements
December 31, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

NAMI also follows ASC 825-10, *Financial Instruments*, which allows entities the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. At adoption, the effect of the first remeasurement to fair value is recorded as a cumulative effect adjustment to the opening balance of unrestricted net assets. NAMI did not elect to measure any additional eligible financial assets or financial liabilities at fair value. Accordingly, adoption of this standard had no impact on the NAMI's results of operations or financial position.

Functional Allocation of Expenses

The costs of NAMI's activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Use of 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Concentrations of Credit Risk

Financial instruments that potentially subject NAMI to significant concentrations of credit risk consist of cash and investments. NAMI maintains various cash deposit and transaction accounts with financial institutions, including non-interest-bearing cash accounts totaling \$2,465,158, which are fully insured, without limit, through December 31, 2012, under the new financial regulatory reform legislation.

NAMI also maintains investments with a financial institution, amounting to \$5,316,792 at December 31, 2011, all of which are within insurable limits under the Securities Investor Protection Corporation (SIPC). NAMI has not experienced any credit losses on its cash and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

NAMI

Notes to Financial Statements December 31, 2011 and 2010

4. Investments

Investments consist of the following as of December 31:

| <u>2011</u> | Cost | Fair Value |
|---|--------------|--------------|
| Money market funds and cash equivalents | \$ 815,560 | \$ 815,562 |
| Mutual funds | 4,117,227 | 4,501,230 |
| Total investments | \$ 4,932,787 | \$ 5,316,792 |
| | | |
| <u>2010</u> | | |
| Money market funds and cash equivalents | \$ 604,721 | \$ 604,721 |
| Certificates of deposit | 76,000 | 75,977 |
| Mutual funds | 4,437,372 | 4,786,008 |
| Total investments | \$ 5,118,093 | \$ 5,466,706 |

Investment income consists of the following for the years ended December 31:

| | 2011 | 2010 |
|-------------------------|------------|------------|
| Interest and dividends | \$ 127,800 | \$ 110,933 |
| Realized gain | 32,685 | 6,819 |
| Unrealized gain | 35,647 | 197,929 |
| Total investment income | \$ 196,132 | \$ 315,681 |

5. Fair Value Measurements

Fair value of assets measured on a recurring basis is as follows at December 31, 2011:

| | Total fair value | Level 1 | Level 2 | Level 3 |
|---|---------------------|--------------|---------|---------|
| Money market funds and cash equivalents | \$ 815,562 | \$ 815,562 | \$ - | \$ - |
| Mutual funds - equity | 1,122,750 | 1,122,750 | - | - |
| Mutual funds - fixed income | 3,378,480 | 3,378,480 | - | - |
| Total investments | \$ 5,316,792 | \$ 5,316,792 | \$ - | \$ - |

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Notes to Financial Statements
December 31, 2011 and 2010

5. Fair Value Measurements (continued)

Fair value of assets measured on a recurring basis is as follows at December 31, 2010:

| | Total fair value | Level 1 | Level 2 | Level 3 |
|---|---------------------|---------------------|-------------|-------------|
| Money market funds and cash equivalents | \$ 604,721 | \$ 604,721 | \$ - | \$ - |
| Certificates of deposit | 75,977 | 75,977 | - | - |
| Mutual funds - equity | 1,166,807 | 1,166,807 | - | - |
| Mutual funds - fixed income | 3,619,201 | 3,619,201 | - | - |
| Total investments | <u>\$ 5,466,706</u> | <u>\$ 5,466,706</u> | <u>\$ -</u> | <u>\$ -</u> |

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. There were no level 2 or 3 financial assets at December 31, 2011 and 2010.

6. Property and Equipment

NAMI held the following property and equipment at December 31:

| | 2011 | 2010 |
|------------------------------------|--------------------|-------------------|
| Furniture and equipment | \$ 960,481 | \$ 980,619 |
| Leasehold improvements | 801,794 | 801,794 |
| Copyright | 14,000 | 14,000 |
| Work-in-progress computer software | 204,068 | - |
| Total property and equipment | 1,980,343 | 1,796,413 |
| Less: accumulated depreciation | <u>(1,043,351)</u> | <u>(940,669)</u> |
| Property and equipment, net | <u>\$ 936,992</u> | <u>\$ 855,744</u> |

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was \$178,700 and \$190,357, respectively.

NAMI

Notes to Financial Statements December 31, 2011 and 2010

7. Annuities Payable

NAMI has received several charitable gift annuities with an approximate value of \$435,212, which are included in investments as of December 31, 2011 and 2010. In return, NAMI has agreed to pay the donors annual annuity payments of \$29,141. As of December 31, 2011 and 2010, the present value of the annuity payments, using a discount rate of 1.6% and 1.8%, respectively, is \$265,903 and \$261,071, respectively, and is recorded as charitable gift annuities in the accompanying statements of financial position.

8. Commitments

NAMI leased its previous office space in Arlington, Virginia under a lease agreement that expired on January 1, 2010. In February 2009, NAMI entered into a new office lease agreement, in which the new landlord assumed responsibility for the previous lease payments from September 2009 to January 2010. The new lease commenced on September 1, 2009 and expires on January 31, 2020. Base annual rent is subject to annual rent increases of 3%. Additionally, under the terms of the lease, NAMI received a build-out allowance of \$764,294 from the landlord.

The cumulative difference between actual rent paid and rent expense is recognized as deferred rent in the accompanying statements of financial position. Rent expense was \$652,297 and \$575,935 for the years ended December 31, 2011 and 2010, respectively, and is included in occupancy expense in the accompanying statements of functional expenses.

Future minimum payments under the lease agreement are as follows for the years ending December 31:

| | | |
|-------------------------------|----|-------------------------|
| 2012 | \$ | 603,048 |
| 2013 | | 621,139 |
| 2014 | | 639,774 |
| 2015 | | 658,967 |
| 2016 | | 678,736 |
| Thereafter | | <u>2,223,872</u> |
| Total future minimum payments | \$ | <u><u>5,425,536</u></u> |

NAMI

Notes to Financial Statements December 31, 2011 and 2010

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Time-restricted | \$ 1,005,000 | \$ 1,125,000 |
| In Our Own Voice | 600,000 | 141,532 |
| Family to family | 250,000 | 294,151 |
| First Episode | 174,222 | - |
| State Advocacy | 150,000 | - |
| Parents and Teachers as Allies | 108,534 | 64,731 |
| Peer to Peer | 100,000 | - |
| Consumer Education | 100,000 | 290,000 |
| Bikes/Walk Sponsor | 75,000 | - |
| Other programs | 69,502 | 81,241 |
| Children and Adolescent Action Center | 68,726 | - |
| NAMI Basics | 50,000 | 115,000 |
| Schizophrenia programs | 37,496 | 84,443 |
| FaithNet | 12,869 | 14,895 |
| Multicultural Action Center | 4,643 | 78,400 |
| Lincy Foundation Grants | - | 104,149 |
| ADHD | - | 101,518 |
| Depression programs | - | 50,000 |
| NAMI Beginnings | - | 113,046 |
| Total temporarily restricted net assets | <u>\$ 2,805,992</u> | <u>\$ 2,658,106</u> |

10. Permanently Restricted Net Assets

Permanently restricted net assets of \$544,763 and \$540,163 at December 31, 2011 and 2010, respectively, consist of endowment funds required to be retained permanently either by explicit donor stipulation or by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The investment income generated from the endowment can be used for general operations.

11. Endowment

NAMI's endowment has been funded by donor-restricted contributions and is used to fund the general operations of NAMI. Under accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NAMI

Notes to Financial Statements
December 31, 2011 and 2010

11. Endowment (continued)

Interpretation of Relevant Law

The Board of Directors of NAMI has interpreted the Commonwealth of Virginia's 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, NAMI 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 NAMI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, NAMI considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the fund; (2) the purposes of NAMI and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation or depreciation of investments; (6) other resources of NAMI; and (7) the investment policies of NAMI.

Composition of Funds

Endowment net asset composition by type of funds were as follows as of December 31:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------------------|------------------|---------------------------|---------------------------|-------------------|
| <u>2011</u> | | | | |
| Donor-restricted funds | \$ - | \$ - | \$ 544,763 | \$ 544,763 |
| Board-designated funds | 45,681 | - | - | 45,681 |
| Total endowment funds | \$ 45,681 | \$ - | \$ 544,763 | \$ 590,444 |
| <u>2010</u> | | | | |
| Donor-restricted funds | \$ (103,645) | \$ - | \$ 540,163 | \$ 436,518 |
| Board-designated funds | 147,617 | - | - | 147,617 |
| Total endowment funds | \$ 43,972 | \$ - | \$ 540,163 | \$ 584,135 |

NAMI

Notes to Financial Statements December 31, 2011 and 2010

11. Endowment (continued)

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the years ended December 31:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|------------|
| <u>2011</u> | | | | |
| Donor-restricted funds, beginning of year | \$ 43,972 | \$ - | \$ 540,163 | \$ 584,135 |
| Investment return: | | | | |
| Investment income | - | 13,893 | - | 13,893 |
| Net appreciation (realized and unrealized) | 1,709 | - | - | 1,709 |
| Total investment return | 1,709 | 13,893 | - | 15,602 |
| Contributions | - | - | 4,600 | 4,600 |
| Appropriations | - | (13,893) | - | (13,893) |
| Donor-restricted funds, end of year | \$ 45,681 | \$ - | \$ 544,763 | \$ 590,444 |
| <u>2010</u> | | | | |
| Donor-restricted funds, beginning of year | \$ (142,368) | \$ - | \$ 535,913 | \$ 393,545 |
| Investment return: | | | | |
| Investment income | - | 12,157 | - | 12,157 |
| Net appreciation (realized and unrealized) | 38,723 | - | - | 38,723 |
| Total investment return | 38,723 | 12,157 | - | 50,880 |
| Contributions | - | - | 4,250 | 4,250 |
| Appropriations | - | (12,157) | - | (12,157) |
| Transfers | 147,617 | - | - | 147,617 |
| Donor-restricted funds, end of year | \$ 43,972 | \$ - | \$ 540,163 | \$ 584,135 |

NAMI

Notes to Financial Statements
December 31, 2011 and 2010

11. Endowment (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, NAMI relies on a total return strategy in which investment returns are achieved both through capital appreciation (realized and unrealized) and current yield (interest and dividends). NAMI targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Return Objectives and Risk Parameters

NAMI has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding for the payment of obligations and mission-related expenses, administrative expenses and the growth of financial surplus while seeking to maintain the purchasing power of the endowment assets.

Under this policy as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the benchmark blended in correspondence with the overall asset allocation to include the S&P 500, Russell Midcap, Russell 2000, and Citigroup T-bills while assuming a moderate level of investment risk. NAMI expects its endowment funds, over time, to provide an average rate of return of approximately 7-10% annually. Actual returns in any given year may vary from this amount.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the NAMI retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$95,739 at December 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. NAMI elected to transfer unrestricted funds to the endowment to cover these deficiencies and show them as board designated endowment net assets. Amounts transferred were \$0 and \$147,617 for the years ended December 31, 2011 and 2010, respectively. Once permanently restricted endowment deficiencies are covered, NAMI plans to recover board-designated funds with endowment earnings.

NAMI

Notes to Financial Statements
December 31, 2011 and 2010

12. Pension Plan

NAMI has a defined contribution pension plan covering all full-time employees that meet certain eligibility and length of service requirements. Contributions to the plan are made in amounts equal to 4.5 percent of the eligible employee's compensation. For the years ended December 31, 2011 and 2010, pension expense totaled \$210,889 and \$206,011, respectively, and is included in personnel costs in the accompanying statements of functional expenses.

13. Supplemental Disclosure of Cash Flow Information

Noncash investing and financing activities are as follows for the years ended December 31:

| | 2011 | 2010 |
|-------------------------------------|-----------|-----------|
| Noncash Investing Activities | | |
| Donated investments | \$ 70,615 | \$ 35,622 |

14. Subsequent Events

NAMI follows the guidance of FASB ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events. In preparing these financial statements, NAMI has evaluated events and transactions for potential recognition or disclosure through February 23, 2012, the date the financial statements were issued.

15. Income Taxes

NAMI is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements for the years ended December 31, 2011 and 2010, as NAMI did not engage in any unrelated business activities. Contributions to NAMI are deductible as provided in IRC Section 170(b)(1)(A)(vi). Management evaluated NAMI's tax positions, and concluded that NAMI's financial statements do not include any uncertain tax positions.

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

To the Board of Directors of NAMI

We have audited the financial statements of NAMI as of and for the year ended December 31, 2011, and have issued our report thereon dated February 23, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NAMI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NAMI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NAMI's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NAMI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia
February 23, 2012

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of NAMI

Compliance

We have audited the compliance of NAMI with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on NAMI's major federal programs for the year ended December 31, 2011. NAMI's major federal programs are identified in the summary of audit 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 programs is the responsibility of NAMI's management. Our responsibility is to express an opinion on NAMI'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 NAMI'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 of NAMI's compliance with those requirements.

In our opinion, NAMI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of NAMI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NAMI's internal control over compliance with the 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 internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NAMI's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.



Vienna, Virginia
February 23, 2012

NAMI

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

| <u>Federal Cooperative Agreement/Program Title</u> | <u>Agency or Pass-Through Cooperative Agreement Number</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|---|--|----------------------------|-----------------------------|
| <u>U.S. Department of Health and Human Services</u> | | | |
| NAMI Support, Technical Assistance and Resource Center | 1HR1SM059959 | 93.243 | \$ 320,104 |
| | | | <u>320,104</u> |
| <u>Pass-through from the U.S. Department of Health and Human Services</u> | | | |
| Statewide Family and Consumer Network Technical Assistance Center | HHSS28020090006C | 93.XXX | 158,385 |
| Family Guide on Integration of Mental Health in Primary Care | HHSS28020080003C | 93.XXX | 38,268 |
| Recovery in Practice | HHSS283200700037I | 93.XXX | 2,365 |
| Technical Assistance for State Mental Health Agencies | HHSS283200700020I | 93.XXX | 11,930 |
| | | | <u>210,948</u> |
| <u>Pass-through from the U.S. Department of Justice</u> | | | |
| Justice System's Response to Special Populations | DOJ2010-DB-BX-K047 | 16.XXX | 47,180 |
| | | | <u>47,180</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 578,232</u> |

See accompanying note to this schedule.

NAMI

Note to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2011

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.

NAMI

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2011

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of NAMI.
2. No significant deficiencies relating to the audit of the financial statements are reported in the auditors' report.
3. No instances of noncompliance material to the financial statements of NAMI were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program is reported in the report on internal control over financial reporting.
5. The auditors' report on compliance for the major federal program of NAMI expresses an unqualified opinion on the major federal program.
6. There were no audit findings related to the major federal award program for NAMI.
7. The following program was tested as a major program:

| CFDA#/Grant Number | Program Title |
|--------------------|--|
| 93.243 | NAMI Support, Technical Assistance and Resource Center |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. NAMI qualified to be a low-risk auditee.

B. Findings – Financial Statement Audit

- None

C. Findings and Questioned Costs – Major Federal Award Program Audit

- None