

**NAMI**

Financial Statements  
and Independent Auditors' Report

December 31, 2012 and 2011

**NAMI**

Financial Statements  
December 31, 2012 and 2011

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
NAMI

We have audited the accompanying financial statements of NAMI, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NAMI as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia  
March 8, 2013

## NAMI

### Statements of Financial Position December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,657,843	\$ 2,465,158
Accounts receivable	572,808	1,139,953
Inventory	50,888	57,549
Investments	5,654,853	5,316,792
Prepaid expenses	289,591	276,144
Property and equipment, net	1,166,610	936,992
Deposits	46,900	46,900
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 10,439,493</u>	<u>\$ 10,239,488</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,129,504	\$ 1,089,901
Deferred revenue	70,155	135,978
Deferred rent and lease incentive	740,613	767,396
Charitable gift annuities	257,016	265,903
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>2,197,288</u>	<u>2,259,178</u>
<b>Net Assets</b>		
Unrestricted	5,187,239	4,629,555
Temporarily restricted	2,510,203	2,805,992
Permanently restricted	544,763	544,763
	<u>                    </u>	<u>                    </u>
Total net assets	<u>8,242,205</u>	<u>7,980,310</u>
Total liabilities and net assets	<u>\$ 10,439,493</u>	<u>\$ 10,239,488</u>

See accompanying notes.

**NAMI**

Statement of Activities  
For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Contributions	\$ 4,752,070	\$ 2,812,158	\$ -	\$ 7,564,228
Walks	916,721	-	-	916,721
Federal grants and contracts	645,873	-	-	645,873
Registrations	358,271	-	-	358,271
Dues	351,453	-	-	351,453
Investment income	330,912	-	-	330,912
Sales	165,939	-	-	165,939
Other revenue	49,188	-	-	49,188
Net assets released from restrictions:				
Satisfaction of program restrictions	1,597,947	(1,597,947)	-	-
Satisfaction of time restrictions	1,510,000	(1,510,000)	-	-
<b>Total revenue and support</b>	<b>10,678,374</b>	<b>(295,789)</b>	<b>-</b>	<b>10,382,585</b>
<b>Expenses</b>				
Program services:				
Program and membership support	4,925,220	-	-	4,925,220
Education services	1,052,781	-	-	1,052,781
Advocacy	1,717,430	-	-	1,717,430
<b>Total program services</b>	<b>7,695,431</b>	<b>-</b>	<b>-</b>	<b>7,695,431</b>
Supporting services:				
Administration	1,127,357	-	-	1,127,357
Development	1,297,902	-	-	1,297,902
<b>Total supporting services</b>	<b>2,425,259</b>	<b>-</b>	<b>-</b>	<b>2,425,259</b>
<b>Total expenses</b>	<b>10,120,690</b>	<b>-</b>	<b>-</b>	<b>10,120,690</b>
<b>Change in Net Assets</b>	<b>557,684</b>	<b>(295,789)</b>	<b>-</b>	<b>261,895</b>
<b>Net Assets, beginning of year</b>	<b>4,629,555</b>	<b>2,805,992</b>	<b>544,763</b>	<b>7,980,310</b>
<b>Net Assets, end of year</b>	<b>\$ 5,187,239</b>	<b>\$ 2,510,203</b>	<b>\$ 544,763</b>	<b>\$ 8,242,205</b>

See accompanying notes.

**NAMI**

Statement of Activities  
For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
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)	-	-
<b>Total revenue and support</b>	<b>10,318,801</b>	<b>147,886</b>	<b>4,600</b>	<b>10,471,287</b>
<b>Expenses</b>				
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
<b>Total program services</b>	<b>7,841,527</b>	<b>-</b>	<b>-</b>	<b>7,841,527</b>
Supporting services:				
Administration	1,096,874	-	-	1,096,874
Development	1,191,279	-	-	1,191,279
<b>Total supporting services</b>	<b>2,288,153</b>	<b>-</b>	<b>-</b>	<b>2,288,153</b>
<b>Total expenses</b>	<b>10,129,680</b>	<b>-</b>	<b>-</b>	<b>10,129,680</b>
<b>Change in Net Assets</b>	<b>189,121</b>	<b>147,886</b>	<b>4,600</b>	<b>341,607</b>
<b>Net Assets, beginning of year</b>	<b>4,440,434</b>	<b>2,658,106</b>	<b>540,163</b>	<b>7,638,703</b>
<b>Net Assets, end of year</b>	<b>\$ 4,629,555</b>	<b>\$ 2,805,992</b>	<b>\$ 544,763</b>	<b>\$ 7,980,310</b>

See accompanying notes.

**NAMI**

Statement of Functional Expenses  
For the Year Ended December 31, 2012

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total
	Program and Membership Support	Education Services	Advocacy		Administration	Development		
Personnel costs	\$ 2,694,595	\$ 700,533	\$ 1,258,026	\$ 4,653,154	\$ 1,001,955	\$ 727,984	\$ 1,729,939	\$ 6,383,093
Occupancy	10,209	-	-	10,209	593,800	300	594,100	604,309
Printing and copying	264,462	10,781	31,228	306,471	(15,059)	141,247	126,188	432,659
Travel	269,365	56,650	62,177	388,192	4,217	54,454	58,671	446,863
Postage and shipping	152,485	6,933	22,764	182,182	12,318	100,930	113,248	295,430
Meetings	203,181	39,475	22,643	265,299	4,435	26,041	30,476	295,775
Subcontractors	289,546	44,163	18,354	352,063	9,438	28,472	37,910	389,973
Computer costs	306,525	62,814	108,104	477,443	(330,178)	69,262	(260,916)	216,527
Depreciation and amortization	-	-	-	-	246,846	-	246,846	246,846
Office supplies	117,135	3,381	12,183	132,699	13,763	9,067	22,830	155,529
Telephone	31,768	5,324	13,577	50,669	42,655	5,400	48,055	98,724
Taxes and fees	19,548	-	26	19,574	103,581	103	103,684	123,258
Professional fees	27,650	7,000	-	34,650	77,710	-	77,710	112,360
Grants and scholarships	38,990	24,000	1,000	63,990	-	-	-	63,990
Dues and subscriptions	26,335	240	20,678	47,253	813	22,122	22,935	70,188
Equipment and maintenance	4,444	-	-	4,444	39,233	265	39,498	43,942
Temporary labor	16,221	-	-	16,221	32,540	-	32,540	48,761
Miscellaneous	18,007	1,798	1,005	20,810	70,444	1,209	71,653	92,463
Overhead allocation	434,754	89,689	145,665	670,108	(781,154)	111,046	(670,108)	-
<b>Total Expenses</b>	<b>\$ 4,925,220</b>	<b>\$ 1,052,781</b>	<b>\$ 1,717,430</b>	<b>\$ 7,695,431</b>	<b>\$ 1,127,357</b>	<b>\$ 1,297,902</b>	<b>\$ 2,425,259</b>	<b>\$ 10,120,690</b>

See accompanying notes.



**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
<b>Total Expenses</b>	<b>\$ 4,845,915</b>	<b>\$ 1,297,357</b>	<b>\$ 1,698,255</b>	<b>\$ 7,841,527</b>	<b>\$ 1,096,874</b>	<b>\$ 1,191,279</b>	<b>\$ 2,288,153</b>	<b>\$ 10,129,680</b>

See accompanying notes.

## NAMI

### Statements of Cash Flows For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 261,895	\$ 341,607
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized gain on investments	(256,333)	(32,685)
Unrealized (gain) loss on investments	23,758	(35,647)
Donated investments	(38,929)	(70,615)
Contributions restricted for long-term purposes	-	(4,600)
Change in value of charitable gift annuities	19,214	33,973
Loss on sale of assets	42,626	-
Depreciation and amortization	246,846	178,700
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	567,145	(35,942)
Inventory	6,661	34,711
Prepaid expenses	(13,447)	(22,690)
Deposits	-	-
Increase (decrease) in:		
Accounts payable and accrued expenses	39,603	117,725
Deferred revenue	(65,823)	(120,403)
Deferred rent and lease incentive	(26,783)	(9,219)
Net cash provided by operating activities	806,433	374,915
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	1,295,804	996,943
Purchases of investments	(1,362,361)	(708,082)
Purchases of property and equipment	(519,090)	(259,948)
Net cash (used in) provided by investing activities	(585,647)	28,913
<b>Cash Flows from Financing Activities</b>		
Payments on charitable gift annuity obligations	(28,101)	(29,141)
Contributions restricted for long-term purposes	-	4,600
Net cash used in financing activities	(28,101)	(24,541)
<b>Net Increase in Cash and Cash Equivalents</b>	192,685	379,287
<b>Cash and Cash Equivalents, beginning of year</b>	2,465,158	2,085,871
<b>Cash and Cash Equivalents, end of year</b>	\$ 2,657,843	\$ 2,465,158

See accompanying notes.

# NAMI

Notes to Financial Statements  
December 31, 2012 and 2011

## 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 of 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, 2012 and 2011, there was \$3,085,455 and \$2,882,293, 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. Temporarily restricted net assets were \$2,510,203 and \$2,805,992 at December 31, 2012 and 2011, respectively.
- *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. Permanently restricted net assets were \$544,763 at both December 31, 2012 and 2011.

### 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.

## NAMI

Notes to Financial Statements  
December 31, 2012 and 2011

### 2. Summary of Significant Accounting Policies (continued)

#### Investments

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

#### 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, 2012 and 2011, 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 software costs were put in the process in 2012 and will be amortized over the three year period on a straight-line basis.

## NAMI

Notes to Financial Statements  
December 31, 2012 and 2011

### 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. Revenue from walks 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.

## NAMI

Notes to Financial Statements  
December 31, 2012 and 2011

### 2. Summary of Significant Accounting Policies (continued)

#### 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.

#### 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 events and transactions for potential recognition or disclosure through March 8, 2013, the date the financial statements were issued.

### 3. Concentrations of Credit Risk

Financial instruments that potentially subject NAMI to significant concentrations of credit risk consist of cash and investments. NAMI maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and 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 also maintains investments with a financial institution, which exceed 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, 2012 and 2011

#### 4. Investments

Investments consist of the following as of December 31:

	Cost	Fair Value
<u>2012</u>		
Money market funds and cash equivalents	\$ 611,871	\$ 611,871
Mutual funds	4,682,480	5,042,982
Total investments	\$ 5,294,351	\$ 5,654,853
<u>2011</u>		
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

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

	2012	2011
Interest and dividends	\$ 98,337	\$ 127,800
Realized gain	256,333	32,685
Unrealized (loss) gain	(23,758)	35,647
Total investment income	\$ 330,912	\$ 196,132

#### 5. Fair Value Measurements

Fair value of assets measured on a recurring basis is as follows at December 31, 2012:

	Total fair value	Level 1	Level 2	Level 3
Money market funds and cash equivalents	\$ 611,871	\$ 611,871	\$ -	-
Mutual funds:				
Equity	1,605,827	1,605,827	-	-
Fixed income	3,437,155	3,437,155	-	-
Total investments	\$ 5,654,853	\$ 5,654,853	\$ -	-

## NAMI

Notes to Financial Statements  
December 31, 2012 and 2011

### 5. Fair Value Measurements (continued)

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	-	-
Fixed income	3,378,480	3,378,480	-	-
Total investments	\$ 5,316,792	\$ 5,316,792	\$ -	\$ -

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. There were no Level 2 or Level 3 financial assets at December 31, 2012 and 2011.

### 6. Property and Equipment

NAMI held the following property and equipment at December 31:

	2012	2011
Furniture and equipment	\$ 1,312,762	\$ 960,481
Leasehold improvements	804,900	801,794
Copyright	14,000	14,000
Work-in-progress computer software	54,640	204,068
Total property and equipment	2,186,302	1,980,343
Less: accumulated depreciation	(1,019,692)	(1,043,351)
Property and equipment, net	\$ 1,166,610	\$ 936,992

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was \$246,846 and \$178,700, respectively.



## NAMI

### Notes to Financial Statements December 31, 2012 and 2011

#### 7. Annuities Payable

NAMI has received several charitable gift annuities with an approximate value of \$425,212, which are included in investments as of December 31, 2012 and 2011. In return, NAMI has agreed to pay the donors annual annuity payments of \$29,141. As of December 31, 2012 and 2011, the present value of the annuity payments, using a discount rate of 1.2% and 1.6%, respectively, is \$257,016 and \$265,903, 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 \$546,143 and \$652,297 for the years ended December 31, 2012 and 2011, 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:

2013	\$	621,139
2014		639,774
2015		658,967
2016		678,736
2017		699,098
Thereafter		<u>1,524,774</u>
Total future minimum payments	\$	<u><u>4,822,488</u></u>

## NAMI

Notes to Financial Statements  
December 31, 2012 and 2011

### 9. Temporarily Restricted Net Assets

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

	2012	2011
Time-restricted	\$ 510,000	\$ 1,005,000
Education programs	897,534	-
Schizophrenia programs	619,670	37,496
Affordable Care Act Education	210,000	-
Multicultural Action Center	65,000	4,643
Helpline	50,000	-
Inspiring Hope Through Research	50,000	-
Convention	40,000	-
First Episode	39,438	174,222
Pharmacy Study	17,426	-
FaithNet	11,135	12,869
In Our Own Voice	-	600,000
Family to Family	-	250,000
State Advocacy	-	150,000
Parents and Teachers as Allies	-	108,534
Peer to Peer	-	100,000
Consumer Education	-	100,000
Bikes/Walk Sponsor	-	75,000
Other programs	-	69,502
Children and Adolescent Action Center	-	68,726
NAMI Basics	-	50,000
Total temporarily restricted net assets	<u>\$ 2,510,203</u>	<u>\$ 2,805,992</u>

### 10. Permanently Restricted Net Assets

Permanently restricted net assets of \$544,763 at both December 31, 2012 and 2011 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.

## NAMI

Notes to Financial Statements  
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### 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.

#### 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 was as follows as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ -	\$ 544,763	\$ 544,763
Total endowment funds	\$ -	\$ -	\$ 544,763	\$ 544,763

## NAMI

Notes to Financial Statements  
December 31, 2012 and 2011

### 11. Endowment (continued)

#### Composition of Funds (continued)

Endowment net asset composition by type of funds was as follows as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ -	\$ 544,763	\$ 544,763
Board-designated funds	45,681	-	-	45,681
Total endowment funds	<u>\$ 45,681</u>	<u>\$ -</u>	<u>\$ 544,763</u>	<u>\$ 590,444</u>

#### Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds, beginning of year	\$ 45,681	\$ -	\$ 544,763	\$ 590,444
Investment return:				
Investment income	-	2,702	-	2,702
Net appreciation (realized and unrealized)	-	3,241	-	3,241
Total investment return	-	5,943	-	5,943
Appropriations	-	(5,943)	-	(5,943)
Release from designation	(45,681)	-	-	(45,681)
Donor-restricted funds, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 544,763</u>	<u>\$ 544,763</u>

## NAMI

Notes to Financial Statements  
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### 11. Endowment (continued)

#### Changes in Endowment Net Assets (continued)

Changes in endowment net assets were as follows for the year ended December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

#### 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.

## NAMI

Notes to Financial Statements  
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### 11. Endowment (continued)

#### Return Objectives and Risk Parameters (continued)

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 to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no fund deficiencies for the years ended December 31, 2012 and 2011. Accordingly, at December 31, 2012, NAMI reclassified the remaining portion of funds that were designated by the Board of Directors to cover deficiencies from the previous years to unrestricted net assets. The total amount reclassified was \$45,681.

### 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, 2012 and 2011, pension expense totaled \$202,806 and \$210,889, 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:

	<u>2012</u>	<u>2011</u>
<b>Noncash Investing Activities</b>		
Donated investments	<u>\$ 38,830</u>	<u>\$ 70,615</u>

## **NAMI**

Notes to Financial Statements  
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### **14. 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, 2012 and 2011, 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.