

**NAMI**

Financial Statements  
and Independent Auditors' Report

December 31, 2016 and 2015

**NAMI**

Financial Statements  
December 31, 2016 and 2015

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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, 2016 and 2015; 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, 2016 and 2015, 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  
February 23, 2017

# NAMI

## Statements of Financial Position December 31, 2016 and 2015

|                                       | <u>2016</u>                 | <u>2015</u>                 |
|---------------------------------------|-----------------------------|-----------------------------|
| <b>Assets</b>                         |                             |                             |
| Cash and cash equivalents             | \$ 2,970,771                | \$ 2,639,346                |
| Contributions receivable              | 204,502                     | 169,564                     |
| Grants and accounts receivable        | 72,361                      | 174,920                     |
| Inventory                             | 119,497                     | 86,287                      |
| Investments                           | 8,664,301                   | 7,502,723                   |
| Prepaid expenses                      | 369,316                     | 307,899                     |
| Property and equipment, net           | 596,348                     | 805,934                     |
| Deposits                              | 46,900                      | 46,900                      |
|                                       | <u>                    </u> | <u>                    </u> |
| Total assets                          | <u>\$ 13,043,996</u>        | <u>\$ 11,733,573</u>        |
|                                       |                             |                             |
| <b>Liabilities and Net Assets</b>     |                             |                             |
|                                       |                             |                             |
| <b>Liabilities</b>                    |                             |                             |
| Accounts payable and accrued expenses | \$ 1,208,902                | \$ 1,061,600                |
| Deferred revenue                      | 40,506                      | 20,135                      |
| Deferred rent and lease incentive     | 447,055                     | 549,526                     |
| Charitable gift annuities             | 183,461                     | 191,074                     |
|                                       | <u>                    </u> | <u>                    </u> |
| Total liabilities                     | <u>1,879,924</u>            | <u>1,822,335</u>            |
|                                       |                             |                             |
| <b>Net Assets</b>                     |                             |                             |
| Unrestricted                          | 6,087,016                   | 5,836,990                   |
| Temporarily restricted                | 4,287,997                   | 3,285,189                   |
| Permanently restricted                | 789,059                     | 789,059                     |
|                                       | <u>                    </u> | <u>                    </u> |
| Total net assets                      | <u>11,164,072</u>           | <u>9,911,238</u>            |
|                                       |                             |                             |
| Total liabilities and net assets      | <u>\$ 13,043,996</u>        | <u>\$ 11,733,573</u>        |

See accompanying notes.

**NAMI**

Statement of Activities  
For the Year Ended December 31, 2016

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|--|---------------------|---------------------------|---------------------------|----------------------|
| <b>Revenue and Support</b>             |                     |                           |                           |                      |
| Contributions                          | \$ 5,712,523        | \$ 5,348,446              | \$ -                      | \$ 11,060,969        |
| Walks                                  | 994,334             | -                         | -                         | 994,334              |
| Government grants and contracts        | 609,920             | -                         | -                         | 609,920              |
| Registrations                          | 441,482             | -                         | -                         | 441,482              |
| Dues                                   | 313,726             | -                         | -                         | 313,726              |
| Investment income                      | 311,261             | 24,616                    | -                         | 335,877              |
| Sales                                  | 147,100             | -                         | -                         | 147,100              |
| Other revenue                          | 107,705             | -                         | -                         | 107,705              |
| Net assets released from restrictions: |                     |                           |                           |                      |
| Satisfaction of program restrictions   | 3,770,254           | (3,770,254)               | -                         | -                    |
| Satisfaction of time restrictions      | 600,000             | (600,000)                 | -                         | -                    |
| <b>Total revenue and support</b>       | <b>13,008,305</b>   | <b>1,002,808</b>          | <b>-</b>                  | <b>14,011,113</b>    |
| <b>Expenses</b>                        |                     |                           |                           |                      |
| Program services:                      |                     |                           |                           |                      |
| Program and membership support         | 6,562,114           | -                         | -                         | 6,562,114            |
| Education services                     | 1,591,143           | -                         | -                         | 1,591,143            |
| Advocacy                               | 2,075,743           | -                         | -                         | 2,075,743            |
| Research                               | 126,128             | -                         | -                         | 126,128              |
| <b>Total program services</b>          | <b>10,355,128</b>   | <b>-</b>                  | <b>-</b>                  | <b>10,355,128</b>    |
| Supporting services:                   |                     |                           |                           |                      |
| Administration                         | 678,793             | -                         | -                         | 678,793              |
| Development                            | 1,724,358           | -                         | -                         | 1,724,358            |
| <b>Total supporting services</b>       | <b>2,403,151</b>    | <b>-</b>                  | <b>-</b>                  | <b>2,403,151</b>     |
| <b>Total expenses</b>                  | <b>12,758,279</b>   | <b>-</b>                  | <b>-</b>                  | <b>12,758,279</b>    |
| <b>Change in Net Assets</b>            | <b>250,026</b>      | <b>1,002,808</b>          | <b>-</b>                  | <b>1,252,834</b>     |
| <b>Net Assets, beginning of year</b>   | <b>5,836,990</b>    | <b>3,285,189</b>          | <b>789,059</b>            | <b>9,911,238</b>     |
| <b>Net Assets, end of year</b>         | <b>\$ 6,087,016</b> | <b>\$ 4,287,997</b>       | <b>\$ 789,059</b>         | <b>\$ 11,164,072</b> |

See accompanying notes.

**NAMI**

Statement of Activities  
For the Year Ended December 31, 2015

|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|---|---------------------|---------------------------|---------------------------|---------------------|
| <b>Revenue and Support</b>  |                     |                           |                           |                     |
| Contributions   | \$ 5,472,099        | \$ 2,122,115              | \$ 1,500                  | \$ 7,595,714        |
| Walks   | 1,004,569           | -                         | -                         | 1,004,569           |
| Government grants and contracts                                   | 536,142             | -                         | -                         | 536,142             |
| Registrations   | 460,606             | -                         | -                         | 460,606             |
| Dues  | 338,355             | -                         | -                         | 338,355             |
| Investment income (loss)  | 1,180               | (22,105)                  | -                         | (20,925)            |
| Sales   | 149,188             | -                         | -                         | 149,188             |
| Other revenue   | 64,745              | -                         | -                         | 64,745              |
| Transfer from permanently restricted<br>to temporarily restricted | -                   | 12,500                    | (12,500)                  | -                   |
| Net assets released from restrictions:                            |                     |                           |                           |                     |
| Satisfaction of program restrictions                              | 2,514,082           | (2,514,082)               | -                         | -                   |
| Satisfaction of time restrictions                                 | 835,000             | (835,000)                 | -                         | -                   |
| <b>Total revenue and support</b>                                  | <b>11,375,966</b>   | <b>(1,236,572)</b>        | <b>(11,000)</b>           | <b>10,128,394</b>   |
| <b>Expenses</b>   |                     |                           |                           |                     |
| Program services:   |                     |                           |                           |                     |
| Program and membership support                                    | 5,379,020           | -                         | -                         | 5,379,020           |
| Education services  | 1,229,380           | -                         | -                         | 1,229,380           |
| Advocacy  | 1,693,117           | -                         | -                         | 1,693,117           |
| <b>Total program services</b>                                     | <b>8,301,517</b>    | <b>-</b>                  | <b>-</b>                  | <b>8,301,517</b>    |
| Supporting services:  |                     |                           |                           |                     |
| Administration  | 1,621,480           | -                         | -                         | 1,621,480           |
| Development   | 1,406,874           | -                         | -                         | 1,406,874           |
| <b>Total supporting services</b>                                  | <b>3,028,354</b>    | <b>-</b>                  | <b>-</b>                  | <b>3,028,354</b>    |
| <b>Total expenses</b>   | <b>11,329,871</b>   | <b>-</b>                  | <b>-</b>                  | <b>11,329,871</b>   |
| <b>Change in Net Assets</b>                                       | <b>46,095</b>       | <b>(1,236,572)</b>        | <b>(11,000)</b>           | <b>(1,201,477)</b>  |
| <b>Net Assets, beginning of year</b>                              | <b>5,790,895</b>    | <b>4,521,761</b>          | <b>800,059</b>            | <b>11,112,715</b>   |
| <b>Net Assets, end of year</b>                                    | <b>\$ 5,836,990</b> | <b>\$ 3,285,189</b>       | <b>\$ 789,059</b>         | <b>\$ 9,911,238</b> |

See accompanying notes.

**NAMI**

Statement of Functional Expenses  
For the Year Ended December 31, 2016

|                               | Program Services                     |                       |                     |                   | Total<br>Program<br>Services | Supporting Services |                     | Total<br>Supporting<br>Services | Total                |
|-------------------------------|--------------------------------------|-----------------------|---------------------|-------------------|------------------------------|---------------------|---------------------|---------------------------------|----------------------|
|                               | Program and<br>Membership<br>Support | Education<br>Services | Advocacy            | Research          |                              | Administration      | Development         |                                 |                      |
| Personnel costs               | \$ 3,260,205                         | \$ 678,758            | \$ 1,241,599        | \$ 4,595          | \$ 5,185,157                 | \$ 1,337,096        | \$ 683,548          | \$ 2,020,644                    | \$ 7,205,801         |
| Occupancy                     | 28,479                               | -                     | -                   | -                 | 28,479                       | 678,501             | -                   | 678,501                         | 706,980              |
| Subcontractors                | 714,133                              | 214,331               | 144,414             | -                 | 1,072,878                    | 67,013              | 248,682             | 315,695                         | 1,388,573            |
| Travel                        | 248,935                              | 74,783                | 59,097              | 817               | 383,632                      | 14,404              | 61,053              | 75,457                          | 459,089              |
| Depreciation and amortization | -                                    | -                     | -                   | -                 | -                            | 324,300             | -                   | 324,300                         | 324,300              |
| Printing and copying          | 131,073                              | 6,236                 | 27,236              | -                 | 164,545                      | -                   | 243,082             | 243,082                         | 407,627              |
| Meetings                      | 249,182                              | 35,658                | 10,832              | -                 | 295,672                      | 9,040               | 2,474               | 11,514                          | 307,186              |
| Postage and shipping          | 115,213                              | 1,792                 | 5,278               | -                 | 122,283                      | 1,285               | 153,684             | 154,969                         | 277,252              |
| Computer costs                | 27,863                               | 2,940                 | 13,216              | -                 | 44,019                       | 161,932             | 7,892               | 169,824                         | 213,843              |
| Taxes and fees                | 130,338                              | 20                    | 868                 | -                 | 131,226                      | 207,743             | 20                  | 207,763                         | 338,989              |
| Supplies                      | 154,950                              | 7,081                 | 27,195              | -                 | 189,226                      | 23,399              | 4,601               | 28,000                          | 217,226              |
| Grants and scholarships       | 34,450                               | 262,680               | 6,000               | 120,000           | 423,130                      | -                   | -                   | -                               | 423,130              |
| Professional fees             | 28,883                               | 8,705                 | 160                 | -                 | 37,748                       | 151,964             | -                   | 151,964                         | 189,712              |
| Telephone                     | 28,253                               | 10,324                | 8,735               | -                 | 47,312                       | 25,186              | 4,485               | 29,671                          | 76,983               |
| Dues and subscriptions        | 8,309                                | 4,322                 | 9,123               | -                 | 21,754                       | 27,488              | 21,855              | 49,343                          | 71,097               |
| Equipment and maintenance     | -                                    | -                     | -                   | -                 | -                            | 41,122              | 157                 | 41,279                          | 41,279               |
| Miscellaneous                 | 26,292                               | 2,330                 | 459                 | -                 | 29,081                       | 16,421              | -                   | 16,421                          | 45,502               |
| Temporary labor               | 30,615                               | -                     | -                   | -                 | 30,615                       | 23,959              | 9,136               | 33,095                          | 63,710               |
| Overhead allocation           | 1,344,941                            | 281,183               | 521,531             | 716               | 2,148,371                    | (2,432,060)         | 283,689             | (2,148,371)                     | -                    |
| <b>Total Expenses</b>         | <b>\$ 6,562,114</b>                  | <b>\$ 1,591,143</b>   | <b>\$ 2,075,743</b> | <b>\$ 126,128</b> | <b>\$ 10,355,128</b>         | <b>\$ 678,793</b>   | <b>\$ 1,724,358</b> | <b>\$ 2,403,151</b>             | <b>\$ 12,758,279</b> |

See accompanying notes.



**NAMI**

Statement of Functional Expenses  
For the Year Ended December 31, 2015

|                               | Program Services                     |                       |                     | Total<br>Program<br>Services | Supporting Services |                     | Total<br>Supporting<br>Services | Total                |
|-------------------------------|--------------------------------------|-----------------------|---------------------|------------------------------|---------------------|---------------------|---------------------------------|----------------------|
|                               | Program and<br>Membership<br>Support | Education<br>Services | Advocacy            |                              | Administration      | Development         |                                 |                      |
| Personnel costs               | \$ 2,730,300                         | \$ 765,247            | \$ 1,153,893        | \$ 4,649,440                 | \$ 1,157,228        | \$ 700,358          | \$ 1,857,586                    | \$ 6,507,026         |
| Occupancy                     | 10,573                               | -                     | 2,275               | 12,848                       | 708,813             | -                   | 708,813                         | 721,661              |
| Subcontractors                | 679,779                              | 124,233               | 125,972             | 929,984                      | 64,845              | 116,873             | 181,718                         | 1,111,702            |
| Travel                        | 298,185                              | 116,282               | 98,140              | 512,607                      | 22,332              | 52,166              | 74,498                          | 587,105              |
| Depreciation and amortization | -                                    | -                     | -                   | -                            | 361,180             | -                   | 361,180                         | 361,180              |
| Printing and copying          | 149,125                              | 11,776                | 2,857               | 163,758                      | -                   | 150,196             | 150,196                         | 313,954              |
| Meetings                      | 233,854                              | 2,173                 | 11,415              | 247,442                      | 6,757               | 17,881              | 24,638                          | 272,080              |
| Postage and shipping          | 141,660                              | 1,291                 | 1,356               | 144,307                      | 7,944               | 94,938              | 102,882                         | 247,189              |
| Computer costs                | 47,043                               | 1,425                 | 20,225              | 68,693                       | 216,446             | 3,485               | 219,931                         | 288,624              |
| Taxes and fees                | 51,327                               | -                     | 20                  | 51,347                       | 119,071             | 50                  | 119,121                         | 170,468              |
| Supplies                      | 159,719                              | 6,097                 | 3,571               | 169,387                      | 18,399              | 40,171              | 58,570                          | 227,957              |
| Grants and scholarships       | 73,700                               | 16,500                | 14,777              | 104,977                      | -                   | -                   | -                               | 104,977              |
| Professional fees             | 28,488                               | -                     | 250                 | 28,738                       | 78,220              | 300                 | 78,520                          | 107,258              |
| Telephone                     | 31,014                               | 7,383                 | 6,701               | 45,098                       | 17,931              | 5,914               | 23,845                          | 68,943               |
| Dues and subscriptions        | 16,850                               | 4,483                 | 4,924               | 26,257                       | 30,802              | 19,345              | 50,147                          | 76,404               |
| Equipment and maintenance     | -                                    | -                     | -                   | -                            | 37,714              | 313                 | 38,027                          | 38,027               |
| Miscellaneous                 | 5,978                                | 4,801                 | 7,152               | 17,931                       | 3,889               | 15,880              | 19,769                          | 37,700               |
| Temporary labor               | 26,514                               | -                     | 121                 | 26,635                       | 51,845              | 9,136               | 60,981                          | 87,616               |
| Overhead allocation           | 694,911                              | 167,689               | 239,468             | 1,102,068                    | (1,281,936)         | 179,868             | (1,102,068)                     | -                    |
| <b>Total Expenses</b>         | <b>\$ 5,379,020</b>                  | <b>\$ 1,229,380</b>   | <b>\$ 1,693,117</b> | <b>\$ 8,301,517</b>          | <b>\$ 1,621,480</b> | <b>\$ 1,406,874</b> | <b>\$ 3,028,354</b>             | <b>\$ 11,329,871</b> |

See accompanying notes.

**NAMI**

Statements of Cash Flows  
For the Years Ended December 31, 2016 and 2015

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>   |                     |                     |
| Change in net assets  | \$ 1,252,834        | \$ (1,201,477)      |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                     |                     |
| Realized gain on investments  | (37,528)            | (126,559)           |
| Unrealized (gain) loss on investments   | (176,628)           | 254,333             |
| Donated investments   | (107,197)           | (73,299)            |
| Contributions restricted for long-term purposes   | -                   | (1,500)             |
| Change in value of charitable gift annuities  | 13,884              | 10,007              |
| Depreciation and amortization   | 324,300             | 361,180             |
| Change in operating assets and liabilities:   |                     |                     |
| (Increase) decrease in:   |                     |                     |
| Contributions receivable  | (34,938)            | 114,496             |
| Grants and accounts receivable  | 102,559             | (79,600)            |
| Inventory   | (33,210)            | 1,054               |
| Prepaid expenses  | (61,417)            | (61,257)            |
| Increase (decrease) in:   |                     |                     |
| Accounts payable and accrued expenses   | 147,302             | (354,032)           |
| Deferred revenue  | 20,371              | (73,035)            |
| Deferred rent and lease incentive   | (102,471)           | (82,702)            |
| Charitable gift annuity   | (21,497)            | (23,662)            |
|   | <u>1,286,364</u>    | <u>(1,336,053)</u>  |
| Net cash provided by (used in) operating activities   |                     |                     |
| <b>Cash Flows from Investing Activities</b>   |                     |                     |
| Proceeds from sales of investments  | 386,756             | 318,853             |
| Purchases of investments  | (1,226,981)         | (880,074)           |
| Purchases of property and equipment   | (114,714)           | (162,809)           |
|   | <u>(954,939)</u>    | <u>(724,030)</u>    |
| Net cash used in investing activities   |                     |                     |
| <b>Cash Flows from Financing Activity</b>   |                     |                     |
| Contributions restricted for long-term purposes   | -                   | 1,500               |
|   | <u>-</u>            | <u>1,500</u>        |
| Net cash provided by financing activity   |                     |                     |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>   | 331,425             | (2,058,583)         |
| <b>Cash and Cash Equivalents, beginning of year</b>   | <u>2,639,346</u>    | <u>4,697,929</u>    |
| <b>Cash and Cash Equivalents, end of year</b>   | <u>\$ 2,970,771</u> | <u>\$ 2,639,346</u> |
| <b>Noncash Investing Activities</b>   |                     |                     |
| Donated investments   | <u>\$ 107,197</u>   | <u>\$ 73,299</u>    |

See accompanying notes.

# NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

## 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. 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. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *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, 2016 and 2015, there was \$3,630,553 and \$3,415,067, 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. NAMI's donor-restricted endowment is subject to the authoritative guidance issued by the Financial Accounting Standards Board (FASB) on net asset classifications of endowment funds, such that earnings on donor-restricted endowment funds for not-for-profit organizations that are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) are classified as temporarily restricted net assets until such amounts are appropriated for expenditure.

### 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.

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

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

#### 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. Excluded from this definition of cash equivalents are amounts held for investment.

#### Contributions Receivable

Contributions receivable represent unconditional amounts committed to NAMI, including amounts collected by NAMI affiliates on NAMI's behalf, and are recognized as contribution revenue in the period promised or received. Management determines the need for an allowance for doubtful accounts by identifying troubled accounts and by using historical experience. No allowance for doubtful accounts is recorded as management believes that all contributions receivable at December 31, 2016 and 2015 are fully collectible.

#### Grants and Accounts Receivable

Grants and accounts receivable include amounts due from federal and local governments and other receivables, and are stated at their net realizable value. No allowance for doubtful accounts is recorded at December 31, 2016 and 2015, as management believes that all grants and accounts receivable 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.

#### Investments

Investments are recorded at fair value based on quoted market prices. Unrealized and realized gains and losses are reported in the statements of activities as part of investment income (loss).

Donated investments are recorded at fair value based on quoted market prices at the time of receipt. Unless restricted by the donor, it is NAMI's policy to sell all donated investments upon receipt.

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

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

#### Property and Equipment

Property and equipment valued at over \$2,000 with a useful life longer than one year are recorded at cost. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are amortized over the shorter of the terms of the related leases or estimated useful lives of the assets, using the straight-line method. Copyrights are amortized using the straight-line method over estimated useful lives that range from five to seventeen years. 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 FASB 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 are being amortized over a three-year period on a straight-line basis.

#### Charitable Gift Annuities

Annuity obligations arising from split-interest gifts are recognized as charitable gift annuities in the accompanying statements of financial position. The initial liabilities resulting from these gifts are measured at fair value using the present value of the future payments to be made to beneficiaries. These liabilities are subsequently remeasured at the present value of future payments to beneficiaries based on changes in life expectancy and other actuarial assumptions.

#### Revenue Recognition

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

Notes to Financial Statements  
December 31, 2016 and 2015

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

#### Revenue Recognition (continued)

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. Membership dues are considered contributions and are recorded when promised or received. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by NAMI over the beneficiary's lifetime.

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.

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.

#### Functional Allocation of Expenses

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

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

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

#### Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 – *Revenue from Contracts with Customers* (Topic 606). The update establishes a comprehensive revenue recognition standard for virtually all industries including those that previously followed industry-specific guidance. The update requires that revenue should be recognized to depict the transfer of promised goods and services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for these goods and services. The original effective date of ASU would have required NAMI to adopt an update in fiscal year 2017. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606) – *Deferral of the Effective Date*, which deferred the effective date for one year. Accordingly, the guidance is now effective for NAMI's fiscal year 2019. Since the issue of ASU 2015-14, the FASB has issued several updates intended to improve an organization's understanding and application of the revenue recognition guidance contained with ASU 2014-09. Management continues to evaluate the potential impact of these updates on NAMI's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective for NAMI's fiscal year 2020. Management continues to evaluate the potential impact of this update on NAMI's financial statements.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective for NAMI's fiscal year 2018. Although management continues to evaluate the potential impact of this update on NAMI's financial statements, management believes the impact of this update will be significant.

#### Subsequent Events

In preparing these financial statements, NAMI has evaluated events and transactions for potential recognition or disclosure through February 23, 2017, the date the financial statements were available to be issued.

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 3. Concentrations of Credit Risk

Financial instruments that potentially subject NAMI to significant concentrations of credit risk consist of cash and cash equivalents, investments, and receivables. 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 cash equivalents 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. Receivables consist primarily of amounts due from private foundations, NAMI affiliates, and the federal government. Management believes that the credit risk related to these receivables is minimal.

### 4. Investments and Fair Value Measurements

NAMI follows FASB ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three 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 recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

NAMI uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.



## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 4. Investments and Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, NAMI's assets at fair value as of December 31, 2016:

|                    | Level 1      | Level 2 | Level 3 | Total        |
|--------------------|--------------|---------|---------|--------------|
| Money market funds | \$ 2,657,360 | \$ -    | \$ -    | \$ 2,657,360 |
| Mutual funds:      |              |         |         |              |
| Equity             | 3,229,082    | -       | -       | 3,229,082    |
| Fixed income       | 2,777,859    | -       | -       | 2,777,859    |
|                    |              |         |         |              |
| Total investments  | \$ 8,664,301 | \$ -    | \$ -    | \$ 8,664,301 |

The following table sets forth by level, within the fair value hierarchy, NAMI's assets at fair value as of December 31, 2015:

|                    | Level 1      | Level 2 | Level 3 | Total        |
|--------------------|--------------|---------|---------|--------------|
| Money market funds | \$ 1,738,483 | \$ -    | \$ -    | \$ 1,738,483 |
| Mutual funds:      |              |         |         |              |
| Equity             | 3,065,478    | -       | -       | 3,065,478    |
| Fixed income       | 2,698,762    | -       | -       | 2,698,762    |
|                    |              |         |         |              |
| Total investments  | \$ 7,502,723 | \$ -    | \$ -    | \$ 7,502,723 |

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

|                                | 2016       | 2015        |
|--------------------------------|------------|-------------|
| Interest and dividends         | \$ 121,721 | \$ 106,849  |
| Realized gain                  | 37,528     | 126,559     |
| Unrealized gain (loss)         | 176,628    | (254,333)   |
|                                |            |             |
| Total investment income (loss) | \$ 335,877 | \$ (20,925) |

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 5. Property and Equipment

Property and equipment consists of the following at December 31:

|  | <u>2016</u>              | <u>2015</u>              |
|--|--------------------------|--------------------------|
| Furniture and equipment                            | \$ 1,701,884             | \$ 1,629,848             |
| Leasehold improvements                             | 804,900                  | 804,900                  |
| Copyright  | 14,000                   | 14,000                   |
| Work-in-progress computer software                 | <u>477,448</u>           | <u>434,771</u>           |
| Total property and equipment                       | 2,998,232                | 2,883,519                |
| Less: accumulated depreciation<br>and amortization | <u>(2,401,884)</u>       | <u>(2,077,585)</u>       |
| Property and equipment, net                        | <u><u>\$ 596,348</u></u> | <u><u>\$ 805,934</u></u> |

### 6. Charitable Gift Annuities

NAMI has entered into charitable gift annuity arrangements with a number of donors. These arrangements require NAMI to make annual fixed payments during the lives of the donors or their specified income beneficiaries. The contributions are treated as contribution revenue when received and are included in unrestricted net assets in the accompanying financial statements. There was no contribution revenue recognized under these arrangements for the years ended December 31, 2016 and 2015. The annuity payment obligations are based on donor life expectancies as presented in actuarial tables discounted at rates ranging from 1.2% to 2.0%.

### 7. Pension Plans

NAMI has a defined contribution 403(b) pension plan (“the 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% of the eligible employee’s compensation. For the years ended December 31, 2016 and 2015, pension expense totaled \$208,249 and \$203,596, respectively, and is included in personnel costs in the accompanying statements of functional expenses.

Additionally, NAMI maintained a second, noncontributory 403(b) pension plan, which accepted only eligible employees’ elective contributions. Accordingly, no pension expense was incurred under this plan. During 2016, NAMI amended and restated the Plan, effectively merging the noncontributory 403(b) pension plan into the Plan, retroactively as of July 1, 2015.

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 8. Net Assets

#### Temporarily Restricted Net Assets

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

|                                     | 2016         | 2015         |
|-------------------------------------|--------------|--------------|
| Research                            | \$ 587,775   | \$ 685,008   |
| Providence Hospital Project         | 566,489      | -            |
| Education programs                  | 558,187      | 545,333      |
| Homefront                           | 514,039      | 482,109      |
| In Our Own Voice                    | 437,000      | -            |
| First Episode Psychosis             | 300,000      | -            |
| Peer-to-Peer                        | 262,972      | -            |
| State Advocacy                      | 189,658      | 299,178      |
| State Policy & Advocacy             | 154,392      | 95,268       |
| Time-restricted                     | 145,000      | 295,000      |
| Crisis Intervention Program         | 110,000      | 25,000       |
| Illness Awareness                   | 92,891       | 25,000       |
| Broad Institute                     | 80,000       | -            |
| Connect4 Mental Health              | 60,000       | 100,000      |
| Helpline                            | 50,000       | 75,000       |
| NAMI App                            | 35,463       | 127,985      |
| NAMI on Campus                      | 34,131       | 7,918        |
| Emergency Department Project        | 25,000       | 184,321      |
| Estate of Florence Drake            | 25,000       | 69,156       |
| FaithNet                            | 20,000       | 38,585       |
| Stigma Free                         | 20,000       | 25,000       |
| 2017 convention                     | 20,000       | -            |
| Children & Adolescent Action Center | -            | 103,000      |
| Multicultural Action Center         | -            | 55,000       |
| Resiliency Project                  | -            | 47,328       |
|                                     | \$ 4,287,997 | \$ 3,285,189 |

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 8. Net Assets (continued)

#### Permanently Restricted Net Assets

Permanently restricted net assets were held for the following purposes at December 31:

|   | <u>2016</u>       | <u>2015</u>       |
|---|-------------------|-------------------|
| General                                 | \$ 515,763        | \$ 515,763        |
| Advocacy                                | 10,000            | 10,000            |
| Research                                | 23,000            | 23,000            |
| Peter Corbin Kohn Endowment             | <u>240,296</u>    | <u>240,296</u>    |
| Total permanently restricted net assets | <u>\$ 789,059</u> | <u>\$ 789,059</u> |

General endowment funds are held to generate income that may be appropriated for use in unrestricted operations. Advocacy and research endowment funds are held to generate income restricted for these respective programs.

The Peter Corbin Kohn Endowment consist of funds restricted to support the NAMI Research Award stipend given annually at a NAMI event highlighting research into perpetuity. The amount of the stipend award each year is \$12,500 based on 5% interest. In the event the interest in the Peter Corbin Kohn Endowment does not equal 5% in any year, NAMI reserves the right to use the corpus value to provide the stipend.

### 9. Endowment

NAMI's endowment has been funded by donor-restricted contributions that are required to be retained permanently by explicit donor stipulation. Investment income generated from the endowment can be used for general operations of NAMI. 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, 2016 and 2015

### 9. Endowment (continued)

#### Interpretation of Relevant Law

The Board of Directors of NAMI has interpreted the Commonwealth of Virginia's 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.

#### 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.

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 9. 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.

#### Composition of Funds

Endowment net asset composition by type of funds was as follows as of:

|                        | December 31, 2016 |                        |                        |            |
|------------------------|-------------------|------------------------|------------------------|------------|
|                        | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total      |
| Donor-restricted funds | \$ -              | \$ 130,242             | \$ 789,059             | \$ 919,301 |
| Total endowment funds  | \$ -              | \$ 130,242             | \$ 789,059             | \$ 919,301 |

  

|                        | December 31, 2015 |                        |                        |            |
|------------------------|-------------------|------------------------|------------------------|------------|
|                        | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total      |
| Donor-restricted funds | \$ -              | \$ 75,199              | \$ 789,059             | \$ 864,258 |
| Total endowment funds  | \$ -              | \$ 75,199              | \$ 789,059             | \$ 864,258 |

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 9. Endowment (continued)

#### Changes in Endowment Net Assets

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

|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total      |
|---|--------------|---------------------------|---------------------------|------------|
| Endowment net assets,<br>December 31, 2014  | \$ -         | \$ 98,804                 | \$ 800,059                | \$ 898,863 |
| Investment return:  |              |                           |                           |            |
| Interest and dividends  | -            | 17,086                    | -                         | 17,086     |
| Net depreciation (realized<br>and unrealized)   | -            | (34,789)                  | -                         | (34,789)   |
| Investment fees   | -            | (4,402)                   | -                         | (4,402)    |
| Total investment return   | -            | (22,105)                  | -                         | (22,105)   |
| Contributions   | -            | -                         | 1,500                     | 1,500      |
| Transfer from permanently<br>restricted endowment<br>to temporarily restricted<br>non-endowment | -            | -                         | (12,500)                  | (12,500)   |
| Appropriations  | -            | (1,500)                   | -                         | (1,500)    |
| Endowment net assets,<br>December 31, 2015  | -            | 75,199                    | 789,059                   | 864,258    |
| Investment return:  |              |                           |                           |            |
| Interest and dividends  | -            | 19,079                    | -                         | 19,079     |
| Net appreciation (realized<br>and unrealized)   | -            | 40,326                    | -                         | 40,326     |
| Investment fees   | -            | (4,362)                   | -                         | (4,362)    |
| Total investment return   | -            | 55,043                    | -                         | 55,043     |
| Endowment net assets,<br>December 31, 2016  | \$ -         | \$ 130,242                | \$ 789,059                | \$ 919,301 |

## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 9. Endowment (continued)

#### 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 require 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 at December 31, 2016 and 2015.

### 10. Commitment and Contingency

#### Lease Commitment

NAMI leases office space in Arlington, Virginia under the terms of a noncancellable operating lease agreement that 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 \$648,797 and \$644,148 for the years ended December 31, 2016 and 2015, respectively, and is included in occupancy expense in the accompanying statements of functional expenses.

Additionally, NAMI leases various office equipment under several operating leases that expire in 2020. The leases call for fixed monthly payments during the terms of the leases.

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

|                               |                     |
|-------------------------------|---------------------|
| 2017                          | \$ 719,805          |
| 2018                          | 740,993             |
| 2019                          | 755,541             |
| 2020                          | <u>63,245</u>       |
| Total future minimum payments | <u>\$ 2,279,584</u> |



## NAMI

Notes to Financial Statements  
December 31, 2016 and 2015

### 10. Commitment and Contingency (continued)

#### Government Contracts

Funds received from the federal government are subject to audit under the provisions of the contract agreements. The ultimate determination of amounts received under the agreements is based upon the allowance of costs reported to and accepted by the oversight agency. Until the grant is closed out, there exists a contingency to refund any amount received in excess of allowable costs.

### 11. 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, 2016 and 2015, 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 has evaluated NAMI's tax positions and concluded that there are no significant uncertain tax positions that qualify for either recognition or disclosure in the accompanying financial statements.