NAMI and Affiliate

Consolidated Financial Statements
and Independent Auditors' Report

OMB Circular A-133 Reports

December 31, 2010 and 2009

NAMI and Affiliate

Consolidated Financial Statements
December 31, 2010 and 2009

Contents

ROGERS & COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NAMI and Affiliate

We have audited the accompanying consolidated statements of financial position of NAMI and Affiliate (collectively "the Organization") as of December 31, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NAMI and Affiliate at December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2011 on our consideration of the internal control of the Organization over financial reporting and on our test of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purposes of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information included at pages 22-23 is presented for purposes of additional analysis of the basic consolidated financial statements and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic consolidated financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Rogers + Company PLLC

Vienna, Virginia
March 7, 2011

NAMI and Affiliate

Consolidated Statements of Financial Position
December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	$ 2,085,871	$ 1,620,516
Accounts receivable	1,104,011	2,732,338
Inventory	92,260	103,643
Investments	5,466,706	5,551,053
Prepaid expenses	253,454	246,111
Property and equipment, net	855,744	985,264
Deposits	46,900	46,900
Total assets	$ 9,904,946	$ 11,285,825
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 972,176	$ 1,147,690
Deferred revenue	256,381	83,075
Deferred rent and lease incentive	776,615	768,781
Deposits	-	14,786
Charitable gift annuities	261,071	255,050
Total liabilities	2,266,243	2,269,382
Net Assets		
Unrestricted	4,440,434	4,326,687
Temporarily restricted	2,658,106	4,153,843
Permanently restricted	540,163	535,913
Total net assets	7,638,703	9,016,443
Total liabilities and net assets	$ 9,904,946	$ 11,285,825

See accompanying notes.

NAMI and Affiliate

Consolidated Statement of Activities
For the Year Ended December 31, 2010

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

NAMI and Affiliate

Consolidated Statement of Activities
For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	$ 4,578,967	$ 4,905,500	$ 3,000	$ 9,487,467
Walks	789,946	-	-	789,946
Registrations	402,630	-	-	402,630
Investment income	419,779	6,422	-	426,201
Contracts	598,061	-	-	598,061
Dues	325,499	-	-	325,499
Sales	245,348	-	-	245,348
Other revenue	190,937	-	-	190,937
Net assets released from restrictions:				
Satisfaction of program restrictions	6,268,517	(6,268,517)	-	-
Satisfaction of time restrictions	1,800,000	(1,800,000)	-	-
Total revenue and support	15,619,684	(3,156,595)	3,000	12,466,089
Expenses				
Program services:				
Program and membership support	4,876,288	-	-	4,876,288
Education services	2,918,726	-	-	2,918,726
Advocacy	1,740,145	-	-	1,740,145
Total program services	9,535,159	-	-	9,535,159
Supporting services:				
Administration	1,345,352	-	-	1,345,352
Development	1,686,858	-	-	1,686,858
Total supporting services	3,032,210	-	-	3,032,210
Total expenses	12,567,369	-	-	12,567,369
Change in Net Assets	3,052,315	(3,156,595)	3,000	(101,280)
Net Assets, beginning of year	1,274,372	7,310,438	532,913	9,117,723
Net Assets, end of year	$ 4,326,687	$ 4,153,843	$ 535,913	$ 9,016,443

See accompanying notes.

NAMI and Affiliate

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

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

See accompanying notes.

NAMI and Affiliate

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2009

	Program Services				Supporting Services			
	Program and Membership Support	Education Services	Advocacy	Total Program Services	Administration	Development	Total Supporting Services	Total
Personnel costs	$ 2,765,526	$ 1,237,202	$ 1,185,648	$ 5,188,376	$ 800,405	$ 699,081	$ 1,499,486	$ 6,687,862
Grants and scholarships	170,994	319,893	3,000	493,887	-	50,000	50,000	543,887
Subcontractors	354,425	39,024	195,485	588,934	115,232	155,386	270,618	859,552
Travel	331,799	503,005	64,740	899,544	7,082	35,860	42,942	942,486
Occupancy	13,750	83	-	13,833	684,392	529	684,921	698,754
Printing and copying	182,019	111,426	43,378	336,823	(14,667)	279,767	265,100	601,923
Meetings	239,216	267,252	24,939	531,407	2,962	58,652	61,614	593,021
Postage and shipping	87,590	46,326	27,285	161,201	(3,572)	196,138	192,566	353,767
Office supplies	101,214	31,863	6,849	139,926	32,494	7,418	39,912	179,838
Professional fees	15,065	62,286	-	77,351	84,622	-	84,622	161,973
Computer costs	75,769	8,032	225	84,026	62,907	13,047	75,954	159,980
Depreciation and amortization	-	-	-	-	223,318	-	223,318	223,318
Telephone	68,093	35,329	16,084	119,506	34,778	6,711	41,489	160,995
Equipment and maintenance	3,448	-	-	3,448	72,035	-	72,035	75,483
Dues and subscriptions	18,642	802	20,220	39,664	1,554	31,279	32,833	72,497
Miscellaneous and allocation	405,678	256,203	151,925	813,806	(886,557)	152,990	(733,567)	80,239
Taxes and fees	27,386	-	-	27,386	108,167	-	108,167	135,553
Temporary labor	15,674	-	367	16,041	20,200	-	20,200	36,241
Total Expenses	$ 4,876,288	$ 2,918,726	$ 1,740,145	$ 9,535,159	$ 1,345,352	$ 1,686,858	$ 3,032,210	$ 12,567,369

See accompanying notes.

NAMI and Affiliate

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	$ (1,377,740)	$ (101,280)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized loss on sales of investments	6,819	1,061,964
Unrealized gain on investments	(197,929)	(1,331,747)
Donated investments	(35,622)	(25,712)
Contributions restricted for long-term purposes	(4,250)	(3,000)
Change in value of charitable gift annuities	35,162	60,157
Depreciation and amortization	190,357	223,318
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,628,327	(1,500,898)
Inventory	11,383	(7,553)
Prepaid expenses	(7,343)	94,124
Deposits	-	(46,900)
Increase (decrease) in:		
Accounts payable and accrued expenses	(175,514)	178,822
Deferred revenue	173,306	(8,732)
Deferred rent and lease incentive	7,834	(86,110)
Deposits	(14,786)	-
Net cash provided by (used in) operating activities	240,004	(1,493,547)
Cash Flows from Investing Activities		
Proceeds from sales of investments	2,384,878	5,293,075
Purchases of investments	(2,073,799)	(4,202,954)
Purchases of property and equipment	(60,837)	(183,515)
Net cash provided by investing activities	250,242	906,606
Cash Flows from Financing Activities		
Payments on charitable gift annuity obligations	(29,141)	(29,141)
Contributions restricted for long-term purposes	4,250	3,000
Net cash used in financing activities	(24,891)	(26,141)
Net Increase (Decrease) in Cash and Cash Equivalents	465,355	(613,082)
Cash and Cash Equivalents, beginning of year	1,620,516	2,233,598
Cash and Cash Equivalents, end of year	$ 2,085,871	$ 1,620,516

See accompanying notes.

1. Nature of Operations

NAMI is the nation's largest grassroots mental health organization dedicated to improving the lives of persons and their families living with serious mental illness. 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.

Mind of America Foundation (the Foundation), a Virginia nonprofit corporation, began operating in 1997. NAMI's Board of Directors elects and appoints the Board of Directors of the Foundation and at all times, a majority of the Foundation's Board is composed of current and/or former members of NAMI's Board. The Foundation was dissolved effective June 30, 2010 and had no operating activity during the years ended December 31, 2010 and 2009.

2. Summary of Significant Accounting Policies

<u>Basis of Accounting and Presentation</u>

The consolidated 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 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 the Organization's operations. Included in unrestricted net assets are Board designated net assets which are currently available to support the Organization's daily operations. As of December 31, 2010 and 2009, there was $2,806,610 and $1,231,337, 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 the Organization 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 the Organization or the restricted purpose imposed by the donors.

2. Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The consolidated financial statements include the accounts of NAMI and the Foundation (collectively "the Organization"). Consolidation is required under accounting principles generally accepted in the United States of America as the organizations share common control and economic interest. All significant intercompany transactions have been eliminated in the consolidation.

Cash and Cash Equivalents

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

Investments

Investments are comprised of money market funds and cash equivalents, certificates of deposits, mutual funds, exchange traded funds and closed-end funds, and U.S. Treasury notes. Investments are recorded at fair value based on quoted market prices.

Accounts Receivable

Accounts receivable are stated at their net realizable value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

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 greater than $2,000 with a life longer than 1 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.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

The Organization 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 consolidated statements of financial position.

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

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

Fair Value Measurements

The Organization follows the provisions of Accounting Standards Codification (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.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

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

Effective January 1, 2010, the Organization adopted Accounting Standards Update 2009-12, *Investments in Certain Entities That Calculate Net Assets Value per Share (or its Equivalent)*, which is amended the existing guidance in ASC 820. This guidance permits, as a practical expedient, the fair value of investments that do not have a quoted market price to be estimated using net asset value (NAV) per share or its equivalent. At December 31, 2010, the Organization did not have any investments requiring to be valued using NAV.

Functional Allocation of Expenses

The costs of the Organization's activities have been summarized on a functional basis in the accompanying consolidated 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

3. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Organization maintains cash deposits and investments with various financial institutions that from time to time may exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The Organization has not experienced any losses 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.

4. Property and Equipment

The Organization held the following property and equipment at December 31:

	2010	2009
Furniture and equipment	$ 980,619	$ 919,782
Leasehold improvements	801,794	801,794
Copyright	14,000	14,000
Total property and equipment	1,796,413	1,735,576
Less: accumulated depreciation	(940,669)	(750,312)
Property and equipment, net	$ 855,744	$ 985,264

5. Investments

Investments consist of the following as of December 31:

2010	Cost	Fair Value
Money market funds and cash equivalents	$ 604,721	$ 604,721
Certficates of deposit	76,000	75,977
Mutual funds, exchange-traded funds and closed-end funds	4,437,372	4,786,008
Total investments	$ 5,118,093	$ 5,466,706

2009	Cost	Fair Value
Money market funds and cash equivalents	$ 1,592,894	$ 1,592,905
Certficates of deposit	706,000	707,035
Mutual funds, exchange-traded funds and closed-end funds	2,992,123	3,141,523
U.S. Treasury notes	109,590	109,590
Total investments	$ 5,400,607	$ 5,551,053

5. Investments (continued)

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

Investment Income	2010	2009
Dividends and interest	$ 110,933	$ 156,418
Realized gain (loss)	6,819	(1,061,964)
Unrealized gains	197,929	1,331,747
Total investment income	$ 315,681	$ 426,201

6. Fair Value Measurements

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

	Total fair value	Level 1	Level 2	Level 3
2010				
Investments:				
Money market and cash equivalents	$ 604,721	$ 604,721	$ -	$ -
Certificates of deposit	75,977	75,977	-	-
Mutual funds, exchange-traded funds and closed-end funds	4,786,008	4,786,008	-	-
Total	$ 5,466,706	$ 5,466,706	$ -	$ -
2009				
Investments:				
Money market and cash equivalents	$ 1,592,905	$ 1,592,905	$ -	$ -
Certificates of deposit	707,035	707,035	-	-
Mutual funds, exchange-traded funds and closed-end funds	3,141,523	3,141,523	-	-
U.S. Treasury notes	109,590	-	109,590	-
Total	$ 5,551,053	$ 5,441,463	$ 109,590	$ -

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. There were no level 2 or 3 financial assets at December 31, 2010, and no level 3 financial assets at December 31, 2009.

7. Annuities Payable

The Organization has received several charitable gift annuities with an approximate value of $435,212 which is included in investments as of December 31, 2010 and 2009, respectively. In return, the Organization has agreed to pay the donors annual annuity payments of $29,141. As of December 31, 2010 and 2009, the present value of the annuity payments, using a discount rate of 1.8% and 3.2%, respectively, is $261,071 and $255,050 and is included in charitable gift annuities in the accompanying consolidated 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 from the landlord a build-out allowance of $764,294.

NAMI also sub-leased a portion of the prior office space. Revenue from these sub-leases totaled $0 and $121,400, respectively, for the years ended December 31, 2010 and 2009 and is included in other revenue in the accompanying consolidated statements of activities. Total rent expense was $575,935 and $625,778, respectively, for the years ended December 31, 2010 and 2009, and is included in occupancy expense in the accompanying consolidated statements of functional expenses.

Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and lease incentive in the accompanying consolidated statements of financial position.

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

2011	$ 585,483
2012	603,048
2013	621,139
2014	639,774
2015	658,967
Thereafter	2,902,607
Total future minimum payments	$ 6,011,018

9. Temporarily Restricted Net Assets

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

	2010	2009
Time restricted	$ 1,125,000	$ 1,285,000
Peer to Peer	-	403,763
Family to family	294,151	306,569
Lincy Foundation Grants	104,149	223,836
NAMI Connection	-	700,000
Children and Adolescent Action Center	-	165,000
Consumer Education	290,000	-
ADHD	101,518	-
NAMI Basics	115,000	199,638
Depression programs	50,000	263,131
Multicultural Action Center	78,400	90,910
Hearts & Minds	-	103,946
Schizophrenia programs	84,443	66,449
In Our Own Voice	141,532	124,388
NAMI Beginnings	113,046	100,371
Other programs	81,241	79,641
Parents and Teachers as Allies	64,731	-
FaithNet	14,895	21,513
Rodwell Dart grant	-	19,688
Total temporarily restricted net assets	$ 2,658,106	$ 4,153,843

10. Permanently Restricted Net Assets

Permanently restricted net assets of $540,163 and $535,913 at December 31, 2010 and 2009, respectively, consist of endowment funds required to be retained permanently either by explicit donor stipulation or by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The investment income generated from the endowment can be used for general operations.

11. Endowment

The Organization’s endowment has been funded by donor-restricted contributions and is used to fund the general operations of the Organization. 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.

11. Endowment (continued)

Interpretation of Relevant Law

The Board of Directors of the Organization 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, the Organization 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 the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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 the Organization 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 the Organization; and (7) the investment policies of the Organization.

Composition of Funds

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2010				
Donor-restricted funds	$ (136,563)	$ -	$ 540,163	$ 403,600
Board-designated funds	180,535	-	-	180,535
Total endowment funds	$ 43,972	$ -	$ 540,163	$ 584,135
2009				
Donor-restricted funds	$ (175,286)	$ -	$ 535,913	$ 360,627
Board-designated funds	32,918	-	-	32,918
Total endowment funds	$ (142,368)	$ -	$ 535,913	$ 393,545

11. Endowment (continued)

Changes in Endowment Net Assets

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2010				
Donor-restricted funds, beginning of year	$ (142,368)	$ -	$ 535,913	$ 393,545
Investment return:				
Investment income	-	12,157	-	12,157
Net appreciation (realized and unrealized)	38,723	-	-	38,723
Total investment return	38,723	12,157	-	50,880
Contributions	-	-	4,250	4,250
Appropriations	-	(12,157)	-	(12,157)
Transfers	147,617	-	-	147,617
Donor-restricted funds, end of year	$ 43,972	$ -	$ 540,163	$ 584,135
2009				
Donor-restricted funds, beginning of year	$ (207,436)	$ -	$ 532,913	$ 325,477
Investment return:				
Investment income	-	6,422	-	6,422
Net appreciation (realized and unrealized)	32,150	-	-	32,150
Total investment return	32,150	6,422	-	38,572
Contributions	-	-	3,000	3,000
Appropriations	-	(6,422)	-	(6,422)
Transfers	32,918	-	-	32,918
Donor-restricted funds, end of year	$ (142,368)	$ -	$ 535,913	$ 393,545

11. Endowment (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization 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

The Organization 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. The Organization 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 Organization 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 that are reported in unrestricted net assets were $136,563 and $175,286 at December 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. The Organization elects to transfer unrestricted funds to the endowment to cover these deficiencies. Amounts transferred were $147,617 and $32,918 for the years ended December 31, 2010 and 2009, respectively.

12. Pension Plan

The Organization 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, 2010 and 2009, pension expense totaled $206,011 and $220,179, respectively, and is included in personnel costs in the accompanying consolidated statements of functional expenses.

13. Income Taxes

NAMI and the Foundation are recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying consolidated financial statements for the years ended December 31, 2010 and 2009, as NAMI and the Foundation did not engage in any unrelated business activities. Contributions to NAMI and the Foundation are deductible as provided in IRC Section 170(b)(1)(A)(vi).

Financial Accounting Standard Board (FASB) issued new guidance on accounting for uncertainty in income taxes. The Organization adopted this new guidance for the year ended December 31, 2010. Management evaluated the Organization's tax positions and concluded that the Organization's consolidated financial statements do not include any uncertain tax positions.

14. Supplemental Disclosure of Cash Flow Information

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

	2010	2009
Noncash Investing Activities		
Donated investments	$ 35,622	$ 25,712
Leasehold improvements acquired under leasehold improvement allowance	$ -	$ 680,000
Noncash Financing Activities		
Deferred lease incentive liability assumed to acquire leasehold improvements	$ -	$ 680,000

15. Subsequent Events

The Organization 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 consolidated financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events. In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 7, 2011, the date the consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

NAMI and Affiliate

Consolidating Statement of Financial Position
December 31, 2010
(with comparative totals for the year ended December 31, 2009)

	NAMI	Mind of America Foundation	Eliminations	2010 Total	2009 Total
Assets					
Cash and cash equivalents	$ 2,085,871	$ -	$ -	$ 2,085,871	$ 1,620,516
Accounts receivable	1,104,011	-	-	1,104,011	2,732,338
Inventory	92,260	-	-	92,260	103,643
Investments	5,466,706	-	-	5,466,706	5,551,053
Prepaid expenses	253,454	-	-	253,454	246,111
Property and equipment, net	855,744	-	-	855,744	985,264
Deposits	46,900	-	-	46,900	46,900
Total assets	$ 9,904,946	$ -	$ -	$ 9,904,946	$ 11,285,825
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	$ 972,176	$ -	$ -	$ 972,176	$ 1,147,690
Deferred revenue	256,381	-	-	256,381	83,075
Deferred rent and lease incentive	776,615	-	-	776,615	768,781
Deposits	-	-	-	-	14,786
Charitable gift annuities	261,071	-	-	261,071	255,050
Total liabilities	2,266,243	-	-	2,266,243	2,269,382
Net Assets					
Unrestricted	4,440,434	-	-	4,440,434	4,326,687
Temporarily restricted	2,658,106	-	-	2,658,106	4,153,843
Permanently restricted	540,163	-	-	540,163	535,913
Total net assets	7,638,703	-	-	7,638,703	9,016,443
Total liabilities and net assets	$ 9,904,946	$ -	$ -	$ 9,904,946	$ 11,285,825

NAMI and Affiliate

Consolidating Statement of Activities
For the Year Ended December 31, 2010
(with comparative totals for the year ended December 31, 2009)

	NAMI	Mind of America Foundation	Eliminations	2010 Total	2009 Total
Revenue and Support					
Contributions	$ 6,828,309	$ -	$ (98,159)	$ 6,730,150	$ 9,487,467
Walks	716,030	-	-	716,030	789,946
Registrations	306,488	-	-	306,488	402,630
Investment income	315,516	165	-	315,681	426,201
Contracts	867,022	-	-	867,022	598,061
Dues	329,103	-	-	329,103	325,499
Sales	227,243	-	-	227,243	245,348
Other revenue	44,006	-	-	44,006	190,937
Total revenue and support	9,633,717	165	(98,159)	9,535,723	12,466,089
Expenses					
Program services:					
Program and membership support	4,873,701	98,159	(98,159)	4,873,701	4,876,288
Education services	1,845,101	-	-	1,845,101	2,918,726
Advocacy	1,691,204	-	-	1,691,204	1,740,145
Total program services	8,410,006	98,159	(98,159)	8,410,006	9,535,159
Supporting services:					
Administration	1,227,404	-	-	1,227,404	1,345,352
Development	1,276,053	-	-	1,276,053	1,686,858
Total supporting services	2,503,457	-	-	2,503,457	3,032,210
Total expenses	10,913,463	98,159	(98,159)	10,913,463	12,567,369
Change in Net Assets	(1,279,746)	(97,994)	-	(1,377,740)	(101,280)
Net Assets, beginning of year	8,918,449	97,994	-	9,016,443	9,117,723
Net Assets, end of year	$ 7,638,703	$ -	$ -	$ 7,638,703	$ 9,016,443

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
NAMI and Affiliate

We have audited the financial statements of NAMI and Affiliate (the Organization) as of and for the year ended December 31, 2010 and have issued our report thereon dated March 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

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

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

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

Compliance and Other Matters

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

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

Rogers + Company PLLC

Vienna, Virginia
March 7, 2011

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors of
NAMI and Affiliate

Compliance

We have audited NAMI and Affiliate's (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2010. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

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Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orgainzation's internal control over compliance.

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

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

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

Rogers + Company PLLC

Vienna, Virginia
March 7, 2011

NAMI and Affiliate

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010

Federal Cooperative Agreement/Program Title	Agency or Pass-Through Cooperative Agreement Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services			
NAMI Support, Technical Assistance and Resource Center	2HR1SM056675	93.243	$ 442,379
NAMI Support, Technical Assistance and Resource Center	2HR1SM059959	93.243	56,907
NAMI Support, Technical Assistance and Resource Center	5KD1SM56675	93.243	32,627
			531,913
Pass-through from the U.S. Department of Health and Human Services			
Statewide Family and Consumer Network Technical Assistance Center	HHSS28020090006C	93.243	119,136
Technical Assistance for State Mental Health Agencies	HHSS283200700020I	93.243	17,866
			137,002
Total Expenditures of Federal Awards			$ 668,915

See accompanying note to this schedule.

NAMI and Affiliate

Note to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting

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

NAMI and Affiliate

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of NAMI and Affiliate (the Organization).

2. No significant deficiencies relating to the audit of the financial statements are reported in the auditors' report.

3. No instances of noncompliance material to the financial statements of the Organization were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the report on internal control over financial reporting.

5. The auditors' report on compliance for the major federal programs of the Organization expresses an unqualified opinion on all major federal programs.

6. There were no audit findings related to the major federal award programs for the Organization.

7. The following programs were tested as major programs:

CFDA#/Grant Number	Program Title
93.243	NAMI Support, Technical Assistance and Resource Center
93.243	Statewide Family and Consumer Network Technical Assistance Center

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Organization is not deemed to be a low-risk auditee.

B. Findings – Financial Statement Audit

- None

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

- None