

NAMI

Financial Statements
and Independent Auditors' Report

December 31, 2019 and 2018

NAMI

Financial Statements
December 31, 2019 and 2018

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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, 2019 and 2018; 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 from 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Vienna, Virginia
March 24, 2020

NAMI

Statements of Financial Position December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 4,095,750	\$ 3,459,023
Contributions receivable	141,296	110,440
Grants and accounts receivable	36,075	51,986
Inventory	218,891	117,139
Investments	12,043,357	8,881,059
Certificates of deposit	454,643	1,520,213
Prepaid expenses	721,578	499,738
Property and equipment, net	10,184	150,025
Intangible assets, net	1,439,770	1,497,904
Deposits	195,664	195,664
	\$ 19,357,208	\$ 16,483,191
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,685,301	\$ 1,374,922
Deferred revenue	23,980	15,020
Deferred rent and lease incentive	58,625	219,812
Charitable gift annuities	141,693	133,117
	1,909,599	1,742,871
Net Assets		
Without donor restrictions:		
Undesignated	1,618,634	1,802,481
Designated by the Board for operating reserve	9,665,064	6,056,520
	11,283,698	7,859,001
With donor restrictions:		
Perpetual in nature	1,186,418	1,004,130
Purpose restricted	4,872,493	5,632,189
Time-restricted for future periods	105,000	245,000
	6,163,911	6,881,319
Total net assets	17,447,609	14,740,320
Total liabilities and net assets	\$ 19,357,208	\$ 16,483,191

See accompanying notes.

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Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 11,574,196	\$ 4,748,422	\$ 16,322,618
In-kind contributions	6,368,729	-	6,368,729
Walks	1,138,614	-	1,138,614
Government grants and contracts	703,220	-	703,220
Registrations	403,897	-	403,897
Dues	314,918	-	314,918
Investment income	1,341,768	169,788	1,511,556
Change in value of split interests	-	(23,926)	(23,926)
Sales	144,400	-	144,400
Other revenue	141,066	-	141,066
Net assets released from restrictions:			
Satisfaction of program restrictions	4,866,692	(4,866,692)	-
Satisfaction of time restrictions	745,000	(745,000)	-
Total revenue and support	27,742,500	(717,408)	27,025,092
Expenses			
Program services:			
Program and membership support	17,106,094	-	17,106,094
Education services	1,852,698	-	1,852,698
Advocacy	2,150,360	-	2,150,360
Research	123,296	-	123,296
Total program services	21,232,448	-	21,232,448
Supporting services:			
Administration	838,083	-	838,083
Development	2,247,272	-	2,247,272
Total supporting services	3,085,355	-	3,085,355
Total expenses	24,317,803	-	24,317,803
Change in Net Assets	3,424,697	(717,408)	2,707,289
Net Assets, beginning of year	7,859,001	6,881,319	14,740,320
Net Assets, end of year	\$ 11,283,698	\$ 6,163,911	\$ 17,447,609

See accompanying notes.

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Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 9,763,735	\$ 4,933,935	\$ 14,697,670
In-kind contributions	11,296,708	-	11,296,708
Walks	1,083,047	-	1,083,047
Government grants and contracts	406,598	-	406,598
Registrations	466,484	-	466,484
Dues	362,140	-	362,140
Investment loss	(365,813)	(64,261)	(430,074)
Change in value of split interests	-	9,813	9,813
Sales	113,177	-	113,177
Other revenue	18,579	-	18,579
Net assets released from restrictions:			
Satisfaction of program restrictions	3,557,615	(3,557,615)	-
Satisfaction of time restrictions	690,000	(690,000)	-
Total revenue and support	27,392,270	631,872	28,024,142
Expenses			
Program services:			
Program and membership support	19,381,258	-	19,381,258
Education services	1,970,899	-	1,970,899
Advocacy	2,222,128	-	2,222,128
Research	122,989	-	122,989
Total program services	23,697,274	-	23,697,274
Supporting services:			
Administration	772,862	-	772,862
Development	2,293,552	-	2,293,552
Total supporting services	3,066,414	-	3,066,414
Total expenses	26,763,688	-	26,763,688
Change in Net Assets	628,582	631,872	1,260,454
Net Assets, beginning of year	7,230,419	6,249,447	13,479,866
Net Assets, end of year	\$ 7,859,001	\$ 6,881,319	\$ 14,740,320

See accompanying notes.

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Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total
	Program and Membership Support	Education Services	Advocacy	Research		Administration	Development		
Personnel costs	\$ 4,473,298	\$ 800,883	\$ 1,220,249	\$ 1,675	\$ 6,496,105	\$ 1,862,017	\$ 756,192	\$ 2,618,209	\$ 9,114,314
Occupancy	30,004	27	-	-	30,031	692,320	-	692,320	722,351
Subcontractors	7,782,316	58,964	69,157	-	7,910,437	668,184	292,121	960,305	8,870,742
Travel	476,496	74,039	68,206	789	619,530	7,844	73,664	81,508	701,038
Depreciation and amortization	249,060	233,268	5,787	-	488,115	207,902	-	207,902	696,017
Printing and copying	145,099	12,291	4,693	-	162,083	2,274	368,606	370,880	532,963
Meetings	453,250	56,879	12,325	-	522,454	6,391	54,979	61,370	583,824
Postage and shipping	146,106	5,923	2,193	-	154,222	6,189	210,583	216,772	370,994
Computer costs	300,082	21,728	287	-	322,097	377,523	13,475	390,998	713,095
Taxes and fees	118,890	-	-	-	118,890	368,928	-	368,928	487,818
Supplies	197,853	21,291	4,881	-	224,025	175,678	10,702	186,380	410,405
Grants and scholarships	147,790	64,750	10,365	120,000	342,905	-	-	-	342,905
Professional fees	81,596	-	990	-	82,586	60,675	17,790	78,465	161,051
Telephone	23,640	42,940	8,226	-	74,806	7,810	4,603	12,413	87,219
Dues and subscriptions	65,167	18,575	97,940	-	181,682	22,977	40,924	63,901	245,583
Equipment and maintenance	15,243	-	-	-	15,243	95,708	-	95,708	110,951
Miscellaneous	7,140	130	-	-	7,270	18,022	370	18,392	25,662
Temporary labor	82,869	10,900	-	-	93,769	45,134	1,968	47,102	140,871
Overhead allocation	2,310,195	430,110	645,061	832	3,386,198	(3,787,493)	401,295	(3,386,198)	-
Total Expenses	\$ 17,106,094	\$ 1,852,698	\$ 2,150,360	\$ 123,296	\$ 21,232,448	\$ 838,083	\$ 2,247,272	\$ 3,085,355	\$ 24,317,803

See accompanying notes.

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Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total
	Program and Membership Support	Education Services	Advocacy	Research		Administration	Development		
Personnel costs	\$ 3,762,483	\$ 896,898	\$ 1,332,859	\$ 1,617	\$ 5,993,857	\$ 1,687,571	\$ 841,272	\$ 2,528,843	\$ 8,522,700
Occupancy	27,782	-	3,150	-	30,932	693,616	39	693,655	724,587
Subcontractors	12,038,358	99,864	121,034	-	12,259,256	210,841	261,338	472,179	12,731,435
Travel	386,375	93,177	74,657	707	554,916	15,562	83,839	99,401	654,317
Depreciation and amortization	38,891	107,742	3,737	-	150,370	199,382	-	199,382	349,752
Printing and copying	136,382	9,214	4,508	-	150,104	-	358,585	358,585	508,689
Meetings	437,656	54,882	5,550	-	498,088	18,652	55,822	74,474	572,562
Postage and shipping	143,040	1,549	2,490	-	147,079	-	190,981	190,981	338,060
Computer costs	175,043	16,028	94	-	191,165	257,987	14,881	272,868	464,033
Taxes and fees	150,359	-	-	-	150,359	288,396	20	288,416	438,775
Supplies	168,379	16,130	19,177	-	203,686	68,931	10,262	79,193	282,879
Grants and scholarships	159,760	244,819	650	120,000	525,229	-	75,250	75,250	600,479
Professional fees	48,559	600	1,165	-	50,324	87,424	-	87,424	137,748
Telephone	22,681	30,003	4,699	-	57,383	31,437	4,741	36,178	93,561
Dues and subscriptions	31,069	9,940	72,757	-	113,766	45,074	25,809	70,883	184,649
Equipment and maintenance	-	-	-	-	-	79,137	-	79,137	79,137
Miscellaneous	15,284	-	-	-	15,284	2,720	50	2,770	18,054
Temporary labor	24,013	-	-	-	24,013	31,611	6,647	38,258	62,271
Overhead allocation	1,615,144	390,053	575,601	665	2,581,463	(2,945,479)	364,016	(2,581,463)	-
Total Expenses	\$ 19,381,258	\$ 1,970,899	\$ 2,222,128	\$ 122,989	\$ 23,697,274	\$ 772,862	\$ 2,293,552	\$ 3,066,414	\$ 26,763,688

See accompanying notes.

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Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 2,707,289	\$ 1,260,454
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized loss (gain) on investments	3,664	(306,769)
Unrealized (gain) loss on investments	(1,276,688)	904,497
Donated investments	(118,674)	(327,505)
Contributions restricted for long-term purposes	(30,000)	(30,000)
Change in value of charitable gift annuities	23,926	(9,813)
Loss on disposals of property and equipment	21,935	-
Depreciation and amortization on property and equipment	117,906	83,489
Amortization on intangible assets	578,111	266,263
Change in operating assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	(30,856)	89,467
Grants and accounts receivable	15,911	(25,418)
Inventory	(101,752)	(3,613)
Prepaid expenses	(221,840)	(59,405)
Deposits	-	(148,764)
Increase (decrease) in:		
Accounts payable and accrued expenses	310,379	71,482
Deferred revenue	8,960	7,860
Deferred rent and lease incentive	(161,187)	(104,411)
Charitable gift annuities	(15,350)	(17,516)
Net cash provided by operating activities	1,831,734	1,650,298
Cash Flows from Investing Activities		
Proceeds from sales of investments	2,245,490	4,009,905
Purchases of investments	(4,016,090)	(5,041,509)
Maturities of certificates of deposit	1,328,981	1,078,131
Purchases of certificates of deposit	(263,411)	(1,259,680)
Purchases of property and equipment	-	(521)
Purchases of intangible assets	(519,977)	(1,233,135)
Net cash used in investing activities	(1,225,007)	(2,446,809)
Cash Flows from Financing Activity		
Contributions restricted for long-term purposes	30,000	30,000
Net cash provided by financing activity	30,000	30,000
Net Increase (Decrease) in Cash and Cash Equivalents	636,727	(766,511)
Cash and Cash Equivalents, beginning of year	3,459,023	4,225,534
Cash and Cash Equivalents, end of year	\$ 4,095,750	\$ 3,459,023
Noncash Investing Activities		
Donated investments	\$ 118,674	\$ 327,505

See accompanying notes.

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Notes to Financial Statements
December 31, 2019 and 2018

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:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or certain grantor restrictions. Included in net assets without donor restrictions are Board-designated net assets, which are currently available to support NAMI's daily operations. As of December 31, 2019 and 2018, there was \$9,665,064 and \$6,056,520, respectively, in the Board-designated operating reserve.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018 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, 2019 and 2018, 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.

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Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Certificates of Deposit

At December 31, 2019 and 2018, NAMI held certificates of deposit with original maturity dates greater than a period of ninety days that are carried at amortized cost. Interest earned on certificates of deposit is included in the accompanying statements of activities. These certificates of deposit do not qualify as securities as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*. Therefore, these investments are presented separately on the face of the accompanying statements of financial position, and are not included in the fair value disclosures required by FASB ASC 820, *Fair Value Measurements and Disclosures*.

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.

Intangible Assets

E-Learning Software

NAMI capitalizes certain costs associated with the development of its E-Learning software upon reaching technological feasibility. The software is used for in-service and online training to introduce mental health professionals to the unique perspectives of people with mental health conditions and their families. These costs are amortized on a straight-line basis over the estimated economic life of three years for each developmental enhancement. NAMI performs periodic reviews to ensure that unamortized software costs remain recoverable from estimated future operating profits. Costs to support or service licensed software are charged to costs of services as incurred.

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Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Intangible Assets (continued)

Program, Accounting, Consulting, and Other Intangible Software

Certain costs associated with the development of program software, accounting software, consulting software, and other types of modules utilized for programs are capitalized by NAMI. These costs are amortized on a straight-line basis over the estimated useful life of three years. Costs to support or service these software, modules, and other products are expensed as incurred.

Website Development Costs

Additionally, NAMI capitalizes certain costs associated with the development of the website. Website development costs are amortized on a straight-line basis over the estimated useful life of three years. Costs related to the planning stages of the website development projects, as well as ongoing website operating and support costs, are expensed as incurred.

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. Any changes in the market value of the original gifts are reported as restricted gains and losses in the accompanying statements of activities.

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.

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Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Contributions are reported as support without donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. 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.

In-Kind Contributions

Donated services are recognized as revenue in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by NAMI. During the years ended December 31, 2019 and 2018, NAMI received donated services consisting of media, legal, and other professional services with an estimated fair value of \$6,368,729 and \$11,290,008, respectively.

Donated goods consist of various items contributed to NAMI to be given away at the walk events. These goods are recorded as in-kind contributions in the accompanying financial statements at their estimated fair value at the date of receipt. Donated goods for the years ended December 31, 2019 and 2018 were \$0 and \$6,700, respectively.

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Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Expenses

NAMI expenses advertising costs as incurred. Advertising expenses were \$211,365 and \$193,677 for the years ended December 31, 2019 and 2018, respectively.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update 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 beginning in 2020.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have no effect on the change in net assets previously reported.

Subsequent Events

In preparing these financial statements, NAMI has evaluated events and transactions for potential recognition or disclosure through March 24, 2020, the date the financial statements were available to be issued.

3. Liquidity and Availability

NAMI strives to maintain liquid financial assets on hand to meet 90 days of general expenditures. Management periodically reviews NAMI's liquid asset needs and adjusts the cash and cash equivalent balances as necessary. Amounts in excess of operating liquidity needs are invested in various short-term and highly liquid securities and certificates of deposit.

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Notes to Financial Statements
December 31, 2019 and 2018

3. Liquidity and Availability (continued)

Additionally, NAMI considers net assets with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The governing Board's designated operating reserves are also available for general expenditures. Excluded from total available for general expenditures are the portion of the endowments that are donor-restricted and held in perpetuity.

These financial assets that are available for general expenditures within one year of the statement of financial position date, comprise the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,095,750	\$ 3,459,023
Contributions receivable	141,296	110,440
Grants and accounts receivable	36,075	51,986
Investments appropriated for current use	12,043,357	8,881,059
Certificates of deposit available for current use	454,643	1,068,448
Less: endowment corpus held in perpetuity	<u>(869,059)</u>	<u>(839,059)</u>
Total available for general expenditures	<u>\$ 15,902,062</u>	<u>\$ 12,731,897</u>

4. Concentrations of Credit Risk

Financial instruments that potentially subject NAMI to significant concentrations of credit risk consist of cash and cash equivalents, certificates of deposit, 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 Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). NAMI has not experienced any credit losses on its cash and cash equivalents, certificates of deposit, 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.

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Notes to Financial Statements
December 31, 2019 and 2018

5. 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.

The following table sets forth by level, within the fair value hierarchy, NAMI's assets at fair value as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 281,774	\$ -	\$ -	\$ 281,774
Mutual funds:				
Equity	7,021,049	-	-	7,021,049
Fixed income	4,740,534	-	-	4,740,534
Total investments	\$ 12,043,357	\$ -	\$ -	\$ 12,043,357

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Notes to Financial Statements
December 31, 2019 and 2018

5. 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, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 333,993	\$ -	\$ -	\$ 333,993
Mutual funds:				
Equity	4,225,613	-	-	4,225,613
Fixed income	4,321,453	-	-	4,321,453
Total investments	<u>\$ 8,881,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,881,059</u>

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

	2019	2018
Interest and dividends	\$ 288,233	\$ 209,012
Realized (loss) gain	(3,664)	306,769
Unrealized gain (loss)	1,276,688	(904,497)
Investment management fees	(49,701)	(41,358)
Total investment income (loss)	<u>\$ 1,511,556</u>	<u>\$ (430,074)</u>

6. Property and Equipment

Property and equipment consists of the following at December 31:

	2019	2018
Furniture and equipment	\$ 44,342	\$ 44,342
Computer equipment	169,451	169,451
Leasehold improvements	822,994	822,994
Total property and equipment	1,036,787	1,036,787
Less: accumulated depreciation and amortization	<u>(1,026,603)</u>	<u>(886,762)</u>
Property and equipment, net	<u>\$ 10,184</u>	<u>\$ 150,025</u>

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Notes to Financial Statements
December 31, 2019 and 2018

7. Intangible Assets

Intangible assets consist of the following at December 31:

	2019	2018
Gross carrying amount:		
E-learning software	\$ 1,162,473	\$ 957,598
Program, accounting, consulting, and other intangible software	824,777	600,475
Website	265,698	174,900
Copyright	14,000	14,000
Total intangible assets	2,266,948	1,746,973
Accumulated amortization:		
E-learning software	(480,489)	(158,682)
Program, accounting, consulting, and other intangible software	(302,809)	(76,426)
Website	(29,880)	-
Copyright	(14,000)	(13,961)
Less: accumulated amortization	(827,178)	(249,069)
Intangible assets, net	\$ 1,439,770	\$ 1,497,904

Amortization expense for each year of the estimated remaining lives is as follows for the years ending December 31:

	E-Learning Software	Program, Accounting, Consulting, and Other Intangible Software	Website	Total
2020	\$ 383,597	\$ 250,338	\$ 88,566	\$ 722,501
2021	243,053	241,518	119,508	604,079
2022	55,334	30,112	27,744	113,190
Future estimated amortization	\$ 681,984	\$ 521,968	\$ 235,818	\$ 1,439,770

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Notes to Financial Statements
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8. 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 net assets without donor restrictions in the accompanying financial statements. There was no contribution revenue recognized under these arrangements for the years ended December 31, 2019 and 2018. 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%.

9. Pension Plan

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, 2019 and 2018, pension expense totaled \$246,990 and \$238,148, respectively, and is included in personnel costs in the accompanying statements of functional expenses.

10. Net Assets

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 consists 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 that 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. During the years ended December 31, 2019 and 2018, the amount of the stipend award increased to \$17,500 and \$16,000, respectively, due to additional contributions to the corpus.

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Notes to Financial Statements December 31, 2019 and 2018

10. Net Assets (continued)

Net assets with donor restrictions consist of the following at December 31:

	2019	2018
Subject to expenditure for specified purpose:		
100 Women in Finance	\$ 1,076,000	\$ 1,866,745
Education programs	917,860	635,380
State Policy and Advocacy	601,239	247,925
Broad Institute	497,426	70,000
Ending the Silence	475,427	580,959
Research	385,241	642,280
Helpline	175,000	190,000
Homefront	160,000	355,000
First Episode Psychosis	152,189	247,189
Peer-to-Peer	120,000	279,638
2020 convention	90,000	-
Crisis Intervention Program	75,000	110,000
Alignment project	69,111	97,696
Estate of Florence Drake	33,000	-
FaithNet	15,000	28,026
Research event	15,000	10,000
Communication	15,000	-
2019 convention	-	80,000
State Advocacy	-	56,323
NAMISmarts	-	50,000
NAMIEvents	-	50,000
NAMI on Campus	-	20,028
EDLE	-	15,000
Subject to the passage of time:		
Time-restricted	105,000	245,000
Subject to endowment spending policy and appropriation:		
General endowment	515,763	515,763
Advocacy endowment	10,000	10,000
Research endowment	23,000	23,000
Peter Corbin Kohn Endowment	320,296	290,296
Unappropriated endowment earnings	317,359	165,071
	\$ 6,163,911	\$ 6,881,319
Total net assets with donor restrictions		

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Notes to Financial Statements
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11. 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.

Interpretation of Relevant Law

The Board of Directors of NAMI has interpreted the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, NAMI classifies as net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets with donor restrictions 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.

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Notes to Financial Statements
December 31, 2019 and 2018

11. Endowment (continued)

Return Objectives and Risk Parameters (continued)

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

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:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2019:</u>			
Donor-restricted funds	\$ -	\$ 1,186,418	\$ 1,186,418
Total endowment funds	<u>\$ -</u>	<u>\$ 1,186,418</u>	<u>\$ 1,186,418</u>
<u>2018:</u>			
Donor-restricted funds	\$ -	\$ 1,004,130	\$ 1,004,130
Total endowment funds	<u>\$ -</u>	<u>\$ 1,004,130</u>	<u>\$ 1,004,130</u>

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Notes to Financial Statements
December 31, 2019 and 2018

11. Endowment (continued)

Changes in Endowment Net Assets

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2017	\$ -	\$ 1,054,391	\$ 1,054,391
Investment return:			
Interest and dividends	-	23,569	23,569
Net depreciation (realized and unrealized)	-	(82,482)	(82,482)
Investment fees	-	(5,348)	(5,348)
Total investment return	<u>-</u>	<u>(64,261)</u>	<u>(64,261)</u>
Contributions	-	30,000	30,000
Appropriations	<u>-</u>	<u>(16,000)</u>	<u>(16,000)</u>
Endowment net assets, December 31, 2018	-	1,004,130	1,004,130
Investment return:			
Interest and dividends	-	25,947	25,947
Net appreciation (realized and unrealized)	-	148,986	148,986
Investment fees	<u>-</u>	<u>(5,145)</u>	<u>(5,145)</u>
Total investment return	<u>-</u>	<u>169,788</u>	<u>169,788</u>
Contributions	-	30,000	30,000
Appropriations	<u>-</u>	<u>(17,500)</u>	<u>(17,500)</u>
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 1,186,418</u>	<u>\$ 1,186,418</u>

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Notes to Financial Statements
December 31, 2019 and 2018

11. 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 net assets without donor restrictions. There were no fund deficiencies at December 31, 2019 and 2018.

12. Commitments and Contingencies

Operating Leases

Through the beginning of 2020, NAMI leased office space in Arlington, Virginia under the terms of a noncancellable operating lease agreement that expires on April 30, 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 \$644,219 and \$655,764 for the years ended December 31, 2019 and 2018, respectively, and is included in occupancy expense in the accompanying statements of functional expenses.

On November 5, 2018, NAMI entered into an operating lease agreement for office space at a different location in Arlington, Virginia. NAMI occupied the space in early March 2020. The new operating lease commenced on February 1, 2020 and expires on September 30, 2036. The terms of the lease contain several lease incentives, including rent abatements, and future fixed rent increases of 2.75% per year.

Additionally, NAMI leases various office equipment under several operating leases that expire in 2022. The leases call for fixed monthly payments during the terms of the leases.

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Notes to Financial Statements
December 31, 2019 and 2018

12. Commitments and Contingencies (continued)

Operating Leases (continued)

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

2020	\$	290,270
2021		254,247
2022		946,554
2023		966,104
2024		992,672
Thereafter		<u>13,927,138</u>
Total future minimum payments	\$	<u><u>17,376,985</u></u>

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.

Employment Agreements

Through 2019, NAMI had a signed employment agreement with the Chief Executive Officer through April 30, 2019, which contained terms that require severance payments upon the occurrence of certain contractual events. The agreement was not renewed upon expiration.

NAMI entered an employment agreement with a new Chief Executive Officer, which commenced on January 20, 2020 and is scheduled to expire on January 19, 2023. The agreement contains terms that require severance payments upon the occurrence of certain contractual events.

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Notes to Financial Statements
December 31, 2019 and 2018

12. Commitments and Contingencies (continued)

Hotel Commitments

NAMI entered into several agreements through 2021 with various hotels for future meeting sites. In the event that NAMI cancels its agreement with the hotels, it can be held liable for liquidated damages or other cancellation fees.

13. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All costs incurred directly for a certain activity/project/grant are coded directly or split among those activities. Administrative costs are allocated to each program according to estimates of total personnel costs that each program expenses. Personnel costs are allocated according to estimates of each individual's time and effort spent in the various functions of NAMI. Allocated personnel costs include salary expenses, payroll taxes, benefit expenses, and pension expenses.

14. Income Taxes

NAMI is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), and is exempt from income taxes except for taxes on unrelated business activities. Tax expense totaling \$8,260 is recorded in the accompanying financial statements for the year ended December 31, 2018 for NAMI's unrelated business activities, including non-taxable qualified transportation and parking benefits. No tax expense is recorded in the accompanying financial statements for the year ended December 31, 2019, as there was no significant unrelated business income. 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.