

National Council of Nonprofits
Financial Statements and
Independent Auditor's Report
December 31, 2012 and 2011

National Council of Nonprofits

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Independent Auditor's Report

To the Board of Directors
National Council of Nonprofits

Report on the Financial Statements

We have audited the accompanying financial statements of the National Council of Nonprofits, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 the National Council of Nonprofits as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the National Council of Nonprofits as of December 31, 2011, were audited by other auditors whose report dated October 5, 2012, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Bethesda, Maryland
August 7, 2013

National Council of Nonprofits
Statements of Financial Position
December 31, 2012 and 2011

	<u>Assets</u>	
	2012	2011
Current assets		
Cash and cash equivalents	\$ 738,550	\$ 596,051
Investments	472,669	450,112
Contributions receivable, net	567,500	325,000
Accounts receivable, net	9,272	22,140
Prepaid expenses	26,332	22,334
Total current assets	1,814,323	1,415,637
Long-term contributions receivable, net	350,000	12,000
Property and equipment		
Furniture and equipment	85,092	68,833
Leasehold improvements	19,121	19,121
Total cost	104,213	87,954
Less: Accumulated depreciation and amortization	28,840	12,013
Net fixed assets	75,373	75,941
Total assets	\$ 2,239,696	\$ 1,503,578

(continued)

National Council of Nonprofits
Statements of Financial Position - Continued
December 31, 2012 and 2011

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 168,697	\$ 153,467
Deferred revenue	<u>1,975</u>	<u>1,930</u>
Total current liabilities	170,672	155,397
Long-term deferred rent	<u>115,233</u>	<u>47,580</u>
Total liabilities	<u>285,905</u>	<u>202,977</u>
Commitments and contingencies	-	-
Net assets		
Unrestricted net assets		
Undesignated	254,448	248,130
Board designated reserve	<u>623,382</u>	<u>623,134</u>
Total unrestricted net assets	877,830	871,264
Temporarily restricted net assets	<u>1,075,961</u>	<u>429,337</u>
Total net assets	<u>1,953,791</u>	<u>1,300,601</u>
Total liabilities and net assets	<u>\$ 2,239,696</u>	<u>\$ 1,503,578</u>

See notes to financial statements

National Council of Nonprofits

Statements of Activities

Year ended December 31, 2012

	Unrestricted	Temporarily restricted	Total
Revenue			
Contributions	\$ 587,785	\$ 1,164,700	\$ 1,752,485
Membership dues	145,435	-	145,435
Fees for service	50,040	-	50,040
Sponsorship	15,500	-	15,500
Interest income	1,697	-	1,697
Investment income	26,195	-	26,195
Contributed services	4,080	-	4,080
Other	1,210	-	1,210
Net assets released from donor restrictions	518,076	(518,076)	-
Total revenue	1,350,018	646,624	1,996,642
Expenses			
Program services			
Network support	381,006	-	381,006
Public policy/advocacy	508,823	-	508,823
Communications	223,270	-	223,270
Legislative/Lobbying activities	5,278	-	5,278
Total program services	1,118,377	-	1,118,377
Supporting services			
General and administrative	171,130	-	171,130
Fundraising	53,945	-	53,945
Total supporting services	225,075	-	225,075
Total expenses	1,343,452	-	1,343,452
Change in net assets	6,566	646,624	653,190
Net assets, beginning of year	871,264	429,337	1,300,601
Net assets, end of year	\$ 877,830	\$ 1,075,961	\$ 1,953,791

(continued)

National Council of Nonprofits
Statements of Activities - Continued
Year ended December 31, 2011

	Unrestricted	Temporarily restricted	Total
Revenue			
Contributions	\$ 489,863	\$ 445,300	\$ 935,163
Grant revenue	7,500	-	7,500
Membership dues	127,650	-	127,650
Fees for service	52,433	-	52,433
Sponsorship	28,500	-	28,500
Interest income	3,146	-	3,146
Investment income	627	-	627
Contributed services	13,988	-	13,988
Other	549	-	549
Net assets released from donor restrictions	367,363	(367,363)	-
Total revenue	1,091,619	77,937	1,169,556
Expenses			
Program services			
Network Support	354,341	-	354,341
Public policy/advocacy	324,961	-	324,961
Communications	150,219	-	150,219
Legislative/Lobbying activities	13,397	-	13,397
Total program services	842,918	-	842,918
Supporting services			
General and administrative	207,905	-	207,905
Fundraising	59,203	-	59,203
Total supporting services	267,108	-	267,108
Total expenses	1,110,026	-	1,110,026
Change in net assets	(18,407)	77,937	59,530
Net assets, beginning of year	889,671	351,400	1,241,071
Net assets, end of year	\$ 871,264	\$ 429,337	\$ 1,300,601

See notes to financial statements

National Council of Nonprofits
Statements of Functional Expenses
Year ended December 31, 2012

	Program services				Supporting services				Total expenses
	Network support	Public policy/advocacy	Communications	Legislative/Lobbying activities	Total program services	General and administrative	Fundraising	Total supporting services	
Salaries and benefits	\$ 243,831	\$ 366,616	\$ 94,045	\$ 4,053	\$ 708,545	\$ 80,323	\$ 11,322	\$ 91,645	\$ 800,190
Professional fees	8,992	35,293	72,430	74	116,789	27,809	37,458	65,267	182,056
Office supplies	991	84	170	3	1,248	1,301	623	1,924	3,172
Telephone	10,048	9,868	2,393	76	22,385	2,428	276	2,704	25,089
Postage and shipping	325	104	-	-	429	300	-	300	729
Occupancy	67,321	71,567	25,327	868	165,083	22,020	3,217	25,237	190,320
Equipment rental/maintenance	330	417	144	14	905	171	11	182	1,087
Printing and duplicating	19	-	7,353	-	7,372	2,045	-	2,045	9,417
Books and publications	213	3,267	2,292	-	5,772	-	85	85	5,857
Travel	17,316	7,580	2,903	-	27,799	6,284	83	6,367	34,166
Conventions, meetings and	19,729	127	-	-	19,856	1,386	-	1,386	21,242
Depreciation and amortization	5,215	6,724	2,316	108	14,363	1,898	566	2,464	16,827
Insurance	1,104	1,180	418	14	2,716	362	52	414	3,130
Membership dues	534	-	-	-	534	1,250	-	1,250	1,784
Staff development	315	242	998	-	1,555	1,115	-	1,115	2,670
Outside computer service	4,723	5,754	12,481	68	23,026	3,438	252	3,690	26,716
Bad debt expense	-	-	-	-	-	19,000	-	19,000	19,000
Total	\$ 381,006	\$ 508,823	\$ 223,270	\$ 5,278	\$ 1,118,377	\$ 171,130	\$ 53,945	\$ 225,075	\$ 1,343,452

(continued)

National Council of Nonprofits
Statements of Functional Expenses - Continued
Year ended December 31, 2011

	Program services				Supporting services				Total expenses
	Network support	Public policy/advocacy	Communications	Legislative/Lobbying activities	Total program services	General and administrative	Fundraising	Total supporting services	
Salaries and benefits	\$ 238,842	\$ 250,130	\$ 104,229	\$ 10,256	\$ 603,457	\$ 118,520	\$ 17,490	\$ 136,010	\$ 739,467
Professional fees	13,729	8,447	8,122	191	30,489	44,895	37,147	82,042	112,531
Office supplies	581	401	121	24	1,127	3,065	19	3,084	4,211
Telephone	5,871	5,108	1,777	204	12,960	2,418	340	2,758	15,718
Postage and shipping	524	190	50	-	764	941	4	945	1,709
Occupancy	44,172	43,563	18,502	2,409	108,646	21,462	3,389	24,851	133,497
Equipment rental/maintenance	1,911	1,710	913	18	4,552	885	117	1,002	5,554
Printing and duplicating	1,265	1,656	1,625	-	4,546	1,721	-	1,721	6,267
Books and publications	37	3,794	5,080	-	8,911	978	-	978	9,889
Travel	14,608	37	-	-	14,645	2,160	-	2,160	16,805
Conventions, meetings and	23,045	-	-	-	23,045	4,868	-	4,868	27,913
Depreciation and amortization	2,876	2,827	1,137	77	6,917	1,255	228	1,483	8,400
Insurance	1,041	983	456	41	2,521	479	77	556	3,077
Membership dues	-	303	135	-	438	800	-	800	1,238
Staff development	662	724	-	-	1,386	1,134	-	1,134	2,520
Outside computer service	5,177	5,088	8,072	177	18,514	2,324	392	2,716	21,230
Total	\$ 354,341	\$ 324,961	\$ 150,219	\$ 13,397	\$ 842,918	\$ 207,905	\$ 59,203	\$ 267,108	\$ 1,110,026

See notes to financial statements

National Council of Nonprofits

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Changes in net assets	\$ 653,190	\$ 59,530
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,827	8,400
Bad debt expense	19,000	-
Net unrealized (gain) loss on investments	(16,059)	4,744
Changes in assets and liabilities:		
Contributions receivable	(580,500)	25,000
Accounts receivable	(6,132)	28,010
Prepaid expenses	(3,998)	(3,361)
Deposits	-	8,834
Accounts payable and accrued expenses	15,230	2,929
Deferred revenue	45	(485)
Deferred rent	67,653	39,833
	<u>165,256</u>	<u>173,434</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(16,259)	(74,394)
Net purchase of investments	(6,498)	(454,856)
	<u>(22,757)</u>	<u>(529,250)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	<u>142,499</u>	<u>(355,816)</u>
Cash and cash equivalents, beginning of year	<u>596,051</u>	<u>951,867</u>
Cash and cash equivalents, end of year	<u>\$ 738,550</u>	<u>\$ 596,051</u>
Significant noncash investing and financing activities		
Disposal of fully depreciated property and equipment	<u>\$ -</u>	<u>\$ 75,171</u>

See notes to financial statements

National Council of Nonprofits

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Organization and Purpose

National Council of Nonprofits (the Organization), formerly known as National Council of Nonprofit Associations, was founded in 1990 as a 501(c)(3) nonprofit corporation, in the District of Columbia. The primary purpose of the Organization is to advance the vital role, capacity and voice of charitable nonprofit organizations through its state and national networks.

The Organization is supported primarily through contributions from private foundations and individuals and from membership dues received.

Note 2 - Summary of Significant Accounting Policies and Other Matters

Basis of Presentation

These financial statements have been prepared on the accrual basis of accounting and are intended to present net assets, revenue, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Unrestricted net assets - Net assets not subject to donor-imposed restrictions.
- Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met by actions of the Organization and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

Revenue is reported as increases in unrestricted net assets unless uses of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments and short-term money market instruments with original maturities of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Investments

Investments in mutual funds with readily determinable fair values and all investments in money market funds and fixed income securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the changes in net assets. Gains and losses are considered unrestricted or temporarily restricted depending on whether external restrictions were imposed on the gain and losses at the time of the initial investment.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions with donor-imposed restrictions and unconditional promises to give with payments due in future periods are reported as support and added to temporarily or permanently restricted net assets. Contributions that are restricted by the donor but said restrictions expire in the year in which the contribution is recognized are recorded as increases in unrestricted net assets. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is made based on management's judgment, based on factors such as prior collection history, the type of contribution and other relevant factors. As of December 31, 2012, contributions receivable in the amount of \$567,500 are due within one year and the remaining \$350,000 contributions receivable are due in greater than one year. As of December 31, 2011, contributions receivable in the amount of \$325,000 were due within one year and the remaining \$12,000 contributions receivable were due in greater than one year. As of December 31, 2012 and 2011, these receivables are deemed fully collectible. Based on management's evaluation of collectability of promises to give, an allowance for doubtful promises to give of \$0 and \$0 was recorded at December 31, 2012 and 2011, respectively.

Contributions were 88% and 80% of total revenue and support for the years ended December 31, 2012 and 2011, respectively.

Accounts Receivable

Accounts receivable consist primarily of amounts due from members and amounts due to the Organization in conjunction with performing their mission. Accounts receivable are reported at their outstanding balances, reduced by an allowance for

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

doubtful accounts. Management periodically evaluates the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. As a result of these reviews, management recognized bad debt expense of \$19,000 during 2012 and subsequently wrote off receivables totaling \$19,000. An allowance is recorded for customer receivables deemed to be uncollectible. As of December 31, 2012 and 2011, the accounts receivable balance is deemed fully collectible and management has not recorded an allowance for bad debt.

Property and Equipment

The Organization capitalizes the cost of furniture, equipment and leasehold improvements that cost \$500 or more and that have useful lives of more than one year. These assets are depreciated over estimated useful lives of three to five years using the straight-line method. Leasehold improvements are amortized over the life of the lease.

Deferred Rent

The Organization records rent expense on a straight-line basis on its office lease that contains fixed annual rental increases. The difference between rent expense and payments made under the lease are reflected as deferred rent.

Membership Dues

Membership dues are recognized as revenue over the period of membership, which is on a calendar year basis.

Contributed Services

The Organization recognizes contributed services at fair value if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as contributed services are offset by like amounts included in expenses.

During the years ended December 31, 2012 and 2011, the Organization received contributed professional services, with a fair value on the dates of donation of \$4,080 for consulting services and \$13,988 for legal advisory services, respectively.

Various members of the Board of Directors have made significant contributions of their time to develop the Organization and its programs. No amounts have been recognized in the accompanying statements of activities and changes in net assets

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

because the criteria for recognition of such efforts under generally accepted accounting principles (GAAP) have not been satisfied.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization's programs are identified below:

Network Support - Builds the capacity of State Associations and nonprofit organizations to serve their communities.

Public Policy/Advocacy - Tracks legislation that impacts the nonprofit sector and helps to build the advocacy capacity of State Associations and charitable nonprofits.

Communications - Enhances visibility and understanding of the impact of charitable nonprofits.

Legislative/Lobbying Activities - Advocates through direct lobbying and grassroots lobbying, per the definitions under the Lobbying Disclosure Act.

Income Taxes

The Organization has received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to section 501(c)(3) of the Internal Revenue Code (the Code). The Organization is subject to income taxes on revenue generated from other sources unrelated to its exempt purpose. Due to its tax exempt status, the Organization is not subject to income taxes and did not have any unrelated business income during the years ended December 31, 2012 and 2011. Accordingly, no provision or benefit for income taxes has been recorded in the accompanying financial statements. The Organization is required to file and does file tax returns with the IRS and state agencies.

For the years ended December 31, 2012 and 2011, the Organization did not identify any uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenue and expenses during the reporting period.

Subsequent Events

Material subsequent events have been considered for disclosure and recognition in these financial statements through August 7, 2013, the date the financial statements were available to be issued.

Note 3 - Investments

At December 31, 2012 and 2011, investments held in a brokerage investment account consist of the following:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 2,193	\$ 5,004
Mutual funds	69,094	60,431
Fixed income	<u>401,382</u>	<u>384,677</u>
	<u>\$ 472,669</u>	<u>\$ 450,112</u>

The following summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investment income	\$ 10,136	\$ 5,371
Unrealized gain (loss)	<u>16,059</u>	<u>(4,744)</u>
	<u>\$ 26,195</u>	<u>\$ 627</u>

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 4 - Temporarily Restricted Net Assets

At December 31, 2012 and 2011, temporarily restricted net assets consisted of:

	<u>2012</u>	<u>2011</u>
Time restricted	\$ 917,500	\$ 325,000
Purpose restricted	<u>158,461</u>	<u>104,337</u>
	<u>\$ 1,075,961</u>	<u>\$ 429,337</u>

Note 5 - Net Assets Released from Restriction

The following temporarily restricted net assets were released from donor restrictions by the passage of time or by incurring expenses which satisfied the restricted purposes as specified by the donors:

	<u>2012</u>	<u>2011</u>
Passage of time	\$ 325,000	\$ 350,000
Satisfaction of donor-imposed purpose restrictions	<u>193,076</u>	<u>17,363</u>
	<u>\$ 518,076</u>	<u>\$ 367,363</u>

Note 6 - Board Designated Net Assets

The Board of Directors has established an operating reserve fund from unrestricted net assets. The fund is increased each year based on the Board's discretion. Management's goal is to maintain at least six months worth of operating expenses in the fund. During the year ended December 31, 2012, \$248 was designated by the Board to provide support for the operating reserve fund. During the year ended December 31, 2011, \$5,983 of board designated net assets were drawn down by the Organization. All draw-downs were authorized by the Board of Directors.

Note 7 - Retirement Plans

The Organization provides a retirement program for eligible full-time employees who are 21 years of age or older. The Organization contributes to the employee's retirement plan after the employee completes one year of service. Eligible employees may contribute to the retirement plan at the beginning of employment. For the years ended December 31, 2012 and 2011, the Organization contributed \$29,367 and \$28,337 to the Plan, respectively.

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 8 - Lease Obligations

On August 3, 2006, the Organization entered into a 61-month non-cancelable lease agreement for office space commencing on September 1, 2006. The total rent commitment is recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the expense being recognized for financial statement purposes is deferred and amortized over the term of the lease. The lease expired on September 30, 2011.

On August 15, 2011, the Organization entered into a 126-month non-cancelable lease agreement for office space at 1200 New York Avenue, NW, Washington, D.C., commencing on October 1, 2011.

Total rent expense for the years ended December 31, 2012 and 2011 was \$190,320 and \$133,497, respectively.

As of the commencement date of this lease, future minimum lease payments are as follows:

Year ending December 31, 2013	\$	182,746
2014		187,303
2015		191,978
2016		196,771
2017		201,692
Thereafter		<u>915,205</u>
Total	\$	<u>1,875,695</u>

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 9 - Fair Value Measurements

Fair value of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

Fair Value Measurements at December 31, 2012				
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 2,193	\$ 2,193	\$ -	\$ -
Mutual funds	69,094	69,094	-	-
Fixed income securities	401,382	401,382	-	-
Total	\$ 472,669	\$ 472,669	\$ -	\$ -

Fair Value Measurements at December 31, 2011				
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 5,004	\$ 5,004	\$ -	\$ -
Mutual funds	60,431	60,431	-	-
Fixed income	384,677	384,677	-	-
Total assets	\$ 450,112	\$ 450,112	\$ -	\$ -

All assets have been valued using a market approach.

Note 10 - Concentrations of Credit Risk

Cash and cash equivalent balances are held primarily in checking accounts and money market accounts with carefully selected financial institution and accordingly, management does not believe that there is exposure due to significant credit risk with respect to cash and cash equivalents. While at times, certain deposits may exceed federally insured limits, the Organization has not experienced any losses with respect to its deposit balances in excess of government provided insurance.

National Council of Nonprofits

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 11 - Risks and Uncertainties

The Organization's invested assets consist of money market funds, mutual funds and fixed income securities. Investment policy and guidelines are established by the Organization and approved by the Board of Directors. These investments are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the statement of financial position as of December 31, 2012. The investment policy and guidelines consider liquidity and risk for each pool of assets and attempt to diversify asset classes to mitigate these risks.