

Audited Financial Statements
NATIONAL COUNCIL OF NONPROFITS
DECEMBER 31, 2013

National Council of Nonprofits

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Independent Auditor’s Report

To the Board of Directors
National Council of Nonprofits

We have audited the accompanying financial statements of the National Council of Nonprofits (the Council), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior-year summarized comparative information has been derived from the Council’s financial statements as of and for the year ended December 31, 2012, which were audited by other auditors whose report thereon, dated August 7, 2013, expressed an unmodified opinion on those 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Council of Nonprofits as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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July 8, 2014

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National Council of Nonprofits

Statement of Financial Position

December 31,	2013	2012
Assets		
Cash and cash equivalents	\$ 622,568	\$ 738,550
Investments	494,162	472,669
Accounts receivable	1,629	9,272
Contributions receivable	400,000	917,500
Prepaid expenses	12,374	26,332
Property and equipment, net	60,272	75,373
Total assets	\$ 1,591,005	\$ 2,239,696
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 167,604	\$ 168,697
Deferred revenue	9,445	1,975
Deferred rent	122,271	115,233
Total liabilities	299,320	285,905
Net assets		
Unrestricted - undesignated	163,233	254,448
Unrestricted - designated	623,382	623,382
Temporarily restricted	505,070	1,075,961
Total net assets	1,291,685	1,953,791
Total liabilities and net assets	\$ 1,591,005	\$ 2,239,696

National Council of Nonprofits

Statement of Activities Year ended December 31, 2013, with comparative totals for 2012

	2013			Total 2012
	Unrestricted	Temporarily Restricted	Total	
Revenue and support				
Contributions	\$ 221,380	\$ 302,000	\$ 523,380	\$ 1,752,485
Membership dues	139,565		139,565	145,435
Fees for service	47,277		47,277	50,040
Investment earnings	24,207		24,207	27,892
Sponsorship	18,750		18,750	15,500
Contributed services	15,751		15,751	4,080
Other	705		705	1,210
Net assets released from restriction	872,891	(872,891)	-	-
Total revenue and support	1,340,526	(570,891)	769,635	1,996,642
Expenses				
Program services				
Public policy/advocacy	707,518		707,518	508,823
Network support	392,348		392,348	381,006
Communications	148,515		148,515	223,270
Legislative/Lobbying activities	7,383		7,383	5,278
Total program services	1,255,764	-	1,255,764	1,118,377
Supporting services				
General and administrative	147,082		147,082	171,130
Fundraising	28,895		28,895	53,945
Total supporting services	175,977	-	175,977	225,075
Total expenses	1,431,741	-	1,431,741	1,343,452
Change in net assets	(91,215)	(570,891)	(662,106)	653,190
Net assets, beginning of year	877,830	1,075,961	1,953,791	1,300,601
Net assets, end of year	\$ 786,615	\$ 505,070	\$ 1,291,685	\$ 1,953,791

National Council of Nonprofits

Statement of Functional Expenses For the year ended December 31, 2013 With comparative totals for the year ended December 31, 2012

	Program Services					Supporting Services			2013 Total	Comparative 2012 Total
	Network Support	Public policy/advocacy	Communications	Legislative & Lobbying	Total Program Services	General and administrative	Fundraising	Total Supporting Services		
Expenses										
Salaries and benefits	\$ 256,755	\$ 486,013	\$ 98,714	\$ 4,948	\$ 846,430	\$ 84,256	\$ 20,698	\$ 104,954	\$ 951,384	\$ 800,190
Occupancy	61,424	79,602	23,621	1,323	165,970	19,056	4,792	23,848	189,818	190,320
Professional fees	15,894	56,790	6,958	88	79,730	28,562	1,549	30,111	109,841	182,056
Travel	4,687	41,372	1,783	754	48,596	4,880	-	4,880	53,476	34,166
Telephone	13,660	9,529	2,377	113	25,679	2,408	426	2,834	28,513	25,089
Conventions and meetings	24,439	-	-	-	24,439	-	-	-	24,439	21,242
Outside computer service	4,980	9,829	5,740	100	20,649	1,759	395	2,154	22,803	26,716
Depreciation and amortization	5,817	7,538	2,265	-	15,620	2,282	425	2,707	18,327	16,827
Books and publications	98	4,239	4,533	-	8,870	276	-	276	9,146	5,857
Printing and duplicating	338	4,465	615	-	5,418	320	650	970	6,388	9,417
Staff development	390	2,170	804	-	3,364	1,312	370	1,682	5,046	2,670
Equipment rental/maintenance	1,554	2,051	599	24	4,228	541	124	665	4,893	1,087
Insurance	1,045	1,354	402	21	2,822	330	81	411	3,233	3,130
Membership dues	628	1,500	-	-	2,128	190	-	190	2,318	1,784
Supplies	603	718	104	12	1,437	88	(615)	(527)	910	3,172
Postage and shipping	71	327	-	-	398	301	-	301	699	729
Bad debt expense	-	-	-	-	-	500	-	500	500	19,000
Other	(35)	21	-	-	(14)	21	-	21	7	-
Total Expenses	\$ 392,348	\$ 707,518	\$ 148,515	\$ 7,383	\$ 1,255,764	\$ 147,082	\$ 28,895	\$ 175,977	\$ 1,431,741	\$ 1,343,452

See notes to financial statements.

National Council of Nonprofits

Statement of Cash Flows

Year Ended December 31,	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (662,106)	\$ 653,190
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,328	16,827
Bad debt expense	500	19,000
Net unrealized gain on investments	(502)	(16,059)
Changes in assets and liabilities:		
Contributions receivable	517,500	(580,500)
Accounts receivable	7,143	(6,132)
Prepaid expenses	13,958	(3,998)
Accounts payable and accrued expenses	(1,093)	15,230
Deferred revenue	7,470	45
Deferred rent	7,038	67,653
Total adjustments	570,342	(487,934)
Net cash (used in) provided by operating activities	(91,764)	165,256
Cash flows from investing activities		
Purchases of property and equipment	(3,227)	(16,259)
Net purchase of investments	(20,991)	(6,498)
Net cash used in investing activities	(24,218)	(22,757)
Net (decrease) increase in cash and cash equivalents	(115,982)	142,499
Cash and cash equivalents, beginning of year	738,550	596,051
Cash and cash equivalents, end of year	\$ 622,568	\$ 738,550

National Council of Nonprofits

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of accounting: The accompanying financial statements have been prepared using the accrual basis of accounting. Consequently, revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

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 and disclosures. Accordingly, actual results could differ from those estimates.

Comparative totals: The financial statements and footnote disclosures for the year ended December 31, 2012 are presented only to provide a basis for comparison with the year 2013. The 2012 year financial statements and footnote disclosures are not intended to present all information necessary for the fair presentation in accordance with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Council's financial statements for the year December 31, 2012, from which the summarized information was derived.

Net assets: Net assets are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. A description of each net asset group is as follows:

Unrestricted, undesignated: Net assets whose use is not restricted by donors or internally designated for other uses.

Unrestricted, designated: Unrestricted, designated net assets consist of an operating reserve established by the Board of Directors and increased or decreased 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.

Temporarily restricted: represents resources restricted by donors as to purpose or by the passage of time. Purpose-restricted resources relate to research and advocacy to improve policies and practices affecting nonprofit organizations.

Cash and cash equivalents: For financial statement purposes, the Council includes cash accounts and short-term investments held outside of investment portfolios to be cash and cash equivalents. At December 31, 2013, cash and cash equivalents were comprised of bank deposits and money market funds.

National Council of Nonprofits

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 gains and losses at the time of the initial investment.

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of donor restrictions. Support that is restricted by donors is reported as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when the restriction expires. Temporarily restricted contributions which are received and expended in the same period are classified within unrestricted activities. 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, 2013, contributions receivable in the amount of \$400,000 are due within one year. As of December 31, 2012, contributions receivable in the amount of \$567,500 were due within one year and the remaining \$350,000 contributions receivable were due in greater than one year. As of December 31, 2013 and 2012, these receivables are deemed fully collectible. Based on management's evaluation of collectability of contributions receivable, no allowance for doubtful contributions receivable was recorded at December 31, 2013 and 2012.

Contributions were 68% and 88% of total revenue and support for the years ended December 31, 2013 and 2012, respectively.

Accounts receivable: Accounts receivable consists primarily of amounts due from members and amounts due to the Council in conjunction with performing the organization's mission. Accounts receivable are reported at their outstanding balances, reduced by an allowance for 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 Council's relationship with the customer, and the age of the receivable balance. An allowance is recorded for customer receivables deemed to be uncollectible. As of December 31, 2013 and 2012, the accounts receivable balance is deemed fully collectible and management has not recorded an allowance for bad debt.

Deferred rent: The Council records rent expense on a straight-line basis on its office lease which 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.

National Council of Nonprofits

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributed services: The Council 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 year ended December 31, 2013, the Council received contributed professional services with a fair value on the date of donation of \$11,600 for legal advisory services and \$4,151 for teleconference services. During the year ended December 31, 2012, the Council received contributed professional services with a fair value on the date of donation of \$4,080 for consulting services.

Various members of the Board of Directors have made significant contributions of their time to develop the Council and its programs. No amounts have been recognized in the accompanying statements of activities and changes in net assets because of the criteria for recognition of such efforts under U.S. 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 Council'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 Internal Revenue Code.

Income taxes: The Council is exempt from the payment of federal and local income taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than a private foundation. For the year ended December 31, 2013, the Council's sole source of unrelated business income was newsletter advertising.

The Council believes that it has appropriate support for any tax positions taken, and therefore, does not have any uncertain tax positions that are material to the financial statements. At a minimum, the 2010 through 2013 tax years are open for examination by taxing authorities.

Subsequent events: Material subsequent events have been considered for disclosure and recognition in these financial statements through July 8, 2014, the date the financial statements were available to be issued.

National Council of Nonprofits

Notes to Financial Statements

B. CONCENTRATIONS

Credit risk: The Council maintains demand deposits, money market funds, and certificates of deposit with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Council.

Market value risk: The Council also invests funds in a professionally managed portfolio that contains various securities detailed in Note C. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. The investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Council uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments are reported at fair value and consist of the following at December 31,:

2013	Total	Level 1	Level 2	Level 3
Mutual funds - fixed income	\$ 199,775	\$ 199,775	\$ -	\$ -
Mutual funds - equities	91,918	91,918		
Investments carried at fair value	291,693	\$ 291,693	\$ -	\$ -
Certificates of deposit*	200,085			
Money market funds*	2,384			
Total investments	\$ 494,162			
2012	Total	Level 1	Level 2	Level 3
Mutual funds - fixed income	\$ 401,382	\$ 401,382	\$ -	\$ -
Mutual funds - equities	69,094	69,094		
Investments carried at fair value	470,476	\$ 470,476	\$ -	\$ -
Money market funds*	2,193			
Total investments	\$ 472,669			

* Money market funds and certificates of deposit included in the investment portfolio are not subject to provisions of fair value measurements as they are recorded at cost.

National Council of Nonprofits

Notes to Financial Statements

C. INVESTMENTS - CONTINUED

The following is a summary of the earnings from investments for the years ended December 31,:

	2013	2012
Investment income	\$ 23,705	\$ 11,833
Unrealized gains	502	16,059
	<u>\$ 24,207</u>	<u>\$ 27,892</u>

D. PROPERTY AND EQUIPMENT

The Council 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.

Property and equipment consists of the following at December 31,:

	2013	2012
Furniture and equipment	\$ 88,319	\$ 85,092
Leasehold improvements	19,121	19,121
	<u>107,440</u>	<u>104,213</u>
Less accumulated depreciation	<u>(47,168)</u>	<u>(28,840)</u>
Property and equipment, net	<u>\$ 60,272</u>	<u>\$ 75,373</u>

E. NET ASSETS

Temporarily restricted net assets and related activity consist of the following in 2013:

	January 1, 2013	Support and Revenue	Net Assets Released From Restrictions	December 31, 2013
Time restricted	\$ 760,500	\$ 100,000	\$ (460,500)	\$ 400,000
Purpose restricted	147,982	1,000	(97,311)	51,671
Time and purpose restricted	167,479	201,000	(315,080)	53,399
	<u>\$ 1,075,961</u>	<u>\$ 302,000</u>	<u>\$ (872,891)</u>	<u>\$ 505,070</u>

National Council of Nonprofits

Notes to Financial Statements

E. NET ASSETS – CONTINUED

Temporarily restricted net assets and related activity consist of the following in 2012:

	January 1, 2012	Support and Revenue	Net Assets Released From Restrictions	December 31, 2012
Time restricted	\$ 325,000	\$ 760,500	\$ (325,000)	\$ 760,500
Purpose restricted	1,700	175,200	(28,918)	147,982
Time and purpose restricted	102,637	229,000	(164,158)	167,479
	\$ 429,337	\$ 1,164,700	\$ (518,076)	\$ 1,075,961

F. COMMITMENTS AND CONTINGENCIES

Office lease: The Council leases office space under an operating lease that expires on March 31, 2022. The lease provides for fixed increases in the annual base rent and also increases in operating expenses and real estate taxes. Under accounting principles generally accepted in the United States of America all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. The difference between the straight-line rent expense and the required lease payments is reflected as a deferred rent liability in the accompanying statements of financial position.

Total rent expense for the years ended December 31, 2013 and 2012 was \$189,819 and \$190,320, respectively.

Future minimum lease payments for the office lease are as follows:

Year Ending December 31,	
2014	\$ 187,303
2015	191,978
2016	196,771
2017	201,692
2018	206,752
Thereafter	708,453
	\$ 1,692,949

G. RETIREMENT PLANS

The Council provides a retirement program for eligible full-time employees who are 21 years of age or older. The Council 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, 2013 and 2012, the Council contributed \$35,266 and \$29,367 to the Plan, respectively.