

Audited Financial Statements
NATIONAL COUNCIL OF NONPROFITS
December 31, 2017

National Council of Nonprofits

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A Professional Corporation

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Accountants

and Consultants

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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Council of Nonprofits as of December 31, 2017 and 2016, 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.

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July 18, 2018

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National Council of Nonprofits

Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 279,503	\$ 438,423
Investments	700,267	669,842
Accounts receivable	9,175	2,200
Contributions receivable	425,000	50,000
Prepaid expenses	25,237	24,382
Security deposit asset	54,567	54,567
Property and equipment, net	267,963	306,513
Total assets	\$ 1,761,712	\$ 1,545,927
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 84,814	\$ 97,248
Deferred revenue	375	13,900
Deferred rent and lease incentive	450,017	475,966
Total liabilities	535,206	587,114
Net assets (deficit)		
Unrestricted - undesignated	(179,231)	81,318
Unrestricted - designated	568,257	568,257
Temporarily restricted	837,480	309,238
Total net assets	1,226,506	958,813
Total liabilities and net assets	\$ 1,761,712	\$ 1,545,927

See notes to financial statements.

National Council of Nonprofits

Statements of Activities

	2017			2016		
	Temporarily			Temporarily		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenue and support						
Contributions	\$ 236,508	\$ 1,265,000	\$ 1,501,508	\$ 270,560	\$ 47,500	\$ 318,060
Membership dues	265,641	-	265,641	243,462	-	243,462
Fees for service	92,019	-	92,019	125,370	-	125,370
Other	46,510	-	46,510	30,561	-	30,561
Sponsorship	41,525	-	41,525	24,500	-	24,500
Investment earnings	34,152	-	34,152	21,978	-	21,978
Contributed goods and services	-	-	-	1,000	-	1,000
Net assets released from restriction	736,758	(736,758)	-	678,262	(678,262)	-
Total revenue and support	1,453,113	528,242	1,981,355	1,395,693	(630,762)	764,931
Expenses						
Program services						
Public policy/advocacy	642,431	-	642,431	615,903	-	615,903
Network support	525,671	-	525,671	427,708	-	427,708
Communications	190,453	-	190,453	180,204	-	180,204
Lobbying activities	110,543	-	110,543	2,130	-	2,130
Total program services	1,469,098	-	1,469,098	1,225,945	-	1,225,945
Supporting services						
General and administrative	157,254	-	157,254	242,214	-	242,214
Fundraising	87,310	-	87,310	58,557	-	58,557
Total supporting services	244,564	-	244,564	300,771	-	300,771
Total expenses	1,713,662	-	1,713,662	1,526,716	-	1,526,716
Change in net assets	(260,549)	528,242	267,693	(131,023)	(630,762)	(761,785)
Net assets, beginning of year	649,575	309,238	958,813	780,598	940,000	1,720,598
Net assets, end of year	\$ 389,026	\$ 837,480	\$ 1,226,506	\$ 649,575	\$ 309,238	\$ 958,813

See notes to financial statements.

National Council of Nonprofits

Statement of Functional Expenses Year Ended December 31, 2017

	Program Services				Total Program Services	Supporting Services			Total
	Public Policy/Advocacy	Network Support	Communications	Lobbying		General and Administrative	Fundraising	Total Supporting Services	
Expenses									
Salaries and benefits	\$ 501,027	\$ 339,360	\$ 110,532	\$ 71,705	\$ 1,022,624	\$ 92,971	\$ 61,124	\$ 154,095	\$ 1,176,719
Occupancy	74,963	67,905	21,734	14,188	178,790	16,546	12,844	29,390	208,180
Professional fees	7,583	4,841	30,734	13,282	56,440	33,431	1,006	34,437	90,877
Conventions and meetings	224	72,036	-	-	72,260	2,948	-	2,948	75,208
Depreciation and amortization	15,089	14,995	4,676	2,999	37,759	3,313	2,615	5,928	43,687
Outside computer service	8,003	5,157	11,581	1,251	25,992	1,285	1,031	2,316	28,308
Telephone	13,147	8,489	2,114	1,378	25,128	1,503	1,612	3,115	28,243
Travel	10,046	8,421	57	44	18,568	50	3,902	3,952	22,520
Books and publications	6,120	343	7,400	3	13,866	277	1,414	1,691	15,557
Equipment rental/maintenance	1,875	1,738	564	339	4,516	2,370	290	2,660	7,176
Advertising and marketing	-	-	-	5,000	5,000	-	-	-	5,000
Insurance	1,709	1,572	501	327	4,109	353	295	648	4,757
Supplies	159	669	53	27	908	821	210	1,031	1,939
Postage and shipping	588	86	7	-	681	79	967	1,046	1,727
Staff development	1,040	59	-	-	1,099	519	-	519	1,618
Printing and duplicating	299	-	-	-	299	648	-	648	947
Membership dues	559	-	-	-	559	140	-	140	699
Bad debt	-	-	500	-	500	-	-	-	500
Total Expenses	\$ 642,431	\$ 525,671	\$ 190,453	\$ 110,543	\$ 1,469,098	\$ 157,254	\$ 87,310	\$ 244,564	\$ 1,713,662

See notes to financial statements.

National Council of Nonprofits

Statement of Functional Expenses Year Ended December 31, 2016

	Program Services					Supporting Services			Total
	Network Support	Public Policy/Advocacy	Communications	Lobbying	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Expenses									
Salaries and benefits	\$ 284,816	\$ 463,999	\$ 119,666	\$ -	\$ 868,481	\$ 148,677	\$ 43,375	\$ 192,052	\$ 1,060,533
Occupancy	57,215	89,010	23,959	-	170,184	23,165	8,590	31,755	201,939
Professional fees	9,782	14,743	15,891	-	40,416	19,958	787	20,745	61,161
Conventions and meetings	52,030	188	-	-	52,218	3,898	-	3,898	56,116
Depreciation and amortization	6,475	10,020	2,708	-	19,203	30,426	963	31,389	50,592
Outside computer service	2,399	6,544	11,734	-	20,677	1,230	372	1,602	22,279
Telephone	5,606	9,167	2,310	-	17,083	2,951	930	3,881	20,964
Travel	5,524	7,333	-	-	12,857	4,776	2,930	7,706	20,563
Books and publications	529	6,572	2,141	2,130	11,372	978	141	1,119	12,491
Staff development	104	2,160	525	-	2,789	3,110	55	3,165	5,954
Insurance	1,297	2,012	539	-	3,848	877	194	1,071	4,919
Equipment rental/maintenance	1,062	1,654	444	-	3,160	534	155	689	3,849
Supplies	765	676	147	-	1,588	1,192	53	1,245	2,833
Membership dues	-	1,400	140	-	1,540	-	-	-	1,540
Postage and shipping	104	97	-	-	201	150	12	162	363
Printing and duplicating	-	328	-	-	328	-	-	-	328
Other	-	-	-	-	-	292	-	292	292
Total Expenses	\$ 427,708	\$ 615,903	\$ 180,204	\$ 2,130	\$ 1,225,945	\$ 242,214	\$ 58,557	\$ 300,771	\$ 1,526,716

National Council of Nonprofits

Statements of Cash Flows

Year Ended December 31,	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 267,693	\$ (761,785)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	43,687	50,592
Net unrealized gain on investments	(33,680)	(8,182)
Changes in assets and liabilities:		
Accounts receivable	(6,975)	10,432
Contributions receivable	(375,000)	215,000
Prepaid expenses	(855)	(2,026)
Accounts payable and accrued expenses	(12,434)	(18,690)
Deferred revenue	(13,525)	(9,420)
Deferred rent and lease incentive	(25,949)	52,324
Total adjustments	(424,731)	290,030
Net cash used in operating activities	(157,038)	(471,755)
Cash flows from investing activities		
Purchases of property and equipment	(5,137)	-
Proceeds from sale of investments	425,416	466,719
Purchases of investments	(422,161)	(625,752)
Net cash used in investing activities	(1,882)	(159,033)
Net decrease in cash and cash equivalents	(158,920)	(630,788)
Cash and cash equivalents, beginning of year	438,423	1,069,211
Cash and cash equivalents, end of year	\$ 279,503	\$ 438,423

See notes to financial statements.

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.

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. The Board'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, 2017 and 2016, cash and cash equivalents were comprised of bank deposits and money market funds.

Investments: Investments in marketable 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.

National Council of Nonprofits

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. 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.

Contributions receivable consisted of the following at December 31,:

	2017	2016
Amounts due in less than one year	\$ 175,000	\$ 50,000
Amounts due in one to five years	250,000	-
	<u>\$ 425,000</u>	<u>\$ 50,000</u>

As of December 31, 2017 and 2016, 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, 2017 and 2016.

The majority of the Council's contribution revenue is received from a few major foundation sources.

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, 2017, the accounts receivable balance is deemed fully collectible and management has not recorded an allowance for bad debt.

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 goods and 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 (c) 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. For the year ended December 31, 2016, contributed services consisted of \$1,000.

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 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:

Public policy/advocacy: Identifies and monitors public policy proposals that could impact the nonprofit sector and helps to build the advocacy capacity of state associations and charitable nonprofits.

Network support: Builds the capacity of state associations and nonprofit organizations to serve their communities.

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

Lobbying activities: Advocates through direct lobbying and grassroots lobbying, per the definitions under the Internal Revenue Code. The Council has filed the 501(h) election, as provided by 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 years ended December 31, 2017 and 2016, the Council's sole source of unrelated business income was newsletter advertising.

Subsequent events: Material subsequent events have been considered for disclosure and recognition in these financial statements through July 18, 2018, 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,:

2017	Total	Level 1	Level 2	Level 3
Mutual funds - fixed income	\$ 204,938	\$ 204,938	\$ -	\$ -
Mutual funds - equities	94,940	94,940	-	-
Mutual funds - alternatives	25,105	25,105	-	-
Exchange-traded funds	18,100	18,100	-	-
Investments carried at fair value	343,083	\$ 343,083	\$ -	\$ -
Certificates of deposit*	250,495			
Money market funds*	106,689			
Total investments	\$ 700,267			

National Council of Nonprofits

Notes to Financial Statements

C. INVESTMENTS - CONTINUED

2016	Total	Level 1	Level 2	Level 3
Mutual funds - fixed income	\$ 171,518	\$ 171,518	\$ -	\$ -
Mutual funds - equities	95,008	95,008	-	-
Mutual funds - alternatives	47,470	47,470	-	-
Investments carried at fair value	313,996	\$ 313,996	\$ -	\$ -
Certificates of deposit*	351,715			
Money market funds*	4,131			
Total investments	\$ 669,842			

* 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.

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

	2017	2016
Net unrealized gain	\$ 33,680	\$ 8,182
Investment income	472	13,796
	\$ 34,152	\$ 21,978

D. PROPERTY AND EQUIPMENT

The Council capitalizes the cost of furniture and equipment, capitalized website costs, and leasehold improvements that cost \$500 or more and that have useful lives of more than one year. Furniture, equipment, and website costs are depreciated or amortized 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,:

	2017	2016
Furniture and equipment	\$ 122,056	\$ 116,919
Leasehold improvements	284,981	284,981
Capitalized website costs	31,838	31,838
	438,875	433,738
Less accumulated depreciation and amortization	(170,912)	(127,225)
Property and equipment, net	\$ 267,963	\$ 306,513

National Council of Nonprofits

Notes to Financial Statements

E. NET ASSETS

Temporarily restricted net assets and related activity consist of the following in 2017:

	January 1, 2017	Support and Revenue	Net Assets Released From Restrictions	December 31, 2017
Time restricted	\$ 297,500	\$ 1,015,000	\$ (587,500)	\$ 725,000
Purpose restricted	11,738	250,000	(149,258)	112,480
	\$ 309,238	\$ 1,265,000	\$ (736,758)	\$ 837,480

Temporarily restricted net assets and related activity consist of the following in 2016:

	January 1, 2016	Support and Revenue	Net Assets Released From Restrictions	December 31, 2016
Time restricted	\$ 940,000	\$ 22,500	\$ (665,000)	\$ 297,500
Purpose restricted	-	25,000	(13,262)	11,738
	\$ 940,000	\$ 47,500	\$ (678,262)	\$ 309,238

F. COMMITMENTS AND CONTINGENCIES

Office lease: The Council leases office space with an expiration date of April 30, 2026. The lease includes a tenant improvement allowance of approximately \$320,000 and a rental abatement of 10 months. 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. Lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments is reflected as a deferred rent and lease incentive liability in the accompanying statements of financial position.

National Council of Nonprofits

Notes to Financial Statements

F. COMMITMENTS AND CONTINGENCIES – CONTINUED

Total rent expense for the years ended December 31, 2017 and 2016 was \$208,180 and \$201,939, respectively.

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

Year Ending December 31,

2018	\$	232,177
2019		237,972
2020		243,912
2021		250,020
2022		256,284
Thereafter		<u>901,022</u>
		<u>\$ 2,121,387</u>

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, 2017 and 2016, the Council contributed \$43,490 and \$40,540 to the Plan, respectively.