

Audited Financial Statements
NATIONAL COUNCIL OF NONPROFITS
DECEMBER 31, 2014

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 statement of financial position as of December 31, 2014, 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 2013 financial statements and, in our report dated July 8, 2014 we expressed an unmodified opinion on those 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 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, 2014, 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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June 25, 2015

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National Council of Nonprofits

Statements of Financial Position

December 31,	2014	2013
Assets		
Cash and cash equivalents	\$ 555,665	\$ 622,568
Investments	505,839	494,162
Accounts receivable	-	1,629
Contributions receivable	100,200	400,000
Prepaid expenses	30,998	12,374
Property and equipment, net	76,131	60,272
Total assets	\$ 1,268,833	\$ 1,591,005
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 142,651	\$ 167,604
Deferred revenue	2,750	9,445
Deferred rent	119,721	122,271
Total liabilities	265,122	299,320
Net assets		
Unrestricted - undesignated	271,785	163,233
Unrestricted - designated	623,382	623,382
Temporarily restricted	108,544	505,070
Total net assets	1,003,711	1,291,685
Total liabilities and net assets	\$ 1,268,833	\$ 1,591,005

National Council of Nonprofits

Statement of Activities Year ended December 31, 2014, with comparative totals for 2013

	2014			Total 2013
	Unrestricted	Temporarily Restricted	Total	
Revenue and support				
Contributions	\$ 372,201	\$ 325,000	\$ 697,201	\$ 523,380
Membership dues	175,341	-	175,341	139,565
Fees for service	72,156	-	72,156	47,277
Other	32,963	-	32,963	705
Contributed goods and services	29,374	-	29,374	15,751
Sponsorship	25,000	-	25,000	18,750
Investment earnings	15,566	-	15,566	24,207
Net assets released from restriction	721,526	(721,526)	-	-
Total revenue and support	1,444,127	(396,526)	1,047,601	769,635
Expenses				
Program services				
Public policy/advocacy	613,118	-	613,118	707,518
Network support	342,665	-	342,665	392,348
Communications	176,141	-	176,141	148,515
Legislative/Lobbying activities	26,072	-	26,072	7,383
Total program services	1,157,996	-	1,157,996	1,255,764
Supporting services				
General and administrative	162,596	-	162,596	147,082
Fundraising	14,983	-	14,983	28,895
Total supporting services	177,579	-	177,579	175,977
Total expenses	1,335,575	-	1,335,575	1,431,741
Change in net assets	108,552	(396,526)	(287,974)	(662,106)
Net assets, beginning of year	786,615	505,070	1,291,685	1,953,791
Net assets, end of year	\$ 895,167	\$ 108,544	\$ 1,003,711	\$ 1,291,685

See notes to financial statements.

National Council of Nonprofits

Statement of Functional Expenses For the year ended December 31, 2014 With comparative totals for the year ended December 31, 2013

	Program Services					Supporting Services			2014 Total	Comparative 2013 Total
	Network Support	Public Policy/Advocacy	Communications	Legislative & Lobbying	Total Program Services	General and Administrative	Fundraising	Total Supporting Services		
Expenses										
Salaries and benefits	\$ 225,704	\$ 460,814	\$ 111,171	\$ 21,558	\$ 819,247	\$ 79,234	\$ 11,437	\$ 90,671	\$ 909,918	\$ 951,384
Occupancy	55,110	85,986	26,030	3,429	170,555	17,805	2,673	20,478	191,033	189,818
Professional fees	4,090	9,528	19,697	258	33,573	32,842	187	33,029	66,602	109,841
Travel	3,968	17,345	-	-	21,313	23,173	-	23,173	44,486	53,476
Conventions and meetings	36,666	-	-	-	36,666	462	-	462	37,128	24,439
Telephone	6,202	8,844	1,904	115	17,065	1,514	215	1,729	18,794	28,513
Outside computer service	2,991	7,011	5,521	198	15,721	1,633	131	1,764	17,485	22,803
Depreciation and amortization	4,748	7,459	2,263	341	14,811	2,290	227	2,517	17,328	18,327
Books and publications	328	4,055	5,737	-	10,120	-	-	-	10,120	9,146
Printing and duplicating	-	5,658	-	-	5,658	615	-	615	6,273	6,388
Equipment rental/maintenance	1,228	1,962	591	99	3,880	414	62	476	4,356	4,893
Insurance	934	1,472	446	68	2,920	308	45	353	3,273	3,233
Staff development	150	1,103	1,289	-	2,542	652	-	652	3,194	5,046
Supplies	546	335	72	6	959	1,281	6	1,287	2,246	910
Membership dues	-	1,500	-	-	1,500	140	-	140	1,640	2,318
Advertising and marketing	-	-	1,420	-	1,420	-	-	-	1,420	-
Postage and shipping	-	46	-	-	46	233	-	233	279	699
Bad debt expense	-	-	-	-	-	-	-	-	-	500
Other	-	-	-	-	-	-	-	-	-	7
Total Expenses	\$ 342,665	\$ 613,118	\$ 176,141	\$ 26,072	\$ 1,157,996	\$ 162,596	\$ 14,983	\$ 177,579	\$ 1,335,575	\$ 1,431,741

See notes to financial statements.

National Council of Nonprofits

Statements of Cash Flows

<i>Year Ended December 31,</i>	2014	2013
Cash flows from operating activities		
Change in net assets	\$ (287,974)	\$ (662,106)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	17,328	18,327
Bad debt expense	-	500
Net unrealized gain on investments	(453)	(502)
Changes in assets and liabilities:		
Contributions receivable	299,800	517,500
Accounts receivable	1,629	7,143
Prepaid expenses	(18,624)	13,958
Accounts payable and accrued expenses	(24,953)	(1,093)
Deferred revenue	(6,695)	7,470
Deferred rent	(2,550)	7,038
Total adjustments	265,482	570,341
Net cash used in operating activities	(22,492)	(91,765)
Cash flows from investing activities		
Purchases of property and equipment	(33,187)	(3,226)
Net purchase of investments	(11,224)	(20,991)
Net cash used in investing activities	(44,411)	(24,217)
Net decrease in cash and cash equivalents	(66,903)	(115,982)
Cash and cash equivalents, beginning of year	622,568	738,550
Cash and cash equivalents, end of year	\$ 555,665	\$ 622,568

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, 2013 are presented only to provide a basis for comparison with the year 2014. The 2013 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, 2013, 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. 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, 2014, 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.

Contributions receivable consisted of the following at December 31,:

	2014	2013
Amounts due in less than one year	\$ 200	\$ 400,000
Amounts due in one to five years	100,000	-
	<u>\$ 100,200</u>	<u>\$ 400,000</u>

As of December 31, 2014 and 2013, 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, 2014 and 2013.

Contributions were 67% and 68% of total revenue and support for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, 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.

National Council of Nonprofits

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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 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. Contributed services consisted of the following for the year ended December 31,:

	2014	2013
Airfare	\$ 18,000	\$ -
Legal advisory services	9,623	11,600
Teleconference services	-	4,151
Advertising	1,420	-
Consulting	331	-
	<u>\$ 29,374</u>	<u>\$ 15,751</u>

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, 2014, the Council's sole source of unrelated business income was newsletter advertising.

National Council of Nonprofits

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent events: Material subsequent events have been considered for disclosure and recognition in these financial statements through June 25, 2015, the date the financial statements were available to be issued.

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.

National Council of Nonprofits

Notes to Financial Statements

C. INVESTMENTS - CONTINUED

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

2014	Total	Level 1	Level 2	Level 3
Mutual funds - fixed income	\$ 207,677	\$ 207,677	\$ -	\$ -
Mutual funds - equities	94,825	94,825		
Investments carried at fair value	302,502	\$ 302,502	\$ -	\$ -
Certificates of deposit*	200,048			
Money market funds*	3,289			
Total investments	\$ 505,839			

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			

* 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,:

	2014	2013
Investment income	\$ 15,113	\$ 23,705
Unrealized gains	453	502
	\$ 15,566	\$ 24,207

National Council of Nonprofits

Notes to Financial Statements

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. These assets 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,:

	2014	2013
Furniture and equipment	\$ 89,668	\$ 88,319
Leasehold improvements	19,121	19,121
Capitalized website costs	31,838	-
	<u>140,627</u>	<u>107,440</u>
Less accumulated depreciation and amortization	<u>(64,496)</u>	<u>(47,168)</u>
Property and equipment, net	<u>\$ 76,131</u>	<u>\$ 60,272</u>

E. NET ASSETS

Temporarily restricted net assets and related activity consist of the following in 2014:

	January 1, 2014	Support and Revenue	Net Assets Released From Restrictions	December 31, 2014
Time restricted	\$ 400,000	\$ 300,000	\$ (600,000)	\$ 100,000
Purpose restricted	51,671	25,000	(68,127)	8,544
Time and purpose restricted	53,399		(53,399)	-
	<u>\$ 505,070</u>	<u>\$ 325,000</u>	<u>\$ (721,526)</u>	<u>\$ 108,544</u>

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

F. COMMITMENTS AND CONTINGENCIES

Office lease: The Council leases office space under an operating lease with an original expiration date of 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.

In March 2015, the Council agreed to terminate the lease as of June 30, 2015. In March 2015, the Council also entered into a lease (the new lease) for replacement office space. The new lease commences on July 1, 2015 and expires on May 31, 2026. The new lease includes a tenant improvement allowance of approximately \$320,000 and a rental abatement of 10 months. The new lease provides for fixed increase in the annual base rent and also increases in operating expenses and real estate taxes.

Total rent expense for the years ended December 31, 2014 and 2013 was \$191,034 and \$189,819, respectively.

Future minimum lease payments for the office lease through June 2015 and the new lease are as follows:

Year Ending December 31,	
2015	\$ 49,187
2016	148,242
2017	226,518
2018	232,176
2019	237,972
Thereafter	<u>1,697,802</u>
	<u>\$ 2,591,897</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, 2014 and 2013, the Council contributed \$36,586 and \$35,266 to the Plan, respectively.