

# Consolidated Financial Statements

Minnesota Council of Nonprofits, Inc.

St. Paul, Minnesota

For the Years Ended  
December 31, 2016 and 2015

MINNESOTA COUNCIL OF NONPROFITS, INC.  
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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Minnesota Council of Nonprofits, Inc.  
St. Paul, Minnesota

We have audited the accompanying consolidated financial statements of the Minnesota Council of Nonprofits, Inc. and subsidiary, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 combined 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the combined 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Council of Nonprofits, Inc. as of December 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
February 27, 2017

## FINANCIAL STATEMENTS

MINNESOTA COUNCIL OF NONPROFITS, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,669,136	\$ 1,041,605
Accounts receivable	28,701	106,847
Grants receivable, short-term	645,623	453,564
Inventory	31,571	8,927
Prepaid expenses	42,329	25,425
TOTAL CURRENT ASSETS	2,417,360	1,636,368
INVESTMENTS	26,872	24,010
PROPERTY AND EQUIPMENT		
Furniture, equipment and software	697,079	649,875
Accumulated depreciation	(575,120)	(540,324)
TOTAL PROPERTY AND EQUIPMENT, NET	121,959	109,551
NONCURRENT ASSETS		
Security deposit	6,517	6,517
Unemployment funds held by others	43,659	39,135
Grants receivable, long-term	220,000	10,000
TOTAL NONCURRENT ASSETS	270,176	55,652
TOTAL ASSETS	\$ 2,836,367	\$ 1,825,581

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED  
DECEMBER 31, 2016 AND 2015

	2016	2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 52,569	\$ 31,467
Accrued expenses	72,686	53,002
Deferred revenue	151,366	139,581
TOTAL LIABILITIES	276,621	224,050
NET ASSETS		
Unrestricted		
Undesignated, available for general activities	413,848	300,882
Invested in furniture, equipment and software	121,960	109,551
Board designated, operating reserve	296,491	395,830
Board designated, anti-racism award	10,000	10,000
Board designated, Nonprofit Center Growth and Expansion	100,000	-
TOTAL UNRESTRICTED	942,299	816,263
Temporarily restricted	1,617,447	785,268
TOTAL NET ASSETS	2,559,746	1,601,531
TOTAL LIABILITIES AND NET ASSETS	\$ 2,836,367	\$ 1,825,581

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
<b>SUPPORT</b>			
Contributions	\$ 10,282	\$ -	\$ 10,282
In-kind contributions	7,600	-	7,600
Grants	66,000	1,891,420	1,957,420
	<u>83,882</u>	<u>1,891,420</u>	<u>1,975,302</u>
<b>TOTAL SUPPORT</b>			
<b>REVENUE</b>			
Membership dues	790,750	-	790,750
Workshops and conference	508,589	-	508,589
Annual conference	177,010	-	177,010
Publications	54,712	-	54,712
VISTA cost-share	43,895	-	43,895
Honoraria and consulting	12,150	-	12,150
Sponsorships and marketing	336,016	-	336,016
Commissions - Nonprofit Insurance Advisors	3,081	-	3,081
Investment gains (losses)	3,839	-	3,839
Other revenue	16,241	-	16,241
	<u>1,946,283</u>	<u>-</u>	<u>1,946,283</u>
<b>TOTAL REVENUE</b>			
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Restrictions satisfied by meeting donor restrictions	1,059,241	(1,059,241)	-
	<u>1,059,241</u>	<u>(1,059,241)</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>			
	<u>3,089,406</u>	<u>832,179</u>	<u>3,921,585</u>
<b>EXPENSES</b>			
<b>PROGRAM SERVICES</b>			
Education	925,630	-	925,630
Public policy and civic engagement	296,036	-	296,036
Member services	461,337	-	461,337
VISTA	188,527	-	188,527
Research	322,503	-	322,503
Advocacy	171,253	-	171,253
Nonprofit Insurance Advisors	15,045	-	15,045
	<u>2,380,331</u>	<u>-</u>	<u>2,380,331</u>
<b>TOTAL PROGRAM SERVICES EXPENSES</b>			
<b>SUPPORTING SERVICES</b>			
Management and general	432,410	-	432,410
Fundraising	150,629	-	150,629
	<u>583,039</u>	<u>-</u>	<u>583,039</u>
<b>TOTAL SUPPORTING SERVICES EXPENSES</b>			
<b>TOTAL EXPENSES</b>			
	<u>2,963,370</u>	<u>-</u>	<u>2,963,370</u>
<b>CHANGE IN NET ASSETS</b>			
	126,036	832,179	958,215
<b>NET ASSETS, BEGINNING OF THE YEAR</b>			
	<u>816,263</u>	<u>785,268</u>	<u>1,601,531</u>
<b>NET ASSETS, END OF THE YEAR</b>			
	<u>\$ 942,299</u>	<u>\$ 1,617,447</u>	<u>\$ 2,559,746</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
<b>SUPPORT</b>			
Contributions	\$ 11,937	\$ -	\$ 11,937
In-kind contributions	11,012	-	11,012
Grants	<u>84,750</u>	<u>490,500</u>	<u>575,250</u>
<b>TOTAL SUPPORT</b>	<u>107,699</u>	<u>490,500</u>	<u>598,199</u>
<b>REVENUE</b>			
Membership dues	703,386	-	703,386
Workshops and conference	509,527	-	509,527
Annual conference	293,211	-	293,211
Publications	28,908	-	28,908
VISTA cost-share	12,725	-	12,725
Honoraria and consulting	13,673	-	13,673
Sponsorships and marketing	303,028	-	303,028
Commissions - Nonprofit Insurance Advisors	153,814	-	153,814
Investment gains (losses)	1,006	-	1,006
Other revenue	<u>115,060</u>	<u>-</u>	<u>115,060</u>
<b>TOTAL REVENUE</b>	<u>2,134,338</u>	<u>-</u>	<u>2,134,338</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Restrictions satisfied by meeting donor restrictions	<u>872,827</u>	<u>(872,827)</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>3,114,864</u>	<u>(382,327)</u>	<u>2,732,537</u>
<b>EXPENSES</b>			
<b>PROGRAM SERVICES</b>			
Education	973,672	-	973,672
Public policy and civic engagement	291,274	-	291,274
Member services	470,323	-	470,323
Research	273,792	-	273,792
Advocacy	179,712	-	179,712
Nonprofit Insurance Advisors	<u>204,944</u>	<u>-</u>	<u>204,944</u>
<b>TOTAL PROGRAM SERVICES EXPENSES</b>	<u>2,393,717</u>	<u>-</u>	<u>2,393,717</u>
<b>SUPPORTING SERVICES</b>			
Management and general	381,505	-	381,505
Fundraising	<u>126,230</u>	<u>-</u>	<u>126,230</u>
<b>TOTAL SUPPORTING SERVICES EXPENSES</b>	<u>507,735</u>	<u>-</u>	<u>507,735</u>
<b>TOTAL EXPENSES</b>	<u>2,901,452</u>	<u>-</u>	<u>2,901,452</u>
<b>CHANGE IN NET ASSETS</b>	213,412	(382,327)	(168,915)
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<u>602,851</u>	<u>1,167,595</u>	<u>1,770,446</u>
<b>NET ASSETS, END OF THE YEAR</b>	<u>\$ 816,263</u>	<u>\$ 785,268</u>	<u>\$ 1,601,531</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements.



MINNESOTA COUNCIL OF NONPROFITS, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services					Program Services			Supporting Services		Total Expenses
	Education	Public Policy	Member	VISTA	Research	Advocacy	Nonprofit	Total Program	Management and General	Fundraising	
		and Civic Engagement	Services				Insurance Advisors				
<b>PERSONNEL EXPENSES</b>											
Salaries	\$ 313,631	\$ 160,434	\$ 213,548	\$ 46,833	\$ 187,878	\$ 95,305	\$ 6,964	\$ 1,024,593	\$ 259,288	\$ 81,514	\$ 1,365,395
Employee benefits	55,565	28,424	37,833	8,297	33,285	16,885	1,234	181,523	45,937	14,441	241,901
Payroll taxes	22,177	11,344	15,100	3,312	13,285	6,739	492	72,449	18,334	5,764	96,547
<b>TOTAL PERSONNEL EXPENSES</b>	<b>391,373</b>	<b>200,202</b>	<b>266,481</b>	<b>58,442</b>	<b>234,448</b>	<b>118,929</b>	<b>8,690</b>	<b>1,278,565</b>	<b>323,559</b>	<b>101,719</b>	<b>1,703,843</b>
<b>EXPENSES</b>											
Annual conference	72,884	-	-	-	-	-	-	72,884	-	74	72,958
Bad debt	30	-	-	2,890	-	-	-	2,920	2,733	-	5,653
Bank/merchant fees	5,607	2,868	3,818	1,478	3,358	1,703	309	19,141	4,447	1,569	25,157
Board retreat	-	-	-	-	-	-	-	-	7,978	-	7,978
Consultants	21,013	33,165	32,574	1,101	34,243	16,883	4,307	143,286	24,777	23,794	191,857
Dues and subscriptions	4,075	2,723	2,983	575	2,639	1,924	85	15,004	3,288	1,095	19,387
Equipment	1,088	476	634	139	557	283	21	3,198	688	242	4,128
ADA accommodations	3,048	-	-	80	-	-	-	3,128	-	-	3,128
Grants and allocations	-	6,500	41,250	-	-	-	-	47,750	-	-	47,750
Insurance	1,134	580	772	169	679	345	25	3,704	839	295	4,838
Marketing	510	362	295	852	265	284	-	2,568	1,285	97	3,950
Meeting expense	2,604	6,375	10,331	1,281	1,937	2,995	50	25,573	5,377	1,127	32,077
Miscellaneous expense	56	28	38	-	34	17	-	173	276	15	464
Occupancy	28,562	14,610	22,690	4,265	17,108	8,676	634	96,545	21,129	7,421	125,095
Postage and shipping	19,378	583	21,309	-	-	588	-	41,858	1,636	198	43,692
Printing and publication	31,101	2,169	16,708	693	1,417	1,707	49	53,844	1,685	578	56,107
Professional development	10,608	2,115	2,689	618	1,943	1,512	64	19,549	2,243	774	22,566
Software	16,313	8,701	11,141	2,421	10,526	5,332	360	54,794	12,188	6,177	73,159
Supplies	2,908	1,293	4,459	353	1,424	801	52	11,290	1,756	615	13,661
Telephone and internet	1,289	694	4,569	191	819	428	28	8,018	1,220	341	9,579
Travel	4,102	4,680	7,933	1,147	1,841	4,148	28	23,879	3,864	479	28,222
VISTA	-	-	-	109,522	-	-	-	109,522	-	-	109,522
Workshop and conference	292,479	-	131	-	-	-	-	292,610	-	-	292,610
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>910,162</b>	<b>288,124</b>	<b>450,805</b>	<b>186,217</b>	<b>313,238</b>	<b>166,555</b>	<b>14,702</b>	<b>2,329,803</b>	<b>420,968</b>	<b>146,610</b>	<b>2,897,381</b>
Depreciation	15,468	7,912	10,532	2,310	9,265	4,698	343	50,528	11,442	4,019	65,989
<b>TOTAL EXPENSES</b>	<b>\$ 925,630</b>	<b>\$ 296,036</b>	<b>\$ 461,337</b>	<b>\$ 188,527</b>	<b>\$ 322,503</b>	<b>\$ 171,253</b>	<b>\$ 15,045</b>	<b>\$ 2,380,331</b>	<b>\$ 432,410</b>	<b>\$ 150,629</b>	<b>\$ 2,963,370</b>

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services				Program Services			Supporting Services		Total Expenses
	Education	Public Policy and Civic Engagement	Member Services	Research	Advocacy	Nonprofit Insurance Advisors	Total Program	Management and General	Fundraising	
<b>PERSONNEL EXPENSES</b>										
Salaries	\$ 267,155	\$ 176,187	\$ 238,280	\$ 168,138	\$ 104,128	\$ 115,949	\$ 1,069,837	\$ 208,383	\$ 78,447	\$ 1,356,667
Employee benefits	50,141	33,068	44,757	31,557	19,544	12,329	191,396	39,111	14,723	245,230
Payroll taxes	18,846	12,429	16,809	11,861	7,345	8,199	75,489	14,700	5,534	95,723
<b>TOTAL PERSONNEL EXPENSES</b>	<b>336,142</b>	<b>221,684</b>	<b>299,846</b>	<b>211,556</b>	<b>131,017</b>	<b>136,477</b>	<b>1,336,722</b>	<b>262,194</b>	<b>98,704</b>	<b>1,697,620</b>
<b>EXPENSES</b>										
Annual conference	139,953	-	-	-	-	-	139,953	-	-	139,953
Bad debt	-	-	-	-	-	745	745	1,754	-	2,499
Bank/merchant fees	5,267	3,473	4,698	3,314	2,053	1,823	20,628	4,108	1,687	26,423
Board retreat	-	-	-	-	-	-	-	8,834	-	8,834
Consultants	35,797	9,283	23,734	13,123	10,948	12,780	105,665	24,938	2,692	133,295
Dues and subscriptions	3,022	2,777	2,995	2,416	1,962	858	14,030	2,570	1,172	17,772
Equipment	1,842	483	653	461	285	101	3,825	1,571	215	5,611
ADA accommodations	646	225	-	-	-	-	871	1,451	-	2,322
Grants and allocations	23,250	-	15,171	-	-	-	38,421	-	-	38,421
Insurance	774	511	691	487	302	9,520	12,285	1,738	227	14,250
Interest expense	-	-	-	-	-	400	400	-	-	400
Marketing	1,257	-	1,180	-	-	-	2,437	-	-	2,437
Meeting expense	3,252	4,358	13,082	1,805	2,648	563	25,708	5,737	643	32,088
Miscellaneous expense	-	-	-	-	-	-	-	5,230	-	5,230
Occupancy	23,464	15,474	22,503	14,767	9,145	11,133	96,486	18,302	6,890	121,678
Postage and shipping	15,946	252	18,980	266	168	179	35,791	3,523	507	39,821
Printing and publication	25,515	2,798	17,254	1,778	1,400	351	49,096	2,468	746	52,310
Professional development	864	2,087	4,569	714	1,856	368	10,458	2,598	367	13,423
Software	13,017	8,491	11,967	8,050	5,116	6,831	53,472	13,623	5,401	72,496
Supplies	4,989	2,069	3,527	1,986	1,251	419	14,241	2,452	986	17,679
Telephone and internet	1,799	1,143	4,739	1,085	695	625	10,086	1,572	503	12,161
Travel	2,910	4,587	9,480	1,290	4,243	256	22,766	3,589	501	26,856
Workshop and conference	316,975	374	99	-	-	-	317,448	-	-	317,448
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>956,681</b>	<b>280,069</b>	<b>455,168</b>	<b>263,098</b>	<b>173,089</b>	<b>183,429</b>	<b>2,311,534</b>	<b>368,252</b>	<b>121,241</b>	<b>2,801,027</b>
Depreciation and amortization	16,991	11,205	15,155	10,694	6,623	21,515	82,183	13,253	4,989	100,425
<b>TOTAL EXPENSES</b>	<b>\$ 973,672</b>	<b>\$ 291,274</b>	<b>\$ 470,323</b>	<b>\$ 273,792</b>	<b>\$ 179,712</b>	<b>\$ 204,944</b>	<b>\$ 2,393,717</b>	<b>\$ 381,505</b>	<b>\$ 126,230</b>	<b>\$ 2,901,452</b>

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 958,215	\$ (168,915)
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization expense	65,988	100,425
Net realized and unrealized investment loss (gain)	(2,862)	(299)
Gain on sale of assets	(14,900)	(47,500)
(Increase) decrease in assets:		
Accounts receivable	18,146	(33,608)
Grants receivable	(402,059)	271,319
Inventory	(22,644)	13,381
Prepaid expenses and other current assets	(16,904)	7,335
Unemployment funds held by others	(4,524)	7,885
Increase (decrease) in liabilities:		
Accounts payable	8,019	(36,297)
Accrued payroll expenses	19,684	10,754
Deferred revenue	11,785	22,324
	<b>617,944</b>	<b>146,804</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(65,313)	(50,782)
Proceeds from sales of assets	74,900	185,500
	<b>9,587</b>	<b>134,718</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on line of credit	-	14,000
Payments on line of credit	-	(33,500)
	<b>-</b>	<b>(19,500)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>627,531</b>	<b>262,022</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,041,605</b>	<b>779,583</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,669,136</b>	<b>\$ 1,041,605</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ -	\$ 400

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose**

Minnesota Council of Nonprofits, Inc. (MCN) is incorporated under the Minnesota Nonprofit Corporation Act. MCN offers educational, public policy, research and advocacy activities to help organizations be more efficient and effective and to increase public understanding of the role and contributions of Minnesota's nonprofit organizations. MCN's program services are as follows:

Education – Convenes workshops, conferences and meetings for nonprofit organizations on topics related to managing nonprofit organizations. Publishes directories and maintains a website ([www.minnesotanonprofits.org](http://www.minnesotanonprofits.org)) to provide guidance and additional information on issues faced by nonprofit organizations and their staff and board members.

Public Policy and Civic Engagement – Sponsors briefings on public policies which affect nonprofit organizations and the communities they serve; conducts skill-building workshops for nonprofit staff, board members and volunteers to strengthen their public policy work; undertakes nonpartisan voter participation efforts on behalf of nonprofit clients and community members; and provides up-to-date information during the legislative session via newsletters and the internet.

Member Services – Sponsors services to member nonprofit organizations to strengthen the stability and effectiveness of these nonprofit organizations. Services include group purchasing and discounts on products like insurance and supplies as well as events and newsletters planned and organized for members.

VISTA – MCN sponsors an AmeriCorps VISTA program and places VISTAs in Minnesota nonprofits to provide capacity and ensure the sustainability of their operations and increase their impact in community.

Research – Conducts nonpartisan research and prepares reports on the nonprofit economy and public role on nonprofit organizations. Analyzes public policies affecting the nonprofit sector, including the impact of budget and tax policies on low-income people.

Advocacy – Undertakes direct and grassroots lobbying campaigns that address specific legislative proposals affecting nonprofit organizations and the communities they serve. MCN has elected to report its expenditures for lobbying in accordance with Section 501(h) of the Internal Revenue Code.

Nonprofit Insurance Advisors (NIA) was incorporated under the Minnesota Nonprofit Corporation Act in 2011 and was a taxable subsidiary of Minnesota Council of Nonprofits. NIA was formed to serve the insurance needs of nonprofit organizations by identifying and brokering appropriate and cost-effective insurance coverage. In 2015, the boards of NIA and MCN evaluated NIA's business model and decided several changes in the insurance industry in recent years made it clear that there was a better way to serve the nonprofit sector's insurance needs. As a result, NIA's assets were sold to Bremer Insurance on October 30, 2015. The purchase agreement included a contingent second payment payable on November 30, 2016, which was calculated at \$74,900. NIA was dissolved in December 2016.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**B. Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Unrestricted Net Assets – Those resources subject to the discretionary control of the board of directors.

Temporarily Restricted Net Assets – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted Net Assets – Those resources subject to a donor-imposed restriction that they be maintained permanently by the Organization.

**C. Principles of Consolidation**

The consolidated financial statements include the accounts of Minnesota Council of Nonprofits and Nonprofit Insurance Advisors (the Organization). Nonprofit Insurance Advisors is a wholly owned subsidiary in which Minnesota Council of Nonprofits is the only member. All significant intercompany accounts and transactions have been eliminated in the consolidation.

**D. Cash and Cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

**E. Investments**

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law.

**F. Accounts Receivable**

Accounts receivable are reported at the amount the Organization expects to collect on balances outstanding at period end. The Organization uses the allowance method to account for uncollectible receivables. This method provides allowances for doubtful receivables based on historical experience and management's evaluation of estimated losses that will be incurred in the collection of receivables. The allowance for uncollectible accounts for the years ended December 31, 2016 and 2015 is \$0.

**G. Inventories**

Inventories are stated at lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis.

**H. Property and Equipment**

Equipment and property are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method over the assets' estimated useful lives of up to 10 years. Generally, acquisitions of equipment of \$1,000 or more are capitalized.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**I. Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any restrictions. Contributions, including unconditional promises to give, are recognized in the period awarded.

**J. In-Kind Contributions**

The Organization reports gifts of non-cash assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation.

**K. Donated Services**

Non-cash donations are reflected as unrestricted support in the financial statements at their estimated values on the date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills and are performed by people with those skills and (c) would otherwise be purchased by the organization. The organization received donated design work for conference materials in both 2016 and 2015.

The Organization has a large and dedicated team of volunteers who perform a variety of tasks that assist the Organization with specific programs and supporting services. These services are not recognized in the financial statements since the criteria for recording the services were not met.

**L. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**M. Allocation of Functional Expenses**

Salaries and related expenses are allocated based on job descriptions and management estimates. Expenses, other than salaries and related payroll expenses, that are not directly identifiable by program or support service, are allocated based on management estimates.

**N. Tax Status**

MCN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. Because the Organization is a public charity, contributions to it may be deductible for tax purposes.

Nonprofit Insurance Advisors was a taxable corporation that filed its own corporate federal and Minnesota income tax returns.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2016 AND 2015

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**O. Credit Risk**

The Organization maintains cash balances with banks insured by the Federal Deposit Insurance Corporation (FDIC). These deposits may, from time to time, exceed the balances insured by the FDIC.

**P. Subsequent Events**

Subsequent events were evaluated through February 27, 2017, which is the date the financial statements were available to be issued.

**Note 2: NONPROFIT INSURANCE ADVISORS**

Nonprofit Insurance Advisors (NIA) was an insurance agency formed as a taxable subsidiary to align with MCN's charitable mission to help nonprofit organizations be more efficient and effective by helping these small and mid-sized nonprofit organizations purchase insurance and manage their risks. As noted in Note 1, in 2015, the boards of NIA and MCN evaluated NIA's business model and decided several changes in the insurance industry in recent years made it clear that there was a better way to serve the nonprofit sector's insurance needs. As a result, NIA's assets were sold to Bremer Insurance on October 30, 2015. The corporation was dissolved in December 2016.

**Note 3: UNEMPLOYMENT FUND**

The Organization has elected to opt out of participation in the Minnesota Unemployment Insurance Program. The Organization is self-insured for unemployment claims through Unemployment Services Trust (UST). Payments to UST are accumulated and used to pay future claims. An expense is recorded as claims are paid by UST. The Organization believes there is no significant liability for claims incurred but not reported at December 31, 2016 or 2015. The Organization could be required to make additional payments if claims exceeded the accumulated contributions.

**Note 4: GRANTS RECEIVABLE**

Grants receivable on December 31, 2016 and 2015 are as follows:

	2016	2015
Less than one year	\$ 645,623	\$ 453,564
One to five years	220,000	10,000
Net grants receivable	\$ 865,623	\$ 463,564

Management has not established a discount for present value of the long-term grant receivable as the discount is immaterial. No allowance for uncollectible pledges is deemed necessary by management as the entire amount is due from several funders with whom MCN has had considerable experience. The entire amount is deemed collectible.

MINNESOTA COUNCIL OF NONPROFITS, INC.  
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**Note 5: FAIR VALUE MEASUREMENTS**

Fair value measurement accounting literature establishes a fair value hierarchy based on the priority of the inputs to the valuation methodologies used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

**Level 2** – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization’s investments consisted entirely of Level 1 inputs and are reported at fair value in the accompanying statement of financial position:

	Level 1	Total
December 31, 2016:		
Equity funds	\$ 26,872	\$ 26,872
December 31, 2015:		
Equity funds	\$ 24,010	\$ 24,010

An unrealized gain of \$2,862 and \$299 was recognized during the years ended December 31, 2016 and 2015, respectively.

**Note 6: INTANGIBLE ASSETS**

The Organization sold the Nonprofit Insurance Advisors Book of Business in October 2015 (see Note 2). As of December 31, 2016 and 2015 the intangible asset balances are \$0. Amortization expense for the years ended December 31, 2016 and 2015 was \$0 and \$19,167, respectively.

**Note 7: LINE OF CREDIT**

In May 2016, MCN renewed their revolving line of credit agreement with Bremer Bank to provide for available borrowings up to \$100,000. The agreement matures on May 28, 2018. Borrowings under the line of credit bear interest at 4.25%. Borrowings are collateralized by all inventory, chattel paper, accounts, equipment and general intangibles. There was no outstanding balance on the line as of December 31, 2016 or 2015.

In October 2011, NIA entered into a revolving line of credit with Bremer Bank. The agreement provides for available borrowings of \$100,000. The agreement was renewed on May 28, 2014 and matures on May 28, 2016. Borrowings under the line of credit bear interest at 4.25%. Borrowings are collateralized by all inventory, chattel paper, accounts, equipment and general intangibles. NIA closed the line of credit on December 18, 2015.



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**Note 8: INCOME TAXES**

Minnesota Council of Nonprofits, Inc. files informational returns in the United States federal jurisdiction and in the Minnesota state jurisdiction. In addition, MCN files tax returns in relation to unrelated business income. As a wholly-owned, taxable subsidiary, Nonprofit Insurance Advisors files separate income tax returns in the United States federal jurisdiction and in the state of Minnesota. All returns the Organization filed prior to fiscal year 2013 are closed. No returns of either entity are currently under examination in any tax jurisdiction.

As of December 31, 2016 and 2015, there were no amounts of income tax related accrued interest or penalties recognized in either the balance sheet or statement of activities for Nonprofit Insurance Advisors.

Income taxes are provided for the tax effects of unrelated business transactions for MCN and all activity of Nonprofit Insurance Advisors reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, measured by enacted tax rates for years in which taxes are expected to be paid or recovered. Deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on available evidence.

**Note 9: LEASES**

The Organization leases office space under an operating lease, which expires January 31, 2024. The agreement calls for monthly lease payments of \$15,529, which includes utilities, real estate taxes and insurance. This amount will increase in November 2017 and annually thereafter. Rent expense was \$118,731 and \$117,063 for the years ended December 31, 2016 and 2015.

The Organization also has several non-cancelable operating equipment leases that expire at various dates through 2019.

In 2007, the Organization began a non-cancelable three-year lease for capitalized internet software that expired in November 2010. The lease was renewed on August 14, 2013 with the same terms and again in 2016. The lease agreement will remain in effect until the Organization terminates the contract at least 60 days prior to the end of the renewal term. The lease will expire on July 12, 2019.

Future minimum lease payments as of December 31, are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 256,812
2018	244,836
2019	224,148
2020	210,274
2021	217,824
Thereafter	<u>1,223,249</u>
Total	<u>\$ 2,377,143</u>

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**Note 10: RESTRICTED NET ASSETS**

MCN had the following temporarily restricted net assets:

	<u>2016</u>	<u>2015</u>
Minnesota Budget Project	\$ 500,000	\$ 410,000
Public Policy	452,500	197,500
Nonprofit Center Growth & Expansion	302,025	-
Time Restricted	207,500	-
Board Repair	84,422	-
Regional Chapters	38,500	120,000
GrantAdvisor	25,000	-
Workshops	7,500	5,000
Binger Awards	-	34,300
VISTA	-	18,468
Total Temporarily Restricted	<u>\$ 1,617,447</u>	<u>\$ 785,268</u>

Net assets were released by incurring expenses satisfying the restricted purposes specified by donors for the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Minnesota Budget Project	\$ 421,500	\$ 365,000
Public Policy	240,000	232,000
Nonprofit Center Growth & Expansion	98,775	-
VISTA	97,588	79,094
Regional Chapters	86,500	108,833
Binger Awards	54,300	40,700
Workshops	45,000	10,000
Board Repair	15,578	-
Health Impact Assessment Conference	-	20,000
Technology and Web Upgrades	-	10,000
Emerging Nonprofit Partners	-	7,200
Total Released Net Assets	<u>\$ 1,059,241</u>	<u>\$ 872,827</u>

**Note 11: DEFERRED REVENUE**

The Organization solicits and receives sponsorship and advertising revenue related to planned future events. These amounts are recorded as deferred revenue until the event takes place. The Organization receives membership dues that are recorded as deferred revenue until the membership period begins.

**Note 12: RETIREMENT PLAN**

The Organization and its subsidiary each have a defined contribution retirement plan covering all eligible employees. The contribution is at the discretion of the board of directors. Employees are eligible to participate in the plan after one month of service. Contributions to the plan were \$67,372 and \$67,439 for the years ended December 31, 2016 and 2015, respectively. The subsidiary's plan was closed in 2015.