

THE COMMUNITY EMPOWERMENT FUND
Chapel Hill, North Carolina

Audited Financial Statements

Years Ended December 31, 2017 and 2016



THE COMMUNITY EMPOWERMENT FUND
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Years Ended December 31, 2017 and 2016

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Report of Independent Auditors

To the Board of Directors
The Community Empowerment Fund
Chapel Hill, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Empowerment Fund (the "Fund"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2017 and 2016, and the results of its activities and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

James S. Gibbs CPA, PLLC

Durham, North Carolina
April 13, 2018

THE COMMUNITY EMPOWERMENT FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents (note 2)	\$ 470,360	\$ 401,617
Accounts receivable	30,649	10,165
Inventory	2,450	2,493
Prepaid expenses	-	2,442
Total current assets	503,459	416,717
Non-current assets		
Property and equipment, net (note 3)	5,915	7,841
Other non-current assets (note 4)	1,125	1,125
Total non-current assets	7,040	8,966
Total assets	\$ 510,499	\$ 425,683
Liabilities and net assets		
Liabilities		
Deferred revenue (note 5)	\$ 5,388	\$ 7,875
Accrued vacation liability	9,518	5,080
Accrued expense (note 9)	15,308	16,424
Savings matches payable	5,584	-
Members' deposits (note 6)	85,751	87,626
Total liabilities	121,549	117,005
Net assets		
Unrestricted		
Undesignated	260,441	239,822
Board designated (note 11)	85,971	40,080
Total unrestricted	346,412	279,902
Temporarily restricted		
Grants	34,282	18,417
Matching reserves	8,256	10,359
Temporarily restricted (note 12)	42,538	28,776
Total net assets	388,950	308,678
Total liabilities and net assets	\$ 510,499	\$ 425,683

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY EMPOWERMENT FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Grants (note 7)	\$ 293,055	\$ 37,401	\$ 330,456
Contributions	119,192	2,271	121,463
Contract revenue	66,516	-	66,516
In-kind contributions (note 15)	600	-	600
Interest income	311	-	311
Other revenue	9,954	-	9,954
Net assets released from restrictions (note 13)	25,910	(25,910)	-
Total support and revenue	515,538	13,762	529,300
Expenses			
Program services	375,226	-	375,226
Management and general	32,837	-	32,837
Fundraising	40,965	-	40,965
Total expenses	449,028	-	449,028
Change in net assets	66,510	13,762	80,272
Net assets, beginning of year	279,902	28,776	308,678
Net assets, end of year	<u>\$ 346,412</u>	<u>\$ 42,538</u>	<u>\$ 388,950</u>

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY EMPOWERMENT FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Grants (note 7)	\$ 191,626	\$ 20,100	\$ 211,726
Contributions	77,203	3,287	80,490
Contract revenue	40,984	-	40,984
In-kind contributions (note 15)	22,978	-	22,978
Interest income	246	-	246
Other revenue	6,361	-	6,361
Net assets released from restrictions (note 13)	44,013	(44,013)	-
Total support and revenue	<u>383,411</u>	<u>(20,626)</u>	<u>362,785</u>
Expenses			
Program services	353,865	-	353,865
Management and general	36,259	-	36,259
Fundraising	25,239	-	25,239
Total expenses	<u>415,363</u>	<u>-</u>	<u>415,363</u>
			-
Change in net assets	(31,952)	(20,626)	(52,578)
Net assets, beginning of year	<u>311,854</u>	<u>49,402</u>	<u>361,256</u>
Net assets, end of year	<u>\$ 279,902</u>	<u>\$ 28,776</u>	<u>\$ 308,678</u>

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY EMPOWERMENT FUND
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Operating activities		
Change in net assets	\$ 80,272	\$ (52,578)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,926	936
Changes in operating assets and liabilities:		
Accounts receivable	(20,484)	6,967
Inventory	43	(1,019)
Prepaid expenses and other assets	2,441	(1,418)
Deferred revenue	(2,487)	6,875
Accrued expense	(1,116)	16,424
Savings matches	5,584	-
Members' deposits	(1,874)	45,376
Accrued vacation	4,438	3,428
Net cash provided by operating activities	68,743	24,991
Cash flows from investing activities		
Purchase of property and equipment	-	(7,480)
Net cash used in investing activities	-	(7,480)
Net increase in cash and cash equivalents	68,743	17,511
Cash and cash equivalents, beginning of year	401,617	384,106
Cash and cash equivalents, end of year	\$ 470,360	\$ 401,617

The accompanying notes are an integral part of the financial statements.

COMMUNITY EMPOWERMENT FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	Program Services				Support Services			Total Expenses
	Advocate Program	Savings Accounts	Opportunity Classes	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries & related benefits	\$ 221,562	\$ 20,976	\$ 31,878	\$ 274,416	\$ 13,072	\$ 33,438	\$ 46,510	\$ 320,926
Contracted services	13,652	2,029	1,770	17,451	1,613	102	1,715	19,165
Supplies & materials	3,357	191	742	4,290	99	887	986	5,275
Reimbursible expenses	5,620	-	-	5,620	-	-	-	5,620
Printing and copying	1,681	345	282	2,308	96	1,178	1,274	3,582
Postage	188	-	-	188	-	901	901	1,089
Rent and occupancy	28,931	4,192	5,910	39,033	1,448	3,660	5,108	44,141
Travel and transportation	1,210	26	37	1,273	15	37	52	1,325
Insurance	441	45	64	550	1,306	64	1,369	1,919
Staff development	3,719	63	90	3,871	36	235	271	4,142
Online services	1,590	1,176	46	2,813	502	95	597	3,410
Other	604	234	17	854	127	17	144	998
Miscellaneous	31	30	-	61	-	-	-	61
Licenses & fees	-	-	-	-	-	202	202	202
Savings matches	-	21,113	-	21,113	-	-	-	21,113
Depreciation	-	-	-	-	430	-	430	430
Amortization	1,032	105	150	1,287	60	150	209	1,496
In-kind	-	-	-	-	600	-	600	600
Professional fees	100	-	-	100	13,434	-	13,434	13,534
Totals	\$ 283,718	\$ 50,523	\$ 40,985	\$ 375,226	\$ 32,837	\$ 40,965	\$ 73,802	\$ 449,028

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY EMPOWERMENT FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

	Program Services				Support Services			Total Expenses
	Advocate Program	Savings Accounts	Opportunity Classes	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries & related benefits	\$ 181,876	\$ 15,812	\$ 28,898	\$ 226,586	\$ 19,212	\$ 17,212	\$ 36,424	\$ 263,010
Contracted services	12,181	421	722	13,324	1,020	361	1,381	14,705
Supplies & materials	3,079	202	871	4,152	366	1,304	1,669	5,822
Reimbursible expenses	25,869	100	-	25,969	-	-	-	25,969
Printing and copying	1,686	608	244	2,538	144	893	1,036	3,574
Postage	227	7	12	246	16	795	812	1,058
Rent and occupancy	33,122	5,032	7,918	46,071	3,351	2,553	5,905	51,976
Travel and transportation	1,647	115	185	1,947	87	69	157	2,104
Insurance	748	78	134	961	514	67	581	1,542
Staff development	872	376	993	2,240	70	52	122	2,362
Online services	1,698	656	44	2,397	486	56	542	2,939
Marketing and outreach	-	-	-	-	-	350	350	350
Other	489	200	-	689	567	-	567	1,256
Miscellaneous	2	36	44	81	666	1	666	747
Licenses & fees	-	-	-	-	-	225	225	225
Savings matches	-	5,453	-	5,453	-	-	-	5,453
Depreciation	293	31	52	376	35	26	61	437
Amorization	334	35	60	429	40	30	70	499
Provision for loan losses/ bad debts	-	175	-	175	-	-	-	175
In-kind	15,837	1,790	2,469	20,097	1,646	1,235	2,881	22,978
Professional fees	105	11	19	134	8,039	9	8,049	8,183
Totals	\$ 280,064	\$ 31,138	\$ 42,663	\$ 353,865	\$ 36,259	\$ 25,239	\$ 61,498	\$ 415,363

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY EMPOWERMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 – Nature of activities and significant accounting policies

The Community Empowerment Fund (the “Fund”) is a private non-profit organization incorporated under the laws of North Carolina in 2010. The Fund provides savings opportunities, financial education, and assertive support to unemployed and underemployed individuals in Orange and Durham Counties. The Fund has offices in Chapel Hill and Durham, North Carolina.

Basis of accounting - The Fund uses the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Basis of presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in Accounting Standards Codification (ASC) Topic 958-205, *Not-for-profit Entities – Presentation of Financial Statements*. Under ASC Topic 958-205, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets are defined as follows:

Unrestricted net assets – Unrestricted net assets include resources which are available for the support of the Fund’s operating activities.

Temporarily restricted net assets – Temporarily restricted net assets include resources that have been donated to the Fund subject to restrictions as defined by the donor. These restrictions are met either by the actions of the Fund and/or the passage of time. When a restriction expires as a result of the action of the Fund and/or passage of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Permanently restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income, which may be expended. The Fund has no permanently restricted net assets.

Revenue recognition - Public sector support, in the form of government grants and contracts, is recognized as revenue when allowable costs are incurred in accordance with grant terms. Accordingly, costs incurred but not yet reimbursed are reflected as grants receivable in the accompanying statement of financial position. Deferred revenue represents the portion of payments received that have not yet been expended.

THE COMMUNITY EMPOWERMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 – Nature of activities and significant accounting policies (continued)

Revenue recognition (cont.) - Contributions and gifts are recognized as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Gifts and contributions not designated for specific purposes by the donor are recorded as unrestricted revenue when received.

Accounts receivable – Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Fund provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of the parties to meet their obligations. Receivables are considered impaired if payments are not received in accordance with the contractual terms. It is the Fund's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management has determined that no allowance is required at December 31, 2017 or 2016.

Inventory - Inventory, which consists primarily of computers donated to the organization for purchase by members, is valued at the lower of cost or market determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

Property and equipment – Property and equipment are stated at cost if purchased or fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Additions and betterments of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

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.

Income taxes - The Fund is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes has been made in the accompanying statements.

Uncertain tax positions – The Fund files IRS Form 990. Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by the Fund in its tax returns that might be uncertain. The Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management of the Fund does not believe the financial statements include any uncertain tax positions and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

THE COMMUNITY EMPOWERMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 – Nature of activities and significant accounting policies (continued)

Expense allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Pending accounting pronouncements - In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-profit Entities*, which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replace the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for the Organization for the year ending December 31, 2019. The adoption of this standard is expected to result in the Organization’s recognizing right-of-use assets and lease liabilities for some leases currently accounted for as operating leases under the legacy lease accounting guidance. Management is evaluating the impact of this standard on the Organization’s financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Note 2 – Cash and cash equivalents

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consists of cash and other highly liquid resources with an original maturity of three months or less when purchased.

The Fund maintains cash balances in banks. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2017 and 2016, the Fund held \$92,938 and \$7,739 uninsured cash balances, respectively.

THE COMMUNITY EMPOWERMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 2 – Cash and cash equivalents (continued)

Cash and cash equivalents are comprised of the following as of December 31:

	2017	2016
Cash in banks	\$ 470,360	401,617
Total	\$ 470,360	\$ 401,617

Note 3 – Property and equipment, net

Property and equipment consists of the following as of December 31, 2017 and 2016:

	2017	2016
Equipment	\$ 2,150	\$ 2,150
Improvements	7,480	7,480
Less accumulated depreciation	(3,715)	(1,789)
Property and equipment, net	\$ 5,915	\$ 7,841

Depreciation expense was \$1,926 and \$936 for the years ended December 31, 2017 and 2016, respectively.

Note 4 – Non-current assets

Other non-current assets consist of security deposits made by the Fund on the lease of the Fund's offices. These security deposits are refundable at an unspecified future date.

Note 5 – Deferred revenue

The Fund records grant awards accounted for as exchange transactions as deferred revenue until related services are performed, at which time they are recorded as unrestricted revenue. The activity in the deferred revenue account was as follows for the years ended December 31:

	2017	2016
Beginning balance	\$ 7,875	\$ 1,000
Grant awards received	9,665	11,750
Grant expenditures	(12,152)	(4,875)
Ending balance	\$ 5,388	\$ 7,875

THE COMMUNITY EMPOWERMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 6 – Members’ deposits

Member’s deposits consist of amounts due to members for savings account deposits held on their behalf by the Fund. Members may make withdrawals of these funds with two days notice.

Note 7 – Grants

During the years end December 31, 2017 and 2016, the Fund received grant support from the following sources:

	<u>2017</u>	<u>2016</u>
University grants	\$ 29,250	\$ 26,575
Foundation grants	258,700	160,400
Corporate grants	<u>42,506</u>	<u>24,751</u>
	<u>\$ 330,456</u>	<u>\$ 211,726</u>

Note 8 – Volunteers

Numerous volunteers donate significant amounts of time to the Fund’s program services. Although no amounts have been reflected in the financial statements, management estimates the fair value of those services to be approximately \$530,694 and \$364,356 for the years ended December 31, 2017 and 2016, respectively.

Note 9 – Lease commitments

During 2016, the Fund leased its office space and equipment under operating lease agreements. Rent expense under the office and equipment leases totaled \$44,141 and \$51,976 for the years ended December 31, 2017 and 2016.

In April 2016, the Fund entered into a lease for a new Chapel Hill office location. The lease commenced April 15, 2016 and expires October 31, 2021. Rent is \$36,000 per year initially with an annual escalation of 3%. The landlord allowed a rent concession until October 15, 2016 with the first escalation commencing November 1, 2017.

In July 2016, the Fund entered into a lease agreement for office space in Durham, North Carolina. The lease commenced on July 1, 2016 and expires June 30, 2019. Rent is \$600 per month under the lease with an annual escalation of 3%.

As a result of certain rent holidays and escalation clauses included in the leases noted above, deferred rent liabilities totaling \$15,308 for 2017 are included in accrued expenses in the statement of financial position.

THE COMMUNITY EMPOWERMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 9 – Lease commitments (continued)

Future minimum payments, by year and in aggregate, under operating leases with remaining terms of one year or more are as follows at December 31:

Year Ending December 31	Amount
2018	\$ 44,792
2019	42,202
2020	39,535
2021	33,765
	<u>\$ 160,294</u>

Note 10 – Contingencies

The Fund receives grant funds. Such funds are subject to final approval by the grantor agencies and deficiencies, if any, are the responsibility of the Fund.

The Fund has the usual obligations of a contractor for performance in connection with contracts for work performed and to be performed. Management does not anticipate any significant losses in connection with these grants.

Note 11 – Board designated net assets

As of December 31, 2017 and 2016, the Board of Directors designated \$85,971 and \$40,080, respectively of unrestricted net assets to support the mission of the Fund. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Note 12 – Temporarily restricted net assets

Temporarily restricted net assets are available for the following at December 31:

	<u>2017</u>	<u>2016</u>
Programs	\$ 34,282	\$ 18,417
Matching reserves	8,256	10,359
Total temporarily restricted net assets	<u>\$ 42,538</u>	<u>\$ 28,776</u>

THE COMMUNITY EMPOWERMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 13 – Net assets released from restrictions

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes of the grant awards or by passage of time. Net assets released from restrictions consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Programs	\$ 21,451	\$ 25,450
Savings matches	2,671	800
Pledged Member Support	<u>1,788</u>	<u>17,763</u>
	<u>\$ 25,910</u>	<u>\$ 44,013</u>

Note 14 – Collaborative arrangement

The Fund participated in a collaborative arrangement under which Orange County provided rent support to the Fund and the Fund provided space in its office for partner community agencies providing complementary services to the homeless or near homeless. Revenue was recognized on a cost reimbursement basis and was recorded in grants on the statement of activities. Expenses related to the collaborative were recorded as rent expense. The collaborative arrangement ended in 2016. Revenue and expenses related to the collaborative for 2017 and 2016 were approximately \$0 and \$4,000, respectively.

Note 15 – In-kind contributions

The Fund recognizes contribution revenue for donated assets that would be purchased if not donated, at the fair value of those items. Donated assets are recorded as in-kind contributions when received and are expensed in the same year. During the years ended December 31, 2017 and 2016, the Fund received gifts valued at \$600 and \$22,978, respectively.

Note 16 – Subsequent events

The Fund has evaluated events from the date of the statement of financial position through April 13, 2018, the date the report is available to be issued which is the date of the auditor's report. The Fund has not evaluated subsequent events after that date.