

**ASSOCIATION FOR RESEARCH ON NONPROFIT
ORGANIZATIONS AND VOLUNTARY ACTION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2012 AND 2011

CPAs / ADVISORS



**ASSOCIATION FOR RESEARCH ON NONPROFIT
ORGANIZATIONS AND VOLUNTARY ACTION**

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Association for Research on Nonprofit
Organizations and Voluntary Action
Indianapolis, Indiana

We have audited the accompanying statements of financial position of Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ARNOVA's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ARNOVA as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expense are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

April 30, 2013

**ASSOCIATION FOR RESEARCH ON NONPROFIT
ORGANIZATIONS AND VOLUNTARY ACTION**

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS		
	2012	2011
Cash	\$ 236,240	\$ 192,427
Cash held by others	63,443	14,062
Investments	789,002	757,673
Grants receivable	12,000	337,000
Accounts receivable	71,627	70,226
Prepaid expenses	19,430	11,508
Inventory	5,538	5,665
Equipment and software	24,798	15,828
	\$ 1,222,078	\$ 1,404,389
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 16,614	\$ 33,433
Accrued payroll and benefits	16,544	17,556
Deferred revenue	30,472	35,692
Total liabilities	63,630	86,681
Net assets		
Unrestricted		
Undesignated	493,913	564,971
Board designated	317,992	317,992
	811,905	882,963
Temporarily restricted	327,368	415,570
Permanently restricted	19,175	19,175
Total net assets	1,158,448	1,317,708
	\$ 1,222,078	\$ 1,404,389

See accompanying notes to financial statements.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012 (With Comparative Total for the Year Ended June 30, 2011)

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Grants	\$ -0-	\$ 99,000	\$ -0-	\$ 99,000	\$ 455,000
Membership dues	76,640	-0-	-0-	76,640	83,793
Conference revenue and sponsorships	154,935	36,500	-0-	191,435	166,949
Publications	111,215	15,000	-0-	126,215	132,461
Contributions	9,038	1,000	-0-	10,038	16,625
In-kind contributions	-0-	150,250	-0-	150,250	150,250
Interest income on cash	635	-0-	-0-	635	558
Other	913	-0-	-0-	913	1,592
Net assets released from restrictions	390,133	(390,133)	-0-	-0-	-0-
Total support and revenue	<u>743,509</u>	<u>(88,383)</u>	<u>-0-</u>	<u>655,126</u>	<u>1,007,228</u>
Expenses					
Program					
Conference	234,516	-0-	-0-	234,516	246,568
Publications	189,118	-0-	-0-	189,118	189,711
Membership services	121,544	-0-	-0-	121,544	151,433
Scholarships and awards	39,235	-0-	-0-	39,235	40,687
Other programs	19,935	-0-	-0-	19,935	128,125
Total program expenses	604,348	-0-	-0-	604,348	756,524
Management and general	151,599	-0-	-0-	151,599	153,642
Fundraising	12,204	-0-	-0-	12,204	7,307
Total expenses	<u>768,151</u>	<u>-0-</u>	<u>-0-</u>	<u>768,151</u>	<u>917,473</u>
Change in net assets from operations	(24,642)	(88,383)	-0-	(113,025)	89,755
Investment return, net	7,653	181	-0-	7,834	10,926
Change in net assets before employee dishonesty loss	(16,989)	(88,202)	-0-	(105,191)	100,681
Employee dishonesty loss (Note 10)	(54,069)	-0-	-0-	(54,069)	-0-
Change in net assets	(71,058)	(88,202)	-0-	(159,260)	100,681
Net assets, beginning of period	<u>882,963</u>	<u>415,570</u>	<u>19,175</u>	<u>1,317,708</u>	<u>1,217,027</u>
Net assets, end of period	<u>\$ 811,905</u>	<u>\$ 327,368</u>	<u>\$ 19,175</u>	<u>\$ 1,158,448</u>	<u>\$ 1,317,708</u>

See accompanying notes to financial statements.

**ASSOCIATION FOR RESEARCH ON NONPROFIT
ORGANIZATIONS AND VOLUNTARY ACTION**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Grants	\$ -0-	\$ 455,000	\$ -0-	\$ 455,000
Membership dues	83,793	-0-	-0-	83,793
Conference revenue and sponsorships	158,449	8,500	-0-	166,949
Publications	116,461	16,000	-0-	132,461
Contributions	14,025	2,600	-0-	16,625
In-kind contributions	-0-	150,250	-0-	150,250
Interest income on cash	558	-0-	-0-	558
Other	1,592	-0-	-0-	1,592
Net assets released from restrictions	<u>477,054</u>	<u>(477,054)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenue	851,932	155,296	-0-	1,007,228
Expenses				
Program				
Conference	246,568	-0-	-0-	246,568
Publications	189,711	-0-	-0-	189,711
Membership services	151,433	-0-	-0-	151,433
Scholarships and awards	40,687	-0-	-0-	40,687
Other programs	<u>128,125</u>	<u>-0-</u>	<u>-0-</u>	<u>128,125</u>
Total program expenses	756,524	-0-	-0-	756,524
Management and general	153,642	-0-	-0-	153,642
Fundraising	<u>7,307</u>	<u>-0-</u>	<u>-0-</u>	<u>7,307</u>
Total expenses	<u>917,473</u>	<u>-0-</u>	<u>-0-</u>	<u>917,473</u>
Change in net assets from operations	(65,541)	155,296	-0-	89,755
Other income (loss)				
Investment return, net	<u>10,806</u>	<u>120</u>	<u>-0-</u>	<u>10,926</u>
Change in net assets	(54,735)	155,416	-0-	100,681
Net assets, beginning of period	<u>937,698</u>	<u>260,154</u>	<u>19,175</u>	<u>1,217,027</u>
Net assets, end of period	<u>\$ 882,963</u>	<u>\$ 415,570</u>	<u>\$ 19,175</u>	<u>\$ 1,317,708</u>

See accompanying notes to financial statements.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating activities		
Cash received from publications, conference, and membership dues	\$ 261,024	\$ 252,793
Cash received from contributions and grants	434,038	157,625
Interest and dividends received	12,397	23,076
Royalties received	128,046	114,532
Miscellaneous receipts	913	788
Cash paid to employees and suppliers	(686,991)	(740,230)
Change in cash held by others	(49,381)	22,153
Net cash flows from operating activities	100,046	(169,263)
Investing activities		
Capital expenditures	(19,848)	(15,649)
Proceeds from maturity of investments	387,048	250,865
Purchase of investments	(423,433)	(211,701)
Net cash flows from investing activities	(56,233)	23,515
Net change in cash	43,813	(145,748)
Cash, beginning of period	192,427	338,175
Cash, end of period	\$ 236,240	\$ 192,427
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ (159,260)	\$ 100,681
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	9,701	8,300
Portion of loss on defalcation related to equipment and software	1,177	-0-
Unrealized gain on investments	(273)	(479)
Change in accrued interest included in investments	5,329	12,629
Changes in assets and liabilities		
Cash held by others	(49,381)	22,153
Grants receivable	325,000	(314,000)
Accounts receivables	(1,401)	(17,715)
Prepaid expenses	(7,922)	(160)
Inventories	127	133
Accounts payable	(16,819)	25,035
Accrued payroll and benefits	(1,012)	(268)
Deferred member dues	(5,220)	(5,572)
Net cash flows from operating activities	\$ 100,046	\$ (169,263)
Supplemental disclosure of cash flow information		
Accrued interest included in investments	\$ 28,768	\$ 34,097

See accompanying notes to financial statements.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

1. NATURE OF ACTIVITIES

The Association for Research on Nonprofit Organizations and Voluntary Action ("ARNOVA") is a non-profit corporation incorporated in the District of Columbia which was established to foster the creation, application, and dissemination of research about voluntary action, nonprofit organizations and philanthropy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted net assets – Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of ARNOVA, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Unrestricted net assets include:

Undesignated - Net assets not subject to donor-imposed stipulations.

Board designated – Net assets not subject to donor-imposed stipulations that have been set aside by the Board of Directors for future purposes (Note 5).

Temporarily restricted net assets – Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. ARNOVA's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by ARNOVA, unless the donor provides more specific directions about the period of its use.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Permanently restricted net assets – Permanently restricted net assets are resources whose use by ARNOVA is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time.

ARNOVA uses fund accounting to record and report its activities.

Description of Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Conference – salaries, benefits and direct costs related to the ARNOVA annual conference.

Publications – salaries, benefits and direct costs related to the publication of the ARNOVA News, Nonprofit & Voluntary Sector Quarterly, and the website.

Membership services – salaries, benefits and direct costs related to providing benefits to members.

Scholarships and awards – scholarships to attend the conference and book, dissertation and lifetime achievement awards.

Other – salaries, benefits and direct costs related to providing other miscellaneous programs.

Management and general – Includes the functions necessary to provide coordination and articulation of ARNOVA's program strategy; secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of ARNOVA.

Fundraising – Provides the structure necessary to encourage and secure private financial support from individuals, foundations and corporations.

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 of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, management evaluates these estimates and assumptions based upon historical experience and various other factors and circumstances. ARNOVA's management believes that the estimates and assumptions are reasonable in the circumstances; however the actual results could differ from these estimates.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Investments and Investment Return

Investments are carried at fair value for financial reporting purposes. Realized gains or losses upon the sale of investments are based on the cost of specifically identified securities. Changes in unrealized appreciation or depreciation of investments are reflected in the statement of activities in the period in which such changes occur. Interest and dividend income is recorded when earned.

Grants Receivable

Grants receivable consist of amounts that have been unconditionally promised to ARNOVA and are supported by a written grant agreement. Management estimates an allowance for uncollectible grants receivable based on current economic conditions, historical trends, and past experience with their grantors. At June 30, 2012 and 2011, management believes that grants receivable are fully collectible.

Accounts Receivable

Accounts receivable primarily represent royalties earned but not collected and are carried at their estimated collectible amounts.

Management estimates an allowance for uncollectible accounts receivable based on current economic conditions, historical trends, and current and past experience. Balances that remain uncollected more than one year after their due dates are written off unless indicated that payment is merely postponed. Management has determined that no allowance is necessary at June 30, 2012 and 2011.

Inventories

Inventories, consisting of publications, are stated at the lower of cost or market. Cost is determined using the first in, first out (FIFO) method.

Equipment and Software

ARNOVA capitalizes all significant purchases of equipment and software at cost, if purchased, and at fair value at the date of donation, if donated. Equipment is capitalized if it has a useful life when acquired of more than one year with original cost greater than \$1,000. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Costs of ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight line method over the estimated useful lives of the assets which range from three to seven years.

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NOTES TO FINANCIAL STATEMENTS
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Equipment and software consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 3,754	\$ 3,754
Computer equipment	5,690	37,717
Software	<u>27,635</u>	<u>107,216</u>
	37,079	148,687
Accumulated depreciation	<u>(12,281)</u>	<u>(132,859)</u>
	<u>\$ 24,798</u>	<u>\$ 15,828</u>

Support and Revenue Recognition

Grants, Conference sponsorships, and Contributions include unconditional promises to give and are recognized in the period the amount is received or the promise is made. Amounts that are not restricted by the donor are reported as an increase in unrestricted net assets. All other donor-restricted support or unrestricted support where payment is expected in a future period is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Membership dues are recognized over the period to which they relate. Any unrecognized membership dues are deferred at year end.

Conference revenue is recognized at the completion of the event.

All other support and revenue is reported when earned.

Contributed Services

Contributed services are recognized as contributions in the financial statements if those services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased (Note 7).

Many individuals volunteer their time to perform a variety of tasks that are essential to fulfilling the missions of ARNOVA; however, these services do not meet the criteria for recognition as contributed services. As such, the financial statements do not reflect the substantial value of services contributed by volunteers.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

For the year ended June 30, 2012 contributed services not reflected in the financial statements are summarized below:

- 123 respondents indicated they had volunteered for ARNOVA during the fiscal year. Hours were reported by 117 of them, totaling 5,376. Volunteer hours for NVSQ activities were analyzed separately, resulting in an addition of 6,156 hours, for a grand total of 11,532. This is the equivalent of 6.34 full-time equivalent positions.
- The volunteers in this study contributed \$11,682 in non-reimbursed out-of-pocket expenses and the equivalent of an estimated \$401,429 in hours volunteered, for a total of \$413,311.

Calculated in this way, the volunteer contributions represent 72 percent of the total activity hours (paid and unpaid), and 42 percent of all incoming resources.

For the year ended June 30, 2011 contributed services not reflected in the financial statements are summarized below:

- 144 respondents indicated they had volunteered for ARNOVA during the fiscal year. Hours were reported by 141 of them, totaling 5,365 hours. Volunteer hours for NVSQ activities were analyzed separately, resulting in an addition of 3,291 hours, for a grand total of 8,656. This is the equivalent of 4.76 full-time employees.
- The volunteers in this study contributed \$15,807 in non-reimbursed out-of-pocket expenses and the equivalent of an estimated \$286,600 in hours volunteered, for a total of \$302,407.

Calculated in this way, the volunteer contributions represent 66 percent of the total activity hours (paid and unpaid), and 34 percent of all incoming resources.

Functional Allocation of Expenses

The costs of providing the programs and services of ARNOVA 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.

Directly identifiable expenses are charged to the specific programs or supporting services identified. Salaries and benefits that are related to more than one function are charged to programs and supporting services on the basis of periodic time studies. Management and general expenses include those expenses that are not directly identifiable with any other specific functions but provide for the overall support and direction of ARNOVA.

Although the method used was appropriate, other methods could produce different results.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Income Taxes

ARNOVA is organized as a not-for-profit corporation and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation within the meaning of section 509(a) of the Code because it is an organization described in section 509(a)(2). As such ARNOVA is generally exempt from income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the organization, and has concluded that as of June 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The organization is required to file Federal Form 990 – Return of Organization Exempt from Income Tax (and a corresponding State of Indiana return) which is an informational return only. The organization is subject to routine audits for any tax periods in progress. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress.

Subsequent Events

ARNOVA has evaluated events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is April 30, 2013.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

3. INVESTMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of fair value hierarchy are described as follows:

The standard defines the levels within the hierarchy of inputs as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ARNOVA 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. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuations methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

Money market funds: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds are open-end mutual funds that are registered with the Securities and Exchange Commission. These

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funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Equity Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although ARNOVA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

The following table sets forth by level, within the fair value hierarchy, ARNOVA's investments measured at fair value on a recurring basis as of June 30:

	2012		
	Level 1	Level 2	Total
Money market funds			
Morgan Keegan	\$ -0-	\$ 48,876	\$ 48,876
Regions Bank	-0-	223,181	223,181
Old National Bank	-0-	104,401	104,401
Key Bank	-0-	106,195	106,195
Equity	676	-0-	676
Fixed income mutual bond fund	26,910	-0-	26,910
Total investments at fair value	\$ 27,586	\$ 482,653	510,239
Certificates of deposit			
PNC Bank - .6%; matures 9/12/2012			162,891
Huntington Bank - .1%; matures 9/11/2012			115,872
			\$ 789,002

	2011		
	Level 1	Level 2	Total
Money market funds			
Morgan Keegan	\$ -0-	\$ 123,841	\$ 123,841
Other	-0-	12,424	12,424
Equity	665	-0-	665
Fixed income mutual bond fund	26,366	-0-	26,366
Total investments at fair value	\$ 27,031	\$ 136,265	163,296
Certificates of deposit			
PNC Bank - .747%; matures 8/12/2011			161,958
Regions Bank - .75%; matures 6/15/2012			111,113
Huntington Bank - 4.88%; matures 9/11/2011			113,664
Key Bank - 1.5%; matures 9/18/2011			106,559
Old National Bank - 1.99%; matures 5/10/2012			101,083
			\$ 757,673

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ARNOVA's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2012 and 2011. However, money market funds amounting to \$136,265 have been reclassified as Level 2 in the fair value hierarchy at June 30, 2011 to conform to classifications used at June 30, 2012. Certificates of deposit amounting to \$594,377 have been removed from the fair value hierarchy at June 30, 2011 to conform to classifications used at June 30, 2012.

The following schedule summarizes the investment return for each of the years ended June 30:

	2012	2011
Interest and dividend income	\$ 7,561	\$ 10,447
Unrealized gains	273	479
	\$ 7,834	\$ 10,926

ARNOVA's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

4. GRANTS RECEIVABLE

Grants receivable consist of the following at June 30:

	2012	2011
The Lilly Foundation	\$ -0-	\$ 240,000
Charles Stewart Mott Foundation	10,000	20,000
Gates Foundation	-0-	75,000
RGK Center for Philanthropy and Community Service	2,000	2,000
	\$ 12,000	\$ 337,000
Receivable in less than one year	\$ 12,000	\$ 167,000
Receivable in one to five years	-0-	170,000
	\$ 12,000	\$ 337,000

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5. NET ASSETS

Board Designated

Board designated net asset activity is depicted below along with the balance of net assets which have been set aside for the following board-imposed purposes:

	<u>June 30, 2011</u>	<u>New Designations</u>	<u>Released from Designations</u>	<u>June 30, 2012</u>
General operating	\$ 50,000	\$ -0-	\$ -0-	\$ 50,000
Cash flow volatility	200,000	-0-	-0-	200,000
Grant advance	25,000	-0-	-0-	25,000
Scholarships	<u>42,992</u>	<u>-0-</u>	<u>-0-</u>	<u>42,992</u>
	<u>\$ 317,992</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 317,992</u>

	<u>June 30, 2010</u>	<u>New Designations</u>	<u>Released from Designations</u>	<u>June 30, 2011</u>
General operating	\$ 50,000	\$ -0-	\$ -0-	\$ 50,000
Cash flow volatility	200,000	-0-	-0-	200,000
Grant advance	25,000	-0-	-0-	25,000
Scholarships	<u>42,992</u>	<u>-0-</u>	<u>-0-</u>	<u>42,992</u>
	<u>\$ 317,992</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 317,992</u>

**ASSOCIATION FOR RESEARCH ON NONPROFIT
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NOTES TO FINANCIAL STATEMENTS
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Temporarily Restricted

Temporarily restricted net asset activity is depicted below along with the balance of temporarily restricted net assets that are available to be expended for the following donor-imposed purposes or periods. Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors as follows:

	June 30, 2011	<u>Restricted</u>	<u>Released</u>	June 30, 2012
Future periods (general operations)	\$ 373,004	\$ 1,000	\$ 176,677	\$ 197,327
Building leadership effectively project	-0-	98,000	-0-	98,000
Publications	-0-	165,250	165,250	-0-
Technology	2,121	-0-	2,121	-0-
Scholarships	16,142	1,181	1,000	16,323
Conference	<u>24,303</u>	<u>36,500</u>	<u>45,085</u>	<u>15,718</u>
	<u>\$ 415,570</u>	<u>\$ 301,931</u>	<u>\$ 390,133</u>	<u>\$ 327,368</u>
	June 30, 2010	<u>Restricted</u>	<u>Released</u>	June 30, 2011
Future periods (general operations)	\$ 146,232	\$ 390,000	\$ 163,228	\$ 373,004
Publications	-0-	166,250	166,250	-0-
Technology	-0-	5,000	2,879	2,121
Scholarships	15,422	2,720	2,000	16,142
Conference	<u>98,500</u>	<u>68,500</u>	<u>142,697</u>	<u>24,303</u>
	<u>\$ 260,154</u>	<u>\$ 632,470</u>	<u>\$ 477,054</u>	<u>\$ 415,570</u>

Permanently Restricted

Net assets of \$19,175 as of June 30, 2012 and 2011 are to be held in perpetuity. Income from investments representing permanently restricted net assets is expendable to provide scholarships and pay administrative expenses.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

6. ENDOWMENT

ARNOVA's endowment consists solely of one donor restricted fund that was established to support a scholarship. As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Management has interpreted the Uniform Prudent Management Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result the interpretation, ARNOVA classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulations are added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ARNOVA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ARNOVA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of ARNOVA and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of ARNOVA
- (7) The investment policies of ARNOVA

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires ARNOVA to retain as a fund of perpetual duration. There are no deficiencies of this nature at June 30, 2012 and 2011.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Return Objectives and Risk Parameters

ARNOVA has adopted investment and spending policies for investments functioning as endowment that attempts to provide a predictable stream of funding to the program supported by its endowment while seeking to maintain the fair value of the endowment assets. Under this policy, as approved by the Board of Directors, the endowed investments are invested in a manner that is intended to produce a total return which protects the purchasing power of the endowed investments and which allows spending consistent with the terms of the donor's restricted endowment.

ARNOVA expects its endowment investments, over time, to provide an average rate of return of at least 1% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

ARNOVA's primary investment objective is to provide liquidity and preservation of capital. ARNOVA relies on a total return strategy in which investment returns are achieved primarily through current yield (interest and dividends). ARNOVA's policy is to invest in fully insured accounts, certificates of deposit, or U.S. government treasury instruments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

ARNOVA has a policy for its donor-restricted endowment fund of appropriating for distribution each year all earnings from the endowment investments up to \$1,000.

The composition and change in endowment net assets is as follows for the year ended June 30:

	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -0-	\$ -0-	\$ 19,175	\$ 19,175
Interest earned	<u>-0-</u>	<u>181</u>	<u>-0-</u>	<u>181</u>
Endowment net assets, end of year	<u>\$ -0-</u>	<u>\$ 181</u>	<u>\$ 19,175</u>	<u>\$ 19,356</u>

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NOTES TO FINANCIAL STATEMENTS
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	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -0-	\$ -0-	\$ 19,175	\$ 19,175
Interest earned	-0-	120	-0-	120
Distributions	-0-	(120)	-0-	(120)
Endowment net assets, end of year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 19,175</u>	<u>\$ 19,175</u>

7. CONTRIBUTED SERVICES

Editorial services related to the publication of the Nonprofit & Voluntary Sector Quarterly are provided by volunteers who contribute their time to ARNOVA. The organization has valued and recorded these services which meet the criteria for recognition and are necessary for it to carry out its programs. For each year ended June 30, 2012 and 2011, the value of contributed services amount is \$150,250, and is included in contributions and program expenses.

8. CONCENTRATIONS

ARNOVA maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. ARNOVA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

For the year ended June 30, 2012, the organization had one grant that accounted for 15% of ARNOVA's total support and revenues. For the year ended June 30, 2011, two grants accounted for 38% of ARNOVA's total support and revenues.

9. AGREEMENT WITH INDIANA UNIVERSITY

ARNOVA is provided with contributed services, payroll processing and other administrative services under terms of an agreement with Indiana University ("IU") as follows:

For the processing of transactions related to payroll and other administrative services, ARNOVA pays a 2.65% administrative fee to IU based on the total expenses processed on behalf of ARNOVA. The total amount paid to IU during the years ended June 30, 2012 and 2011 was \$5,937 and \$5,696, respectively, and is included in management and general expenses.

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Personnel working for ARNOVA are legally employees of IU and as such, they are entitled to all benefits provided to IU employees (in their same classification) as well as being subject to all policies and procedures pertaining to IU employees. The total amount reimbursed to IU for salaries and benefits during the years ended June 30, 2012 and 2011 was \$159,457 and \$196,211, respectively. These amounts are allocated among program, management and general and fundraising expenses.

Office space utilized by ARNOVA through June 15, 2011 was leased by IU from a third party. ARNOVA paid the monthly rental charge for this space directly to the third party lessor. Total rent expense paid by ARNOVA was \$1,500 for the year ended June 30, 2011.

To facilitate the processing of transactions with IU, ARNOVA is required to maintain a cash account with the University. ARNOVA has no access to the cash in the account. At June 30, 2012 and 2011, respectively, the balance in that account was \$63,443 and \$14,062 and is reported as cash held by others.

10. EMPLOYEE DISHONESTY LOSS

ARNOVA incurred a loss in fiscal 2012 as a result of actions of a dishonest employee, and has made a claim under an employee dishonesty insurance policy for such loss. Any settlement received as a part of the filed claim will be recorded as income in the period such settlement is received and such additional costs, if any, are known.

11. OPERATING LEASE

ARNOVA leases its office space under the terms of an operating lease that calls for monthly payments of \$853 through June 14, 2014. Future minimum lease payments as of June 30, 2012, under this lease, are \$10,236 for both 2013 and 2014. Rent expense for the years ended June 30, 2012 and 2011 under terms of the above referenced office space lease, was \$10,116 and \$10,236, respectively.

Prior to June 15, 2011, ARNOVA leased office space in a building leased by IU from a third party (Note 9). ARNOVA also rents storage space under month-to-month arrangements.

**ASSOCIATION FOR RESEARCH ON NONPROFIT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

12. SUBSEQUENT EVENTS

On April 28, 2013, management was notified by their insurance carrier that the claim filed under the employee dishonesty coverage had been approved and that ARNOVA would be awarded reimbursement for losses incurred. Approximately \$62,000 in proceeds were received related to the claim and have been recorded as income in the period ending June 30, 2013.

SUPPLEMENTARY INFORMATION

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

(With Comparative Total for the Year Ended June 30, 2011)

	Program Services				Supporting Services		2011 Total Expenses		
	Conference	Publications	Membership Services	Scholarships and Awards	Other Programs	Total		Management and General	Fundraising
Expenses									
Personnel expense	\$ 38,090	\$ 6,343	\$ 69,989	\$ -	\$ 11,924	\$ 126,346	\$ 44,545	\$ 7,244	\$ 178,135
Staff salaries	15,035	2,976	25,954	-	2,177	46,142	14,933	3,215	64,290
Staff benefits	23,422	157,900	7,560	-	2,510	191,392	(1,040)	-	190,352
Temporary & contract labor/stipends	-	-	-	-	-	-	94	-	94
Other personnel expense	76,547	167,219	103,503	-	16,611	363,880	58,532	10,459	432,871
Printing	9,897	(860)	1,930	-	-	10,967	(1,535)	1,171	10,603
Postage	926	500	12	-	-	1,438	(98)	190	1,530
Supplies	617	9,361	-	-	-	9,978	252	-	10,230
Conference	141,942	-	-	-	-	141,942	-	-	141,942
Travel and meetings	-	12,500	-	-	3,280	15,780	19,606	-	35,386
Scholarships and awards	-	-	-	39,235	-	39,235	-	-	39,235
Sections	-	-	3,877	-	-	3,877	-	-	3,877
Diversity initiative	-	-	4,666	-	-	4,666	-	-	4,666
Website	-	-	976	-	-	976	-	-	976
Rent	2,639	256	4,339	-	-	7,234	2,625	256	10,115
Telephone/fax/copier	1,521	142	2,241	-	44	3,948	1,610	128	5,686
Insurance	427	-	-	-	-	427	4,550	-	4,977
Administration, credit card and bank fees	-	-	-	-	-	-	17,514	-	17,514
Computers	-	-	-	-	-	-	1,230	-	1,230
Legal	-	-	-	-	-	-	4,649	-	4,649
Accounting	-	-	-	-	-	-	30,072	-	30,072
Depreciation	-	-	-	-	-	-	9,701	-	9,701
Collaboration	-	-	-	-	-	-	946	-	946
Election	-	-	-	-	-	-	1,945	-	1,945
Total Expense	\$ 234,516	\$ 189,118	\$ 121,544	\$ 39,235	\$ 19,935	\$ 604,348	\$ 151,599	\$ 12,204	\$ 768,151
									\$ 917,473

ASSOCIATION FOR RESEARCH ON NONPROFIT ORGANIZATIONS AND VOLUNTARY ACTION

SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2011

Expense	Program Expenses						Supporting Services		2011 Total Expenses
	Conference	Publications	Membership Services	Scholarships and Awards	Other Programs	Total	Management and General	Fundraising	
Personnel expense									
Staff salaries	\$ 43,563	\$ 5,230	\$ 100,226	\$ -	\$ 14,500	\$ 163,519	\$ 39,667	\$ 3,312	\$ 206,498
Staff benefits	12,946	1,421	25,316	-	-	39,683	15,630	1,438	56,751
Temporary & contract labor/stipends	23,731	159,900	11,146	-	41,979	236,756	1,780	300	238,836
Other personnel expense	-	-	-	-	-	-	487	-	487
	<u>80,240</u>	<u>166,551</u>	<u>136,688</u>	<u>-</u>	<u>56,479</u>	<u>439,958</u>	<u>57,564</u>	<u>5,050</u>	<u>502,572</u>
Printing	12,649	633	807	-	645	14,734	116	1,125	15,975
Postage	2,743	173	9	-	94	3,019	709	628	4,356
Supplies	3,100	9,350	357	-	496	13,303	2,826	-	16,129
Conference	141,843	-	-	-	-	141,843	-	-	141,843
Travel and meetings	-	12,500	28	-	70,411	82,939	22,990	-	105,929
Scholarships and awards	-	-	-	40,687	-	40,687	-	-	40,687
Sections	-	-	3,807	-	-	3,807	-	-	3,807
Diversity initiative	-	-	3	-	-	3	-	-	3
Website	-	-	1,142	-	-	1,142	-	-	1,142
Rent	3,546	344	5,831	-	-	9,721	3,527	344	13,592
Telephone/fax/copier	1,894	160	2,761	-	-	4,815	1,871	160	6,846
Insurance	553	-	-	-	-	553	3,625	-	4,178
Administration, credit card and bank fees	-	-	-	-	-	-	15,195	-	15,195
Computers	-	-	-	-	-	-	2,518	-	2,518
Legal	-	-	-	-	-	-	7	-	7
Accounting	-	-	-	-	-	-	27,898	-	27,898
Depreciation	-	-	-	-	-	-	8,301	-	8,301
Collaboration	-	-	-	-	-	-	4,212	-	4,212
Election	-	-	-	-	-	-	2,283	-	2,283
	<u>\$ 246,568</u>	<u>\$ 189,711</u>	<u>\$ 151,433</u>	<u>\$ 40,687</u>	<u>\$ 128,125</u>	<u>\$ 756,524</u>	<u>\$ 153,642</u>	<u>\$ 7,307</u>	<u>\$ 917,473</u>