

ROCK THE VOTE

Financial Statements and Independent Auditor's Report

December 31, 2013

DENBURG & LOW, PA
Certified Public Accountants
1350 Connecticut Avenue, NW, Suite 850
Washington, DC 20036

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rock the Vote

We have audited the accompanying financial statements of Rock the Vote (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rock the Vote as of December 31, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dunburg & Low, PA

Washington, DC

April 24, 2014

STATEMENT OF FINANCIAL POSITION

Rock the Vote

December 31, 2013

ASSETS

Cash	\$	68,470
Contributions and grants receivable		510,259
Prepaid expenses		9,799
Property and equipment (Note C)		5,558
Deposits		9,057
Intangible property (Note D)		<u>209,279</u>
Total assets	\$	<u>812,422</u>

LIABILITIES

Accounts payable and accrued expenses	\$	91,018
Deferred rent		12,212
Note payable (Note E)		42,804
Due to related organization (Note G)		<u>150,320</u>
Total liabilities		<u>296,354</u>

COMMITMENTS (Note H)

NET ASSETS

Unrestricted (Note E)		(107,286)
Temporarily restricted (Note F)		<u>623,354</u>
Total net assets		<u>516,068</u>
Total liabilities and net assets	\$	<u>812,422</u>

The accompanying notes are an integral part of these financial statements

STATEMENT OF ACTIVITIES

Rock the Vote

For the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Contributions and grants	\$ 594,195	\$ 769,817	\$ 1,364,012
Other revenue	4,121	-	4,121
Net assets released from program restrictions	<u>245,646</u>	<u>(245,646)</u>	<u>-</u>
Total support and revenue	<u>843,962</u>	<u>524,171</u>	<u>1,368,133</u>
Expenses			
Program services	983,110	-	983,110
General and administrative	177,455	-	177,455
Fund raising	<u>140,656</u>	<u>-</u>	<u>140,656</u>
Total expenses	<u>1,301,221</u>	<u>-</u>	<u>1,301,221</u>
Changes in net assets	(457,259)	524,171	66,912
Net assets - Beginning of year (as restated - Note E)	<u>349,973</u>	<u>99,183</u>	<u>449,156</u>
Net assets - End of year	<u>\$ (107,286)</u>	<u>\$ 623,354</u>	<u>\$ 516,068</u>

The accompanying notes are an integral part of these financial statements

STATEMENT OF FUNCTIONAL EXPENSES

Rock the Vote
For the Year Ended December 31, 2013

	Program Services				Supporting Services			Total Programs & Supporting Services
	High School Civics	Elections	Voting Rights	Total Programs	General and Administrative	Fund Raising		
Staff and benefits								
Salaries and staff compensation	\$ 59,591	\$ 186,309	\$ 17,378	\$ 263,278	\$ 76,752	\$ 58,390	\$	\$ 398,420
Payroll taxes	5,149	14,603	1,377	21,129	5,135	4,616		30,880
Employee benefits	4,029	12,893	1,128	18,050	6,725	4,189		28,964
Professional Fees	68,769	213,805	19,883	302,457	88,612	67,195		458,264
Accounting	-	-	-	-	85,063	-		85,063
Legal	-	2,885	-	2,885	2,376	7,000		12,261
Consultants and other	3,837	151,075	-	154,912	12,929	-		167,841
	3,837	153,960	-	157,797	100,368	7,000		265,165
Travel and meetings								
Travel, lodging and fees	4,782	45,985	1,058	51,825	6,928	4,536		63,289
	4,782	45,985	1,058	51,825	6,928	4,536		63,289
Equipment and maintenance								
Dues and subscriptions	-	693	-	693	828	-		1,521
Computer and equipment	162	-	-	162	294	-		456
Depreciation and amortization	-	6,000	-	6,000	13,698	-		19,698
Equipment rental and other	566	33,291	-	33,857	7,975	-		41,832
	728	39,984	-	40,712	22,795	-		63,507
Occupancy								
Rent and occupancy costs	30	300	-	330	97,787	220		98,337
	30	300	-	330	97,787	220		98,337
Communications and marketing								
Printing and reproduction	344	12,099	-	12,443	5,133	180		17,756
Advertising	1,757	(974)	-	783	70	-		853
Other	1,106	5,745	14	6,865	899	117		7,881
	3,207	16,870	14	20,091	6,102	297		26,490
Technology fees								
Online voter registration	-	27,488	-	27,488	198	-		27,686
Catalist/Voter files	-	112,742	-	112,742	-	-		112,742
Email/web/mobile	-	19,800	-	19,800	127,842	2,200		149,842
	-	160,030	-	160,030	128,040	2,200		290,270
Other operating expenses								
Allocated program expenses	56,379	172,482	17,198	246,059	(301,036)	54,977		-
Insurance	-	300	-	300	13,466	-		13,766
Interest expense	-	-	-	-	2,089	-		2,089
Other operating expenses	-	759	-	759	3,804	4,231		8,794
	56,379	173,541	17,198	247,118	(281,677)	59,208		24,649
In-kind expenses								
Catalist/Voter files	-	2,750	-	2,750	8,500	-		11,250
	-	2,750	-	2,750	8,500	-		11,250
Total expenses	\$ 137,732	\$ 807,225	\$ 38,153	\$ 983,110	\$ 177,455	\$ 140,656	\$	\$ 1,301,221

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS

Rock the Vote

For the Year Ended December 31, 2013

Cash flows from operating activities	
Change in net assets	\$ 66,912
Adjustments to reconcile change in net cash used in operating activities:	
Depreciation and amortization	19,698
Increase in contributions and grants receivable	(259,726)
Decrease in prepaid expenses	8,633
Increase in accounts payable and accrued expenses	56,373
Decrease in deferred expenses	<u>(3,439)</u>
Net cash used in operating activities	<u>(111,549)</u>
Cash flows from investing activities	
Fixed and intangible asset acquisitions	<u>(63,280)</u>
Net cash used in investing activities	<u>(63,280)</u>
Cash flows from financing activities	
Loan to related organization	(1,560)
Note payable	<u>2,088</u>
Net cash provided by financing activities	<u>528</u>
Net decrease in cash	(174,301)
Cash balance - Beginning of the year	<u>242,771</u>
Cash balance - End of the year	<u>\$ 68,470</u>

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

Rock the Vote
December 31, 2013

NOTE A - ORGANIZATION

Rock the Vote, a non-profit corporation, was organized in Washington, DC on December 27, 2005. They were formerly known as the Music for America Education Fund. The corporate offices are located in Washington, DC. The first activity began on or about April 1, 2007. Rock the Vote engages youth in the political process by incorporating the entertainment community, popular culture and new technologies with the goal of encouraging youth and others to vote and take action on issues that affect their lives. Additionally, Rock the Vote conducts voter registration, civic education and GOTV efforts focusing on 18 to 29 year olds who are the most under-represented in our democracy and empowers young people to be active citizens through political participation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements.

1. Basis of accounting

The Organization presents its financial statements on the accrual basis of accounting. Under this method, revenues are recognized when they are due or pledged rather than when they are received. Expenses are recognized when they are incurred rather than when they are paid.

2. Audit Procedures

This audit was performed in accordance with guidelines included in "Not-for-Profit Entities Audit and Accounting Guide" issued by the American Institute of Certified Public Accountants.

3. Property and equipment

Property and equipment is recorded at cost and depreciated, using the straight-line method, over the estimated useful life of the asset. Presently all property and equipment is depreciated over 3 years. It is the policy of the Organization to capitalize and depreciate property with a cost of greater than \$1,500 and a useful life of more than a year.

4. Non-cash contributions

Non-cash contributions are recorded at fair market value on the date of the donation to the extent they are susceptible to valuation. There were non-cash contributions of data services totaling \$11,250 during the year for the benefit of the Elections Programs. These income and expense items are included in the financial statements.

NOTES TO FINANCIAL STATEMENTS

Rock the Vote
December 31, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Promises to give

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. All donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All contributions receivable are due within one year.

6. Financial statement presentation

The Organization 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. All donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

7. Revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purpose and are reported in the statements of activities as net assets released from restrictions. Donated goods and services are reflected as contributions at their estimated fair market value at the time of receipt.

8. 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. For example, depreciation, amortization and the functional allocation of certain expenses are estimates. Accordingly, actual results could differ from these estimates.

9. Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and they are also exempt from state income taxes. The Internal Revenue Service has determined that they are a publicly supported organization.

Effective January 1, 2009 the Organization adopted the authoritative guidance related to accounting for uncertainty in income taxes. The Organization performed an evaluation of uncertain tax positions for the year ended December 31, 2013, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. The tax returns for the years 2010 through 2012 are open to examination by federal and state authorities.

NOTES TO FINANCIAL STATEMENTS

Rock the Vote
December 31, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Cash and cash equivalents

For financial statement purposes, the Organization considers cash and cash equivalents to include cash in banks.

11. Allocation of expenses

The costs of providing the 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. Effective in 2012 the Organization changed the way that they account for certain programmatic expenses. Expenses that benefit multiple programs are accumulated monthly and allocated among the various programs based on the relative salaries allocated to each program.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consists of furniture, computers and leasehold improvements. Depreciation is calculated on a straight line basis over 3 years. Depreciation expense for 2013 is \$2,195 and accumulated depreciation as of December 31, 2013 is \$19,828.

NOTE D – INTANGIBLE PROPERTY

Intangible assets consist of trademark and logo acquisition costs and website and portal development costs which totaled \$627,062 as of December 31, 2013. The trademark and logo costs comprise \$230,044 of the total and are being amortized over 20 years. The website development costs totaled \$397,018 with amortization calculated on a straight line basis over 30 to 38 months. Amortization expense for 2013 is \$17,503 and accumulated amortization as of December 31, 2013 is \$417,783.

NOTE E – PRIOR PERIOD ADJUSTMENT / NOTE PAYABLE

The Organization received a loan from the National Academy of Recording Arts & Sciences, Inc. (NARAS) in 2007 for \$80,000. Repayment of \$25,000 was made with the remainder to be paid as in-kind services to NARAS. It has been determined that only \$10,000 of in-kind services were actually rendered and therefore the liability of \$45,000 is being recorded (at its net present value of \$40,716 using a discount rate of approximately 6%) as of December 31, 2012. The opening unrestricted net assets is being adjusted by the same amount. The unrestricted net assets were previously stated at \$390,689 and this has been restated to \$349,973. The loan to NARAS will be repaid in 2014.

NOTES TO FINANCIAL STATEMENTS

Rock the Vote
December 31, 2013

NOTE F – RESTRICTIONS ON NET ASSETS

There was \$623,354 in net assets that were subject to temporary donor restrictions as of December 31, 2013. Of these, \$583,354 was subject to use-restrictions meaning that their use was designated for a certain purpose or program. The remaining \$40,000 was subject to time restrictions meaning that their use is restricted to a future period. All of the use-restrictions are restricted for use in the Elections Program. As of December 31, 2013 there are no permanently restricted net assets.

NOTE G – RELATED PARTY TRANSACTIONS

Rock the Vote Action Fund is an affiliated non-profit organization which is exempt from taxation under Section 501(c)(4) of the Internal Revenue Code. During the year there were expenses paid by Rock the Vote on behalf of the Action Fund in the amount of \$1,560. As of December 31, 2013, Rock the Vote owed the Action Fund \$150,320.

NOTE H – COMMITMENTS

Office Lease

Effective January 15, 2011 the Organization entered into a lease for office space which extends through January 31, 2016. The initial monthly rental amount was \$5,057 with escalation provisions and expense pass-through adjustments through the term of the lease. The monthly rental for 2013 ranged from \$5,323 to \$5,509 due to changes in common area maintenance pass-throughs. The minimum future obligation under this lease is \$138,811 which is broken down as follows: 2014- \$65,684, 2015- \$67,491 and 2016- \$5,636..

Data Services

The Organization renewed their data license and service agreement beginning January 1, 2013 which is effective until December 31, 2015. Under the new agreement the Organization is obligated to pay \$125,000 for 2013, \$115,000 for 2014 and \$95,000 for 2015 with allowable discounts of \$12,500, \$5,750 and \$4,750, respectively. The net cost is \$112,500 for 2013, \$109,250 for 2014 and \$90,250 for 2015.

Mobile Text and Web Services

The Organization renewed an agreement which is effective from February 1, 2014 through January 31, 2015. Under the terms of the agreement, the Organization pays \$3,650 per month. The minimum future obligation under this agreement is \$43,800.

NOTES TO FINANCIAL STATEMENTS

Rock the Vote
December 31, 2013

NOTE I – RETIREMENT PLAN

The Organization provides a Simple IRA retirement plan for all eligible employees. This allows employees to elect to have a portion of their payroll contributed to the retirement account on a pre-tax basis. The Organization then provides a matching contribution of up to 3% of participating employee payroll. During 2013 the Organization contributed \$8,881 in matching retirement contributions.

NOTE J – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 24, 2014 which is the date the financial statements were available to be issued.