

UPTURN, INC.

FINANCIAL STATEMENTS

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Upturn, Inc.
Washington, D.C.

We have audited the accompanying financial statements of Upturn, Inc., which comprise the statement of financial position as of December 31, 2019, 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.

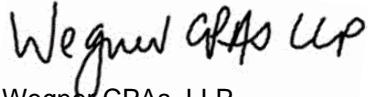
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Upturn, Inc. as of December 31, 2019, 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.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, Upturn, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequently issued clarifying ASUs and ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of January 1, 2019. Our opinion is not modified with respect to this matter.



Wegner CPAs, LLP
Alexandria, Virginia
March 26, 2020

UPTURN, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 2,429,296
Current portion of unconditional promises to give	1,100,000
Grant receivable	29,994
Employee reimbursements	18
Prepaid expenses	7,485
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Total current assets	3,566,793

OTHER ASSETS

Unconditional promises to give less current portion	561,607
Security deposit	5,500
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Total other assets	567,107

Total assets

\$ 4,133,900

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 12,387
Accrued expenses	3,536
Accrued payroll	23,699
Refundable advance	535,000
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Total liabilities	574,622

NET ASSETS

Without donor restrictions	1,142,910
With donor restrictions	2,416,368
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Total net assets	3,559,278

Total liabilities and net assets

\$ 4,133,900

See accompanying notes.

UPTURN, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ -	\$ 870,013	\$ 870,013
Grants	100,664	-	100,664
Interest	2,073	-	2,073
Miscellaneous	16,366	-	16,366
Total support and revenue	119,103	870,013	989,116
EXPENSES			
Program services	942,799	-	942,799
Management and general	218,684	-	218,684
Fundraising	17,703	-	17,703
Total expenses	1,179,186	-	1,179,186
NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of time restrictions	1,276,444	(1,276,444)	-
Satisfaction of purpose restrictions	180,795	(180,795)	-
Net assets released from restrictions	1,457,239	(1,457,239)	-
Change in net assets	397,156	(587,226)	(190,070)
Net assets at beginning of year	745,754	3,003,594	3,749,348
Net assets at end of year	\$ 1,142,910	\$ 2,416,368	\$ 3,559,278

See accompanying notes.

UPTURN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Personnel	\$ 681,284	\$ 111,984	\$ 16,476	\$ 809,744
Professional fees	88,625	44,681	17	133,323
Office expenses	16,900	17,740	-	34,640
Conferences and meetings	10,836	23,531	-	34,367
Insurance	904	1,795	22	2,721
Occupancy	49,115	8,073	1,188	58,376
Information technology	79	7,668	-	7,747
Travel	95,056	1,435	-	96,491
Subscriptions	-	1,777	-	1,777
Total expenses	<u>\$ 942,799</u>	<u>\$ 218,684</u>	<u>\$ 17,703</u>	<u>\$ 1,179,186</u>

See accompanying notes.

UPTURN, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (190,070)
Adjustments to reconcile change in net assets to net change in cash	
Amortization of discount on unconditional promises to give	(30,013)
(Increase) decrease in assets	
Unconditional promises to give	1,295,846
Grant receivable	(29,994)
Employee reimbursements	972
Prepaid expenses	(551)
Security deposit	-
Increase (decrease) in liabilities	
Accounts payable	5,365
Accrued expenses	(4,032)
Accrued payroll	6,386
Refundable advance	<u>535,000</u>
Net change in cash	1,588,909
Cash at beginning of year	<u>840,387</u>
Cash at end of year	<u><u>\$ 2,429,296</u></u>

See accompanying notes.

UPTURN, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Upturn, Inc. is a not-for-profit organization located in the District of Columbia. Upturn promotes equity and justice in the design, governance, and use of digital technology. Upturn's research and advocacy combines technical fluency and creative policy thinking to confront patterns of inequity, especially those rooted in race and poverty. Upturn works in partnership with many of the nation's leading civil rights and public interest organizations addressing a variety of issues, including: safety & justice, markets & opportunity, open & secure communication, and decisions, automation and power.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grant Receivable

Grant receivable represents amounts due from the University of Virginia for costs incurred under a cost reimbursement grant agreement. Grant receivable is stated at the amount management expects to be collected from outstanding balances. As of December 31, 2019 and 2018, management has determined, based on historical experience that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Contributions

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Grants

Grants are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined by each grant, are made. Funds received but not earned are shown as a refundable advance. Expenditures under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these grants, Upturn will record such disallowance at the time the final assessment is made.

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel and occupancy which are allocated on the basis of estimates of time and effort.

UPTURN, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax Status

Upturn is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, Upturn qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Guidance

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs supersedes the revenue recognition requirements and most industry-specific guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Upturn adopted the requirements of the new guidance as of January 1, 2019, using the modified retrospective method of transition. In applying the new guidance, Upturn elected to use the practical expedient that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019.

Upturn's revenue from contracts with customers, which consists of a grant from a university, is recognized over time with performance obligations that are satisfied within one year or less. In addition, Upturn's contract with the university does not contain variable consideration and contract modifications are generally minimal.

The adoption of the new guidance did not have a significant impact on Upturn's financial statements. Based on Upturn's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new guidance.

UPTURN, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On June 21, 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides a more robust framework for evaluating whether transactions such as grants and similar contracts with government agencies and others should be accounted for as exchange transactions or contributions. The ASU also assists entities in determining whether a contribution is conditional. Upturn adopted the requirements of the ASU as of January 1, 2019. The changes in the ASU have been applied on a modified prospective basis, that is, the changes have been applied to agreements that are either not completed as of January 1, 2019, or entered into after that date.

Date of Management's Review

Management has evaluated subsequent events through March 26, 2020, the date which the financial statements were available to be issued.

NOTE 2—PROMISES TO GIVE

Unconditional promises to give are as follows:

Receivable in less than one year	\$ 1,100,000
Receivable in one to five years	<u>575,000</u>
Total unconditional promises to give	1,675,000
Less discounts to present value	<u>(13,393)</u>
Unconditional promises to give	<u><u>\$ 1,661,607</u></u>

Unconditional promises to give receivable in more than one year are discounted at 2%.

NOTE 3—NET ASSETS

Net assets without donor restrictions consists of \$317,545 designated as an operating reserve by the board of directors

Net assets with donor restrictions are restricted for the following purposes or periods:

Subsequent years' operations	\$ 1,967,662
Core support for institutional strengthening	390,946
Research on discriminatory targeting of social media companies	41,760
Equity in hiring algorithms	<u>16,000</u>
Net assets with donor restrictions	<u><u>\$ 2,416,368</u></u>

UPTURN, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 4—LEASE

Upturn leases office space in Washington, D.C., under a noncancellable operating lease that expires in October 2020. Rent expense for this lease totaled \$58,376 for the year ended December 31, 2019.

NOTE 5—RETIREMENT PLAN

Upturn sponsors a tax-sheltered annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of Upturn. Upturn contributes 10% of gross salaries to the plan for qualified employees. Plan expenses totaled \$64,574 for the year ended December 31, 2019.

NOTE 6—CONCENTRATIONS

Contributions

Almost all of Upturn's funding was provided by three donors for the year ended December 31, 2019.

Credit Risk

Upturn maintains its cash balances in one financial institution located in Washington, DC. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2019, Upturn's uninsured cash balances total approximately \$2,182,000.

NOTE 7—LIQUIDITY AND AVAILABILITY

The following reflects Upturn's financial assets as of the date of the statement of financial position, reduced by amounts not available for general expenditure within one year of the date of the statement of financial position because of donor-imposed or other restrictions.

Financial assets at year-end	\$ 4,120,915
Less those unavailable for general expenditures within one year, due to:	
Designated by the board of directors as an operating reserve	(317,545)
Restricted by donor with time or purpose restrictions	<u>(908,706)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,894,664</u>

Included in financial assets unavailable for general expenditures within one year are \$317,545 designated by the board of directors as an operating reserve, however these amounts could be made available for use, subject to board approval. Upturn is substantially supported by restricted grants and contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Upturn must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for expenditure within one year. Unconditional promises to give expected to be collected within one year that do not contain donor purpose restrictions are available for general expenditures. As part of Upturn's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.