

Kiwanis International NTL HDQ K23 PA District

**Financial Statements and
Supplementary Information**

September 30, 2016



Kiwanis International NTL HDQ K23 PA District

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Independent Auditor's Report

To the Board of Trustees
Kiwanis International NTL HDQ K23 PA District
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Kiwanis International NTL HDQ K23 PA District (District), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and changes in deficit in net assets 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.

Qualified Opinion

In our opinion, except for the effects on the financial statements of not allocating the functional expenses as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Kiwanis International NTL HDQ K23 PA District as of September 30, 2016, and the changes in its unrestricted net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As discussed in Note 3, the District incurred costs in connection with program services, general and administrative expenses, and fundraising. Such amounts have not been set forth separately in the accompanying financial statements or related notes as required by accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 10 to the financial statements, the District has suffered recurring decreases in net assets and has a deficit in net assets that raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is 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 audit 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.

RKL LLP

July 21, 2018
York, Pennsylvania

Kiwanis International NTL HDQ K23 PA District

Statement of Financial Position

September 30, 2016

Assets

Current Assets

Cash	\$	33,435
Cash - money market		559
Accounts receivable		4,705
Due from Key Club		10,000
Inventory		865
Prepaid expenses		2,433

Total Current Assets 51,997

Security Deposit 1,450

Total Assets \$ 53,447

Liabilities and Deficit in Unrestricted Net Assets

Current Liabilities

Accounts payable	\$	7,141
Credit card payable		52,948
Line of credit		39,640
Accrued payroll and payroll taxes		5,473

Total Current Liabilities 105,202

Deficit in Unrestricted Net Assets (51,755)

Total Liabilities and Deficit in Unrestricted Net Assets \$ 53,447

Kiwanis International NTL HDQ K23 PA District

Statement of Activities and Changes in Deficit in Net Assets

Year Ended September 30, 2016

Revenues

Dues	\$	134,831
Conventions and events		63,725
Other revenue		18,540
Revenue for services provided to related parties		16,375
Interest income		171

Total Revenues 233,642

Total Expenses 240,592

Change in Deficit in Unrestricted Net Assets (6,950)

Deficit in Unrestricted Net Assets at Beginning of Year (44,805)

Deficit in Unrestricted Net Assets at End of Year \$ (51,755)

Kiwanis International NTL HDQ K23 PA District

Statement of Cash Flows

Year Ended September 30, 2016

Cash Flows from Operating Activities

Change in deficit in unrestricted net assets	\$ (6,950)
Adjustments to reconcile change in deficit in unrestricted net assets to net cash used in operating activities	
(Increase) decrease in assets	
Accounts receivable	(4,605)
Inventory	1,478
Prepaid expenses	(2,433)
Increase (decrease) in liabilities	
Accounts payable	(8,839)
Accrued payroll and payroll taxes	97
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Net Cash Used in Operating Activities	(21,252)

Cash Flows Provided by Investing Activities

Increase in due from Key Club	<hr/> 8,548
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Cash Flows from Financing Activities

Change in credit card payable	34,279
Change in line of credit	<hr/> (30)

Net Cash Provided by Financing Activities	<hr/> 34,249
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Net Increase in Cash	21,545
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Cash at Beginning of Year	<hr/> 12,449
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Cash at End of Year	<hr/> \$ 33,994 <hr/>
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Supplementary Cash Flows Information

Interest paid	<hr/> \$ 3,719 <hr/>
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Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2016

Note 1 - Nature of Activities

The Kiwanis International NTL HDQ K23 PA District (District) is a nonprofit corporation organized under the laws of the Commonwealth of Pennsylvania for the purpose of promoting Kiwanis objectives and providing support to local Kiwanis clubs throughout Pennsylvania. The District derives substantially all of its revenues from Pennsylvania-based Kiwanis clubs and their members.

Note 2 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, if any, 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.

Basis of Presentation

The District utilizes the accrual method of accounting and follows the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which requires the District 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. Accordingly, net assets of the District and changes therein are classified as unrestricted net assets since there are no donor-imposed stipulations.

Accounts Receivable

Accounts receivable are stated at outstanding balances. The District considers accounts receivable to be fully collectible. If collection becomes doubtful, an allowance for doubtful accounts will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

Inventory

The District values inventory using the lower of cost (first-in, first-out) method or net realizable value.

Note 2 - Summary of Significant Accounting Policies (continued)

Property and Equipment

The District capitalizes all expenditures for property and equipment in excess of \$500. Purchased property and equipment are recorded at cost. Depreciation expense is calculated using primarily the straight-line method over the estimated useful lives of the respective assets. All assets were fully depreciated as of September 30, 2016.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the assets are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset. Fair value estimates are based on assumptions concerning the amount and timing of the estimated future cash flows and the discounted rates reflecting varying degrees of perceived risk. The management of the District concluded that no impairment adjustments were required for the year ended September 30, 2016.

Advertising

Advertising is expensed as incurred.

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to present the District's program. These services do not meet the criteria for recognition as contributed services and are not reflected in the accompanying financial statements.

Income Taxes

The District intends to be exempt from Federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code and a similar section in the Pennsylvania Revenue Code; however, the group exemption has been revoked by the Internal Revenue Service for failure to timely file appropriate tax returns. The District is currently in the process of completing appropriate filings to reinstate its exempt status. Therefore, there is no provision for income taxes since it is anticipated that exempt status will be restored (refer to Note 11).

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the District, including whether the entity is exempt from income taxes. Management evaluated the tax positions taken and concluded that the District had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. Since the District did not file tax returns on a timely basis since September 30, 2012, these years are open to examination. The District is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years before September 30, 2012.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and subsequently amended in ASU 2015-14, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The guidance is effective for fiscal years beginning after December 15, 2019.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make certain improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entities. The standard improves current requirements related to net asset classifications, liquidity assessment, expense reporting consistency, and methods used to present cash flow from operations. This guidance is effective for fiscal years beginning after December 15, 2017.

The District is currently evaluating the impact of the pending adoption of the new standards on the financial statements.

Note 3 - Functional Expenses

During the year ended September 30, 2016, the District incurred expenses for program services, general and administrative expenses, and fundraising. Accounting principles generally accepted in the United States of America require that these expenses be set forth separately; however, the District has not allocated its costs in this fashion and, therefore, this information is not presently available.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2016

Note 4 - Concentration of Credit Risk

The District maintains its cash accounts with one financial institution. At times during the year ended September 30, 2016, the District's cash balances may have exceeded the federally insured limit of \$250,000.

Note 5 - Equipment

Equipment consists of the following at September 30, 2016:

Equipment	\$ 34,369
Accumulated depreciation	<u>(34,369)</u>
	<u>\$ -</u>

Note 6 - Line of Credit

The District has an authorized \$40,000 line of credit with Mid Penn Bank. Interest is payable monthly at the bank's prime rate (4.56% as of September 30, 2016). Borrowings under the line of credit are collateralized by all assets of the District. The line of credit is subject to an annual review by the bank.

Note 7 - Retirement Plan

The District contributed to an employee established individual retirement plan account. During the year ended September 30, 2016, the District contributed \$5,500. The retirement contribution was terminated in conjunction with a new employment contract with the Executive Director.

Note 8 - Related Party Transactions

The District had, and may be expected to have in the future, transactions in the ordinary course of business with board members and organizations with which they are associated on substantially the same terms as those prevailing at the time for comparable transactions with others.

The District has the following balances and transactions with affiliated organizations as of and for the year ended September 30, 2016:

Due from Key Club	\$ 10,000
Contribution for services	16,375

Amounts due to and due from affiliated organizations are noninterest bearing and are uncollateralized.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2016

Note 9 - Commitment

The District has entered into operating leases expiring September 30, 2018 for office space. The lease requires payments of \$1,500 per month.

The District also leases a copier. The lease expires December 2019. The lease requires payments of \$304 per month.

Future minimum lease payments, assuming no change in the current terms, consist of the following for the remaining four years ending September 30:

2017	\$	21,648
2018		21,648
2019		3,648
2020		912
		<hr/>
	\$	47,856
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Total rental expenses amounted to \$20,825 for the year ended September 30, 2016.

Note 10 - Going Concern

As shown on the accompanying financial statements, the District has a deficit in unrestricted net assets of \$51,755 as of September 30, 2016 and has incurred a decrease in net assets of \$6,950 during the year ended September 30, 2016. Those factors create uncertainty about the District's ability to continue as a going concern.

Management has evaluated these conditions and determined that the District's ability to continue as a going concern is dependent on the District's Board of Trustees' initiative to implement immediate expense reductions in the current year spending plans and to make critical corrections to the proposed budget development for the 2018-2019 year. This budget would become effective October 1, 2018. Additionally, the bylaw amendment is anticipated to be approved on August 11, 2018, requiring a standing Finance Committee that will be charged with developing improved internal controls for the District's Board of Trustees to consider at subsequent board meetings. The current Finance Committee has already begun to take action to improve oversight of all financial matters.

Note 11 - Subsequent Events

On July 2, 2018, the Internal Revenue Service reinstated the tax-exempt status of the District under Section 501(c)(4) of the Internal Revenue Code effective February 15, 2017.

The District has evaluated subsequent events for recognition and disclosure through July 21, 2018, which is the date the financial statements were available to be issued. With the exception of the matter described above, no material events subsequent to September 30, 2016 were noted.

Kiwanis International NTL HDQ K23 PA District

Schedule of Expenses

Year Ended September 30, 2016

Salaries and wages	\$	79,536
District convention		46,717
Midwinter convention		18,467
Building rent		18,000
Executive director expenses		8,450
Employee benefits		8,086
Raffles		7,385
Payroll taxes		6,497
Retirement contribution		5,500
Lieutenant education conference		4,234
International convention - trustees		3,805
Interest		3,719
Supplies and printing		3,590
Telephone and internet		2,973
District convention - lieutenant governor		2,893
Equipment rent		2,825
Member and new club development		2,470
Governor's expenses		2,049
Lieutenant governor expenses		1,985
Insurance		1,725
International convention - secretary treasurer		1,720
Web page fees and maintenance		1,380
Postage		1,333
Circle K administrator		1,306
Awards		1,108
Keystone Kiwanian editor		1,000
Equipment maintenance		874
K-Kids administrator		748
Trustee board meeting expense		456
Builders club administrator		285
Aktion club administrator		85
Key leader		85
Miscellaneous income		(694)
	\$	<u>240,592</u>