

Kiwanis International NTL HDQ K23 PA District

**Financial Statements and
Supplementary Information**

September 30, 2015, 2014, and 2013



FOCUSED. ON YOU.

Kiwanis International NTL HDQ K23 PA District

Table of Contents

September 30, 2015, 2014, and 2013

	Page
INDEPENDENT AUDITOR'S REPORT	1 and 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Changes in Deficit in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 to 13
SUPPLEMENTARY INFORMATION	
Schedule of Expenses	14



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, 2015, 2014, and 2013, and the related statements of activities and changes in deficit in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2015, 2014, and 2013, and the changes in its net assets and its cash flows for the years 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 12 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 12. 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 audits were 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

	<u>2015</u>	<u>September 30, 2014</u>	<u>2013</u>
Assets			
Current Assets			
Cash	\$ 11,890	\$ 18,230	\$ 39,415
Investments	559	53,265	48,824
Due from Key Club	18,548	34,421	35,363
Other receivable	100	100	100
Inventory	2,343	2,726	2,726
	<u>33,440</u>	<u>108,742</u>	<u>126,428</u>
Total Current Assets	33,440	108,742	126,428
Security Deposit	<u>1,450</u>	<u>1,450</u>	<u>1,450</u>
	<u>\$ 34,890</u>	<u>\$ 110,192</u>	<u>\$ 127,878</u>
Total Assets	\$ 34,890	\$ 110,192	\$ 127,878
Liabilities and Deficit in Unrestricted Net Assets			
Current Liabilities			
Accounts payable	\$ 15,980	\$ 40,346	\$ 55,238
Credit card payable	18,669	47,788	49,518
Line of credit	39,670	39,770	39,770
Accrued payroll and payroll taxes	5,376	4,130	4,787
	<u>79,695</u>	<u>132,034</u>	<u>149,313</u>
Total Current Liabilities	79,695	132,034	149,313
Deficit in Unrestricted Net Assets	<u>(44,805)</u>	<u>(21,842)</u>	<u>(21,435)</u>
	<u>\$ 34,890</u>	<u>\$ 110,192</u>	<u>\$ 127,878</u>
Total Liabilities and Deficit in Unrestricted Net Assets	\$ 34,890	\$ 110,192	\$ 127,878

Kiwanis International NTL HDQ K23 PA District

Statement of Activities and Changes in Deficit in Unrestricted Net Assets

	Years Ended September 30,		
	2015	2014	2013
Revenues			
Dues	\$ 144,754	\$ 151,029	\$ 134,811
Conventions and events	72,905	70,679	65,124
Revenue for services provided to related parties	16,150	15,500	14,500
Investment income (loss)	(3,317)	5,182	13,886
Other revenues	23,543	26,614	4,125
Total Revenues	254,035	269,004	232,446
Total Expenses	276,998	269,411	297,572
Change in Deficit in Unrestricted Net Assets	(22,963)	(407)	(65,126)
Excess (Deficit) in Unrestricted Net Assets at Beginning of Year	(21,842)	(21,435)	43,691
Deficit in Unrestricted Net Assets at End of Year	\$ (44,805)	\$ (21,842)	\$ (21,435)

Kiwanis International NTL HDQ K23 PA District

Statement of Cash Flows

	Years Ended September 30,		
	2015	2014	2013
Cash Flows from Operating Activities			
Change in deficit in unrestricted net assets	\$ (22,963)	\$ (407)	\$ (65,126)
Adjustments to reconcile change in deficit in unrestricted net assets to net cash used in operating activities			
Net unrealized and realized (gains) losses	5,884	(1,827)	(9,495)
(Increase) decrease in assets			
Other receivable	-	-	(100)
Inventory	383	-	-
Increase (decrease) in liabilities			
Accounts payable	(24,366)	(14,892)	29,061
Due to related clubs	-	-	-
Accrued payroll and payroll taxes	1,246	(657)	(1,780)
Net Cash Used in Operating Activities	<u>(39,816)</u>	<u>(17,783)</u>	<u>(47,440)</u>
Cash Flows from Investing Activities			
(Increase) decrease in due from Key Club	15,873	942	(9,366)
Purchase of investments	(2,478)	(3,281)	(4,344)
Proceeds from sale of investments	49,300	667	74,046
Net Cash Provided by (Used in) Investing Activities	<u>62,695</u>	<u>(1,672)</u>	<u>60,336</u>
Cash Flows from Financing Activities			
Decrease in due to Aktion Club	-	-	(6,826)
Change in credit card payable	(29,119)	(1,730)	29,072
Change in line of credit	(100)	-	-
Net Cash Provided by (Used in) Financing Activities	<u>(29,219)</u>	<u>(1,730)</u>	<u>22,246</u>
Net Increase (Decrease) in Cash	(6,340)	(21,185)	35,142
Cash at Beginning of Year	<u>18,230</u>	<u>39,415</u>	<u>4,273</u>
Cash at End of Year	<u><u>\$ 11,890</u></u>	<u><u>\$ 18,230</u></u>	<u><u>\$ 39,415</u></u>
Supplementary Cash Flows Information			
Interest paid	<u><u>\$ 5,135</u></u>	<u><u>\$ 6,132</u></u>	<u><u>\$ 5,867</u></u>

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

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 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.

Inventory

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

Investments

Investments are carried at fair value. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

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, 2015, 2014, and 2013.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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 during 2015, 2014, or 2013.

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 the provisions of Section 501(c)(4) of the Internal Revenue Code and a similar section of 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 exempt status. There is no provision for income taxes since it is anticipated that exempt status will be restored (refer to Note 13).

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.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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 balance sheet 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 income statement. 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 years ended September 30, 2015, 2014, and 2013, 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.

Note 4 - Concentration of Credit Risk

The District maintains its cash accounts with one financial institution. At times during the years ended September 30, 2015, 2014, and 2013, the District's cash balances may have exceeded the federally insured limit of \$250,000.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

Note 5 - Investments

The following is a summary of the District's investments at September 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Bond mutual fund	\$ -	\$ 52,355	\$ 48,128
Money market fund	559	910	696
	<u>\$ 559</u>	<u>\$ 53,265</u>	<u>\$ 48,824</u>

Investment income (loss) is as follows for the years ended September 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 2,567	\$ 3,355	\$ 4,391
Net realized and unrealized gains (losses)	(5,884)	1,827	9,495
	<u>\$ (3,317)</u>	<u>\$ 5,182</u>	<u>\$ 13,886</u>

Note 6 - Fair Value of Financial Instruments

In accordance with accounting principles generally accepted in the United States of America, the *Fair Value Measurements* topic of the FASB ASC established a framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices available in active markets for identical investments as of the reporting date.

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of 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.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

Note 6 - Fair Value of Financial Instruments (continued)

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at September 30, 2015, 2014, and 2013.

Bond and money market mutual funds are valued at the closing net asset value of the shares held by the District.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the District believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value:

	Assets at Fair Value as of September 30, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Bond mutual fund	\$ -	\$ -	\$ -	\$ -
Money market fund	559	-	-	559
	<u>\$ 559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 559</u>
	Assets at Fair Value as of September 30, 2014			
Bond mutual fund	\$ 52,355	\$ -	\$ -	\$ 52,355
Money market fund	910	-	-	910
	<u>\$ 53,265</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,265</u>
	Assets at Fair Value as of September 30, 2013			
Bond mutual fund	\$ 48,128	\$ -	\$ -	\$ 48,128
Money market fund	696	-	-	696
	<u>\$ 48,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,824</u>

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

Note 6 - Fair Value of Financial Instruments (continued)

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended September 30, 2015, 2014, and 2013, there were no transfers in or out of Level 3.

Note 7 - Equipment

A summary of equipment is as follows at September 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Equipment	\$ 34,369	\$ 34,369	\$ 34,369
Accumulated depreciation	<u>(34,369)</u>	<u>(34,369)</u>	<u>(34,369)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 8 - 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, 2015, 2014, and 2013). 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 9 - Retirement Plan

The District contributed to an employee established individual retirement plan account. During the years ended September 30, 2015, 2014, and 2013, the District contributed \$3,500, \$7,500, and \$3,500, respectively.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

Note 10 - Related Party Balances and 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 years ended September 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Due from Key Club	\$ 18,548	\$ 34,421	\$ 35,363
Contribution for services	16,150	15,500	14,500

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

Note 11 - Lease Commitments

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 five years ending September 30:

2016	\$ 21,648
2017	21,648
2018	21,648
2019	3,648
2020	<u>912</u>
	<u>\$ 69,504</u>

Total rental expenses amounted to \$22,577, \$23,062, and \$22,324 of the years ended September 30, 2015, 2014, and 2013, respectively.

Kiwanis International NTL HDQ K23 PA District

Notes to Financial Statements

September 30, 2015, 2014, and 2013

Note 12 - Going Concern

As shown on the accompanying financial statements, the District has a deficit in unrestricted net assets of \$44,805 as of September 30, 2015 and has incurred consecutive decreases in net assets in recent years. 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 13 - 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, 2015 were noted.

Kiwanis International NTL HDQ K23 PA District

Schedule of Expenses

	Years Ended September 30,		
	2015	2014	2013
Salaries and wages	\$ 83,967	\$ 90,753	\$ 94,376
District convention	56,589	45,355	63,670
Midwinter convention	20,897	20,126	20,237
Building rent	19,838	19,503	19,313
Executive director expenses	11,754	11,259	13,478
Employee benefits	8,442	9,178	7,931
Payroll taxes	8,005	7,604	7,902
Raffles	7,986	6,684	-
Lieutenant governor expenses	6,829	2,224	5,983
Interest	5,135	6,132	5,867
Miscellaneous	5,076	1,434	826
International convention - trustees	4,547	(475)	6,625
District convention - lieutenant governor	4,242	3,108	2,897
Lieutenant education conference	3,788	3,347	3,410
Retirement contribution	3,500	7,500	3,500
Postage	3,103	1,291	7,503
Governor's expenses	2,902	3,624	7,806
Telephone and internet	2,894	2,702	2,949
Equipment rent	2,739	3,559	3,011
Governor elect expenses	2,695	2,104	1,804
Circle K administrator	1,987	2,027	1,481
Supplies and printing	1,843	5,605	2,279
International convention - secretary and treasurer	1,737	3,100	820
Insurance	1,534	1,840	1,971
Web page fees and maintenance	1,380	1,380	1,435
Keystone Kiwanian editor	1,000	2,000	2,500
Equipment maintenance	823	1,097	1,521
Awards	648	1,213	1,821
International convention - governor	400	1,500	600
Builders Club administrator	380	-	120
K-Kids administrator	355	-	438
Aktion Club administrator	209	403	578
Key leader	150	232	290
Trustee board meeting expense	100	557	312
Member and new club development	(476)	1,445	2,318
	<u>\$ 276,998</u>	<u>\$ 269,411</u>	<u>\$ 297,572</u>