

Kiwanis International NTL HDQ K23 PA District

**Financial Statements and
Supplementary Information
September 30, 2017 and 2016**



Kiwanis International NTL HDQ K 23 PA District

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September 30, 2017 and 2016

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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, 2017 and 2016, 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 audits 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, 2017 and 2016, and the changes in its unrestricted 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 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 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

	September 30,	
	2017	2016
Assets		
Current Assets		
Cash	\$ 10,152	\$ 33,435
Cash - money market	560	559
Accounts receivable	386	4,705
Due from Key Club	-	10,000
Inventory	1,008	865
Prepaid expenses	1,721	2,433
Total Current Assets	13,827	51,997
Security Deposit	1,450	1,450
Total Assets	\$ 15,277	\$ 53,447
Liabilities and Deficit in Unrestricted Net Assets		
Current Liabilities		
Accounts payable	\$ 9,679	\$ 7,141
Credit card payable	21,243	52,948
Line of credit	29,640	39,640
Accrued payroll and payroll taxes	7,300	5,435
Due to Aktion Club	5,642	38
Due to Key Club and affiliates	3,231	-
Total Current Liabilities	76,735	105,202
Deficit in Unrestricted Net Assets	(61,458)	(51,755)
Total Liabilities and Deficit in Unrestricted Net Assets	\$ 15,277	\$ 53,447

Kiwanis International NTL HDQ K23 PA District**Statement of Activities and Changes in Deficit in Net Assets**

	Years Ended September 30,	
	2017	2016
Revenues		
Dues	\$ 129,335	\$ 134,831
Conventions and events	68,182	63,725
Early learning initiatives	19,370	-
Revenue for services provided to related parties	16,850	16,375
Other revenue	16,469	18,540
Interest income	156	171
Total Revenues	250,362	233,642
Total Expenses	260,065	240,592
Change in Deficit in Unrestricted Net Assets	(9,703)	(6,950)
Deficit in Unrestricted Net Assets at Beginning of Year	(51,755)	(44,805)
Deficit in Unrestricted Net Assets at End of Year	\$ (61,458)	\$ (51,755)

Kiwanis International NTL HDQ K23 PA District

Statement of Cash Flows

	Years Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Change in deficit in unrestricted net assets	\$ (9,703)	\$ (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	4,319	(4,605)
Inventory	(143)	1,478
Prepaid expenses	712	(2,433)
Increase (decrease) in liabilities		
Accounts payable	2,538	(8,839)
Accrued expenses	1,865	97
Net Cash Used in Operating Activities	<u>(412)</u>	<u>(21,252)</u>
Cash Flows Provided by Investing Activities		
Decrease in due from Key Club	<u>10,000</u>	<u>8,548</u>
Cash Flows from Financing Activities		
Increase in due to Key Club and affiliates	3,231	-
Increase in due to Aktion Club	5,604	-
Change in credit card payable	(31,705)	34,279
Change in line of credit	(10,000)	(30)
Net Cash Provided by (Used in) Financing Activities	<u>(32,870)</u>	<u>34,249</u>
Net Increase (Decrease) in Cash	(23,282)	21,545
Cash at Beginning of Year	<u>33,994</u>	<u>12,449</u>
Cash at End of Year	<u>\$ 10,712</u>	<u>\$ 33,994</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 2,354</u>	<u>\$ 3,719</u>

Kiwanis International NTL HDQ K 23 PA District

Notes to Financial Statements
September 30, 2017 and 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, 2017 and 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 years ended September 30, 2017 and 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 during the year ended September 30, 2017 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).

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 K 23 PA District

Notes to Financial Statements
September 30, 2017 and 2016

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*, 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 years ended September 30, 2017 and 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.

Note 4 - Concentration of Credit Risk

The District maintains its cash accounts with one financial institution. At times during the years ended September 30, 2017 and 2016, the District's cash balances may have exceeded the federally insured limit of \$250,000.

Kiwanis International NTL HDQ K 23 PA District

Notes to Financial Statements
September 30, 2017 and 2016

Note 5 - Equipment

Equipment consists of the following at September 30:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 34,369	\$ 34,369
Accumulated depreciation	<u>(34,369)</u>	<u>(34,369)</u>
	<u>\$ -</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 (5.32% and 4.56% as of September 30, 2017 and 2016, respectively). 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 years ended September 30, 2017 and 2016, the District contributed \$-0- and \$5,500, respectively. 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 years ended September 30:

	<u>2017</u>	<u>2016</u>
Due from Key Club	\$ -	\$ 10,000
Due to Aktion Club	5,642	38
Due to Key Club for credit card processing	2,606	-
Due to Centennial Club	480	-
Due to Foundation	145	-
Contribution for services	16,850	16,375

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

Kiwanis International NTL HDQ K 23 PA District

Notes to Financial Statements
September 30, 2017 and 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 three years ending September 30:

2018	\$	21,648
2019		3,648
2020		912
		<hr/>
	\$	26,208
		<hr/> <hr/>

Total rental expenses amounted to \$21,119 and \$20,825 for the years ended September 30, 2017 and 2016, respectively.

Note 10 - Going Concern

As shown on the accompanying financial statements, the District has a deficit in unrestricted net assets of \$61,458 as of September 30, 2017 and has incurred consecutive decreases in net assets in recent years including \$9,703 and \$6,950 during the years ended September 30, 2017 and 2016, respectively. 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, 2017 were noted.

Kiwanis International NTL HDQ K23 PA District

Schedule of Expenses

	Years Ended September 30,	
	2017	2016
Salaries and wages	\$ 92,537	\$ 79,536
District convention	49,530	46,717
Early Learning Initiatives	18,750	-
Building rent	18,294	18,000
Midwinter convention	13,678	18,467
Executive director expenses	10,521	8,450
Payroll taxes	7,905	6,497
Raffles	4,411	7,385
Governor's expenses	4,291	2,049
Lieutenant education conference	4,278	4,234
Lieutenant governor expenses	4,148	1,985
Telephone and internet	3,292	2,973
Equipment rent	2,825	2,825
International convention - trustees	2,732	3,805
Interest	2,354	3,719
District convention - lieutenant governor	2,283	2,893
Member and new club development	2,086	2,470
Circle K administrator	2,039	1,306
Insurance	1,926	1,725
Governor elect expenses	1,902	-
Trustee board meeting expense	1,500	456
Supplies and printing	1,440	3,590
Web page fees and maintenance	1,150	1,380
Employee benefits	1,107	8,086
Postage	1,020	1,333
Keystone Kiwanian editor	1,000	1,000
Equipment maintenance	783	874
Awards	705	1,108
International convention - governor	700	-
International convention - secretary treasurer	503	1,720
Builders Club administrator	425	285
Aktion Club administrator	231	85
Key leader	185	85
Retirement contribution	-	5,500
K-Kids administrator	-	748
Miscellaneous income	(466)	(694)
	<u>\$ 260,065</u>	<u>\$ 240,592</u>