

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

SISTER CITIES INTERNATIONAL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sister Cities International
Washington, D.C.

We have audited the accompanying financial statements of Sister Cities International (Sister Cities), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sister Cities as of December 31, 2016 and 2015, 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.

April 3, 2017

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SISTER CITIES INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	\$ 103,174	\$ 95,051
Investments (Notes 2, 4 and 8)	604,814	522,896
Grants receivable	42,137	97,689
Other receivables and advances	58,835	44,211
Prepaid expenses	<u>42,027</u>	<u>36,162</u>
Total current assets	<u>850,987</u>	<u>796,009</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, net of accumulated depreciation of \$259,639 and \$252,305 for 2016 and 2015, respectively	<u>-</u>	<u>7,334</u>
NONCURRENT ASSETS		
Investments, net of current portion (Notes 2, 4 and 8)	80,885	71,828
Security deposits	<u>33,535</u>	<u>33,535</u>
Total noncurrent assets	<u>114,420</u>	<u>105,363</u>
TOTAL ASSETS	<u>\$ 965,407</u>	<u>\$ 908,706</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Line of credit (Notes 2 and 3)	\$ 174,575	\$ 105,709
Accounts payable and accrued expenses	126,110	172,280
Refundable advances	136	136
Deferred membership dues	86,603	81,420
Deferred event revenue	17,080	3,150
Deferred rent, current portion (Note 7)	<u>10,789</u>	<u>6,381</u>
Total current liabilities	<u>415,293</u>	<u>369,076</u>
NONCURRENT LIABILITIES		
Deferred rent, net of current portion (Note 7)	<u>61,093</u>	<u>71,253</u>
Total liabilities	<u>476,386</u>	<u>440,329</u>
NET ASSETS		
Unrestricted (Note 4)	<u>489,021</u>	<u>468,377</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 965,407</u>	<u>\$ 908,706</u>

SISTER CITIES INTERNATIONAL

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Unrestricted</u>	
	<u>2016</u>	<u>2015</u>
SUPPORT AND REVENUE		
U.S. Government awards	\$ 426,635	\$ 509,672
Contributions and grants	462,790	343,561
In-kind contributions	22,752	239,307
Conferences and events	299,915	293,427
Membership dues	344,070	349,510
Interest and investment income (Note 2)	49,941	1,351
Other	<u>27,641</u>	<u>21,909</u>
Total support and revenue	<u>1,633,744</u>	<u>1,758,737</u>
EXPENSES (Note 5)		
Salaries, taxes and related benefits (Note 6)	819,407	834,203
Professional fees	52,362	143,742
Office supplies and expense	9,724	10,257
Telecommunications	6,451	8,666
Postage and shipping	9,033	15,438
Occupancy (Note 7)	171,308	155,423
Equipment expense	12,143	10,529
Printing and publications	24,563	33,473
Travel	44,944	69,439
Conferences, conventions and meetings	241,577	306,346
Depreciation	7,334	9,641
Grants and contracts	23,871	119,078
Insurance	20,335	9,248
Consultants	75,999	150,144
Bad debt	-	3,000
Interns	9,838	6,250
Computer and website	32,365	40,074
Bank fees	28,043	18,643
Interest expense	11,492	1,700
Other	<u>12,311</u>	<u>19,376</u>
Total expenses	<u>1,613,100</u>	<u>1,964,670</u>
Changes in net assets	20,644	(205,933)
Unrestricted net assets at beginning of year	<u>468,377</u>	<u>674,310</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 489,021</u>	<u>\$ 468,377</u>

SISTER CITIES INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 20,644	\$ (205,933)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	7,334	9,641
Unrealized (gain) loss on investments	(15,820)	44,291
Realized loss (gain) on sales of investments	52	(223)
Bad debt	-	3,000
(Increase) decrease in:		
Grants receivable	55,552	(61,168)
Other receivables and advances	(14,624)	2,169
Prepaid expenses	(5,865)	(2,001)
Security deposits	-	5,750
Increase (decrease) in:		
Accounts payable and accrued expenses	(46,170)	106,432
Deferred membership dues	5,183	14,650
Deferred event revenue	13,930	(7,050)
Deferred rent	<u>(5,752)</u>	<u>105</u>
Net cash provided (used) by operating activities	<u>14,464</u>	<u>(90,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(95,396)	(60,031)
Proceeds from sales of investments	<u>20,189</u>	<u>35,956</u>
Net cash used by investing activities	<u>(75,207)</u>	<u>(24,075)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from lines of credit	77,598	105,709
Repayments on lines of credit	<u>(8,732)</u>	<u>(127)</u>
Net cash provided by financing activities	<u>68,866</u>	<u>105,582</u>
Net increase (decrease) in cash and cash equivalents	8,123	(8,830)
Cash and cash equivalents at beginning of year	<u>95,051</u>	<u>103,881</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 103,174</u>	<u>\$ 95,051</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 11,492</u>	<u>\$ 1,700</u>

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Sister Cities International (Sister Cities) is a non-profit organization incorporated under the laws of the District of Columbia on June 12, 1967. Sister Cities was formed to promote local community development and volunteer action to provide opportunities for citizens of different countries to share culture, develop trade relationships and provide an atmosphere for learning and problem solving between nations.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

For financial statement presentation, cash and money market accounts, with maturities of three months or less, are considered to be cash equivalents. Included in cash and cash equivalents as of December 31, 2016 and 2015 are \$43,734 and \$65,676, respectively, which have been internally designated by the Board of Directors (see Note 4).

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, Sister Cities maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Grants and other receivables and advances -

Grants and other receivables and advances are recorded at net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in interest and investment income in the accompanying Statements of Activities and Changes in Net Assets. For the years ended December 31, 2016 and 2015, \$669,702 and \$508,226 of investments, respectively, have been internally designated by the Board of Directors (see Note 4).

Furniture and equipment -

Furniture and equipment, with an acquisition value in excess of \$1,000, are recorded at cost and are depreciated on a straight-line basis over an estimated useful life of five years. Expenditures for major repairs and improvements are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred.

Income taxes -

Sister Cities is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for Federal income taxes in the accompanying financial statements. Sister Cities is not a private foundation.

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Uncertain tax positions -

For the years ended December 31, 2016 and 2015, Sister Cities has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

In-kind contributions -

In-kind contributions are reported at their fair value, based on the acquisition price in the market, estimates of the number of donated hours and/or market rates for the services provided. In-kind contributions which, benefited management and general activities, have been recorded as revenue and expenses in the accompanying financial statements for the years ended December 31, 2016 and 2015 and consist of the following:

	2016	2015
Consulting	\$ 900	\$ 120,000
Event and meeting items	21,852	69,972
Board travel and meals	-	46,675
Legal	-	2,660
TOTAL IN-KIND CONTRIBUTIONS	\$ 22,752	\$ 239,307

Volunteer services -

Sister Cities also receives additional donated time from various volunteers. These donated services are not reflected in the accompanying financial statements since these services do not meet the criteria for recognition as contributed services. The amount of volunteer services received for the years ended December 31, 2016 and 2015 totaled \$182,737 and \$187,738, respectively, which is determined by the number of hours volunteered at an estimated hourly rate.

Contributions and grants -

Such funds are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Sister Cities receives funding under grants and awards from the U.S. Government, private organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Amounts received in advance of expenditures are classified as refundable advance.

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Membership dues -

Annual membership dues are billed to members in either January or July for the current fiscal year. Membership dues payments, which are received in the current fiscal year, but are attributable to a future membership period, are presented as deferred membership dues in the accompanying Statements of Financial Position. Membership dues are recognized on a pro-rata basis over the respective membership period.

Classification of net assets -

Net assets of Sister Cities are reported in the two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Sister Cities and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Sister Cities and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions. At December 31, 2016 and 2015, Sister Cities had no temporarily restricted net assets.

Use of estimates -

The preparation of the financial statements in conformity 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 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.

Investment risks and uncertainties -

Sister Cities invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

Sister Cities adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. Sister Cities accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. INVESTMENTS

Investments at December 31, 2016 and 2015 are comprised of the following:

	<u>2016</u> Fair Value	<u>2015</u> Fair Value
Current:		
Common stock	\$ 8,467	\$ 10,407
Mutual funds	596,347	502,170
U.S. Government securities	<u>-</u>	<u>10,319</u>
Subtotal - current investments	<u>604,814</u>	<u>522,896</u>
Noncurrent:		
Corporate bonds	61,055	61,854
Foreign Bonds	19,830	-
Certificates of deposit	<u>-</u>	<u>9,974</u>
Subtotal - noncurrent investments	<u>80,885</u>	<u>71,828</u>
TOTAL INVESTMENTS	<u>\$ 685,699</u>	<u>\$ 594,724</u>

The following are included in interest and investment income for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 34,173	\$ 45,419
Unrealized gain (loss) on investments	15,820	(44,291)
Realized (loss) gain on sales of investments	<u>(52)</u>	<u>223</u>
TOTAL INTEREST AND INVESTMENT INCOME	<u>\$ 49,941</u>	<u>\$ 1,351</u>

3. LINE OF CREDIT

During 2015, Sister Cities established a line of credit with a local financial institution in the amount that is contingent upon eligible securities, cash and other instruments the borrower maintains within the financial institution that is pledged. Outstanding borrowings on the line of credit bear interest at the bank's applicable rate (5.75% at December 31, 2016 and 2015). Outstanding borrowings on the line of credit aggregated \$174,575 and \$105,709 as of December 31, 2016 and 2015, respectively.

4. UNRESTRICTED BOARD-DESIGNATED NET ASSETS

The Board of Directors designated a portion of Sister Cities' unrestricted net assets in the name of Hans Vielberth totaling \$492,963 and \$460,519 as of December 31, 2016 and 2015, respectively. Additionally, the Board of Directors have designated unrestricted net assets in the name of Lou Wozar totaling \$180,145 and \$104,056 as of December 31, 2016 and 2015, respectively. Finally, a reserve fund was established and held balances of \$40,328 and \$9,327 as of December 31, 2016 and 2015, respectively. The designated net assets are included in cash (Note 1), investments and Board-designated net assets on the accompanying Statements of Financial Position.

SISTER CITIES INTERNATIONAL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

5. FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses of Sister Cities, on a functional basis, are estimated as follows at December 31, 2016 and 2015:

	2016	2015
Program Services	\$ 920,161	\$ 1,123,527
Fundraising	185,370	183,392
Management and General	507,569	657,751
TOTAL EXPENSES	\$ 1,613,100	\$ 1,964,670

6. RETIREMENT PLAN

Sister Cities offers its employees retirement benefits through a 403(b) plan. The plan covers all employees who have attained the age of 18 and have been employed for a minimum of six months. Sister Cities currently contributes 5% of each eligible employee's gross salary to the plan.

Retirement expense for the years ended December 31, 2016 and 2015 totaled \$15,795 and \$11,447, respectively.

7. COMMITMENT

On January 1, 2011, Sister Cities entered into a lease agreement for office space that has a lease term of ten years, expiring on February 28, 2021. Base rent is \$134,140 per year, plus a proportionate share of expenses, increasing by a factor of 2.5% per year.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability. As of December 31, 2016 and 2015, the liability totaled \$71,882 and \$77,634, respectively.

The following is a schedule of future minimum payments required under the lease agreement as of December 31, 2016:

Year Ending December 31,

2017	\$ 158,357
2018	162,316
2019	166,374
2020	170,533
2021	28,538
	\$ 686,118

Occupancy expense for the office lease and storage fees totaled \$171,308 and \$155,423 for the years ended December 31, 2016 and 2015, respectively.

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

8. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, Sister Cities has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market Sister Cities has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

- *Mutual funds* - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *U.S. Government securities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Corporate bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.
- *Foreign bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

The table below summarizes, by level within the fair value hierarchy, Sister Cities' investments as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current:				
Common stock	\$ 8,467	\$ -	\$ -	\$ 8,467
Mutual funds	<u>596,347</u>	<u>-</u>	<u>-</u>	<u>596,347</u>
Subtotal - current investments	<u>604,814</u>	<u>-</u>	<u>-</u>	<u>604,814</u>
Noncurrent:				
Corporate bonds	-	61,055	-	61,055
Foreign bonds	<u>-</u>	<u>19,830</u>	<u>-</u>	<u>19,830</u>
Subtotal - noncurrent investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,885</u>
TOTAL	<u>\$ 604,814</u>	<u>\$ 80,885</u>	<u>\$ -</u>	<u>\$ 685,699</u>

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

8. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, Sister Cities' investments as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current:				
Common stock	\$ 10,407	\$ -	\$ -	\$ 10,407
Mutual funds	502,170	-	-	502,170
U.S. Government securities	<u>-</u>	<u>10,319</u>	<u>-</u>	<u>10,319</u>
Subtotal - current investments	<u>512,577</u>	<u>10,319</u>	<u>-</u>	<u>522,896</u>
Noncurrent:				
Corporate bonds	-	61,854	-	61,854
Certificates of deposit	<u>-</u>	<u>9,974</u>	<u>-</u>	<u>9,974</u>
Subtotal - noncurrent investments	<u>-</u>	<u>71,828</u>	<u>-</u>	<u>71,828</u>
TOTAL	<u>\$ 512,577</u>	<u>\$ 82,147</u>	<u>\$ -</u>	<u>\$ 594,724</u>

9. SUBSEQUENT EVENTS

In preparing these financial statements, Sister Cities has evaluated events and transactions for potential recognition or disclosure through April 3, 2017, the date the financial statements were issued.