

SISTER CITIES OF NASHVILLE, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

SISTER CITIES OF NASHVILLE, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITORS' REPORT</u> .....	1
 <u>FINANCIAL STATEMENTS</u>	
Statement of Assets, Liabilities and Net Assets (Modified Cash Basis) .....	2
Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) .....	3
Statement of Cash Flows (Modified Cash Basis) .....	4
Statement of Functional Expenses (Modified Cash Basis) .....	5
Notes to Financial Statements .....	6 - 8



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sister Cities of Nashville, Inc.  
Nashville, Tennessee

We have audited the accompanying statements of assets, liabilities and net assets (modified cash basis) of Sister Cities of Nashville, Inc. (the "Organization"), a Tennessee not-for-profit corporation, for the eighteen-month period ended June 30, 2011, and the related statements of revenues, expenses and changes in net assets (modified cash basis), cash flows (modified cash basis) and functional expenses (modified cash basis) for the eighteen-month period ended June 30, 2011. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Sister Cities of Nashville, Inc. for the eighteen-month period ended June 30, 2011, and its revenues, expenses and changes in net assets and its cash flows for the period then ended, on the basis of accounting described in Note 2.

*KraftCPAs PLLC*

Nashville, Tennessee  
February 6, 2012

SISTER CITIES OF NASHVILLE, INC.

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
(MODIFIED CASH BASIS)

JUNE 30, 2011

ASSETS

Cash	\$ 11,474
------	-----------

LIABILITIES AND NET ASSETS

NET ASSETS	
Unrestricted	11,474

TOTAL LIABILITIES AND NET ASSETS	\$ 11,474
----------------------------------	-----------

The accompanying notes are an integral part of the financial statements.

SISTER CITIES OF NASHVILLE, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
(MODIFIED CASH BASIS)

FOR THE EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2011

SUPPORT AND REVENUE	
Contributions and membership revenues	\$ 30,950
Fundraising events	25,433
Government grant	60,000
Student exchange fees	<u>12,577</u>
 TOTAL SUPPORT AND REVENUE	 <u>128,960</u>
 FUNCTIONAL EXPENSES	
Program services	67,046
Management and general	28,720
Fundraising	<u>29,309</u>
 TOTAL FUNCTIONAL EXPENSES	 <u>125,075</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 3,885
 NET ASSETS - BEGINNING OF PERIOD	 <u>7,589</u>
 NET ASSETS - END OF PERIOD	 <u>\$ 11,474</u>

The accompanying notes are an integral part of the financial statements.

SISTER CITIES OF NASHVILLE, INC.

STATEMENT OF CASH FLOWS  
(MODIFIED CASH BASIS)

FOR THE EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2011

OPERATING ACTIVITIES:

Change in net assets \$ 3,885

FINANCING ACTIVITIES:

Loan from board member 1,500

Repayment of loan from board member (3,500)

TOTAL FINANCING ACTIVITIES (2,000)

NET INCREASE IN CASH 1,885

CASH - BEGINNING OF PERIOD 9,589

CASH - END OF PERIOD \$ 11,474

The accompanying notes are an integral part of the financial statements.

SISTER CITIES OF NASHVILLE, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
(MODIFIED CASH BASIS)

FOR THE EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2011

	<u>Program Services</u>	<u>Supporting Services</u>		
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>City Partnerships and Exchanges</u>			
Contract labor	\$ 32,500	\$ 13,950	\$ 18,550	\$ 65,000
Automobile expense	440	229	146	815
Bank service charges	21	351	905	1,277
Conferences and meetings	-	98	-	98
Delegate hosting	31,951	249	-	32,200
Dues and subscriptions	85	1,757	-	1,842
Special event	-	-	6,153	6,153
Insurance	-	5,339	333	5,672
Licenses and permits	-	-	270	270
Miscellaneous	245	277	15	537
Office supplies	226	870	266	1,362
Postage, shipping and printing	277	351	125	753
Professional fees	-	1,625	210	1,835
Rent	-	-	2,250	2,250
Telephone and communications	144	3,224	-	3,368
Travel, net of reimbursements	<u>1,157</u>	<u>400</u>	<u>86</u>	<u>1,643</u>
Totals	<u>\$ 67,046</u>	<u>\$ 28,720</u>	<u>\$ 29,309</u>	<u>\$ 125,075</u>

The accompanying notes are an integral part of the financial statements.

SISTER CITIES OF NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - ORGANIZATION AND GENERAL

Sister Cities of Nashville, Inc. (the "Organization") was organized as a Tennessee not-for-profit corporation in 1991 for the purpose of promoting economic development and global understanding by assisting and encouraging middle Tennessee citizens to link with communities throughout the world. The Organization's sister cities include Belfast, Northern Ireland, Caen, France, Edmonton, Canada, Magdeburg, Germany, Mendoza, Argentina, and Taiyuan, China. A major emphasis of the Organization includes providing public school students with the opportunity to broaden their education through the student exchange program. In addition, the Organization hosts the Annual World of Friendship event that celebrates the diversity of the Nashville community and the world.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Revenues and support are recognized when collected rather than when incurred. Expenses (other than payroll taxes) are recognized when paid rather than when incurred. Payroll taxes and related liabilities are provided in the period incurred. Loans from board members are recorded as liabilities. Donated goods and services that meet the GAAP recognition criteria are not recorded.

Revenues and support are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts that the principal be invested and the income or specific portions thereof be used for operations.

The Organization had no temporarily or permanently restricted net assets as of June 30, 2011.

SISTER CITIES OF NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Revenues, Expenses and Changes in Net Assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted. The Organization has not received any restricted support.

Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the acquired long-lived assets are placed in service.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements 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.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

The Organization files U.S federal form 990-EZ for organizations exempt from income tax. The Organization will file a form 990-EZ for the year ended December 31, 2010 and a form 990-EZ for the six-month period ended June 30, 2011. Returns filed prior to fiscal year 2007 are closed.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

SISTER CITIES OF NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

Costs of providing the Organization's student exchange program, coordination with other Sister City agencies and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs which are not allocated to program services are classified as management and general or fundraising expenses.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2010 and February 6, 2012, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Support from the Metropolitan Government of Nashville and Davidson County, Tennessee comprises 47% of the Organization's revenue and support for the eighteen month period ended June 30, 2011. A reduction in this level of funding, if this were to occur, could have a significant impact on the Organization's activities.