

SISTER CITIES OF NASHVILLE, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2009 AND 2008

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## 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, as of December 31, 2009 and 2008, 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 years then ended. 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 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 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 audits provide 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. as of December 31, 2009 and 2008, and its revenues, expenses and changes in net assets and its cash flows for the years then ended, on the basis of accounting described in Note 2.

A handwritten signature in black ink that reads 'KraftCPAs PLLC'.

Nashville, Tennessee  
August 24, 2010

SISTER CITIES OF NASHVILLE, INC.

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

DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash	<u>\$ 9,589</u>	<u>\$ 9,761</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Loan from board member - Note 4	\$ 2,000	\$ -
NET ASSETS		
Unrestricted	<u>7,589</u>	<u>9,761</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,589</u>	<u>\$ 9,761</u>

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

SISTER CITIES OF NASHVILLE, INC.

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

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	\$ 14,471	\$ 9,171
Fundraising events	22,309	-
Government grant	40,000	10,000
Student exchange fees	<u>-</u>	<u>2,250</u>
TOTAL SUPPORT AND REVENUE	<u>76,780</u>	<u>21,421</u>
FUNCTIONAL EXPENSES		
Program services	39,808	24,837
Management and general	25,216	14,725
Fundraising	<u>13,928</u>	<u>3,123</u>
TOTAL FUNCTIONAL EXPENSES	<u>78,952</u>	<u>42,685</u>
CHANGE IN NET ASSETS	(2,172)	(21,264)
NET ASSETS - BEGINNING OF YEAR	<u>9,761</u>	<u>31,025</u>
NET ASSETS - END OF YEAR	<u>\$ 7,589</u>	<u>\$ 9,761</u>

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

SISTER CITIES OF NASHVILLE, INC.

STATEMENTS OF CASH FLOWS  
(MODIFIED CASH BASIS)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES:		
Change in net assets	\$ (2,172)	\$ (21,264)
FINANCING ACTIVITIES:		
Proceeds from loan from board member	<u>2,000</u>	<u>-</u>
NET DECREASE IN CASH	(172)	(21,264)
CASH - BEGINNING OF YEAR	<u>9,761</u>	<u>31,025</u>
CASH - END OF YEAR	<u>\$ 9,589</u>	<u>\$ 9,761</u>

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

SISTER CITIES OF NASHVILLE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES  
(MODIFIED CASH BASIS)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009					
	Program Services			Supporting Services		
	Student Exchange Program Services	Coordination with other Sister Cities Agencies	Total	Management and General	Fundraising	Total
Contract labor	\$ 5,400	\$ 12,600	\$ 18,000	\$ 12,600	\$ 5,400	\$ 36,000
Automobile expense	-	188	188	1,397	6	1,591
Bank service charges	-	-	-	-	396	396
Conferences and meetings	-	1,210	1,210	150	-	1,360
Delegate hosting	-	15,113	15,113	-	-	15,113
Dues and subscriptions	-	1,740	1,740	1,740	-	3,480
Special event	-	-	-	-	7,341	7,341
Insurance	-	-	-	2,587	-	2,587
Licenses and permits	-	-	-	140	-	140
Miscellaneous	-	-	-	141	-	141
Office supplies	-	180	180	294	55	529
Postage and shipping	-	170	170	127	179	476
Printing	-	-	-	112	525	637
Professional fees	-	-	-	2,000	-	2,000
Rent	-	-	-	650	-	650
Salaries and wages	-	-	-	-	-	-
Telephone and communications	-	-	-	3,278	26	3,304
Travel, net of reimbursements	-	3,207	3,207	-	-	3,207
Totals	<u>\$ 5,400</u>	<u>\$ 34,408</u>	<u>\$ 39,808</u>	<u>\$ 25,216</u>	<u>\$ 13,928</u>	<u>\$ 78,952</u>

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

2008

Program Services			Supporting Services		
Student Exchange Program Services	Coordination with other Sister Cities Agencies	Total	Management and General	Fundraising	Total
\$ 2,937	\$ 6,852	\$ 9,789	\$ 6,852	\$ 2,937	\$ 19,578
-	-	-	298	-	298
-	-	-	-	-	-
-	-	-	-	-	-
-	9,822	9,822	-	-	9,822
-	-	-	-	-	-
-	-	-	-	133	133
-	-	-	2,637	-	2,637
-	-	-	150	-	150
-	-	-	-	-	-
-	-	-	537	-	537
-	-	-	423	-	423
-	-	-	-	-	-
-	-	-	1,250	-	1,250
-	-	-	850	-	850
-	-	-	53	53	106
-	-	-	1,675	-	1,675
<u>4,326</u>	<u>900</u>	<u>5,226</u>	<u>-</u>	<u>-</u>	<u>5,226</u>
<u>\$ 7,263</u>	<u>\$ 17,574</u>	<u>\$ 24,837</u>	<u>\$ 14,725</u>	<u>\$ 3,123</u>	<u>\$ 42,685</u>



SISTER CITIES OF NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

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. A major emphasis of the Organization is providing public school students with the opportunity to broaden their education through the student exchange program.

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 December 31, 2009 or 2008.

SISTER CITIES OF NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

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.

On January 1, 2009, the Organization adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The adoption of this guidance did not have a material effect on the Organization's financial statements.

The Organization files U.S federal form 990-EZ for organizations exempt from income tax. Returns filed prior to fiscal year 2006 are closed.

SISTER CITIES OF NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

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.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2009 and August 24, 2010, 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 52% of the Organization's revenue and support for the year ended December 31, 2009 (47% for the year ended December 31, 2008). A reduction in this level of funding, if this were to occur, could have a significant impact on the Organization's activities.

NOTE 4 - LOAN FROM BOARD MEMBER

The Organization has an unsecured non-interest bearing demand loan in the amount of \$2,000 from a board member. The loan was repaid in the first quarter of 2010.