



**INTERNATIONAL SISTER CITIES ASSOCIATION
OF FORT WORTH, INC.**

dba

FORT WORTH SISTER CITIES INTERNATIONAL

FINANCIAL STATEMENTS

Years Ended September 30, 2016 and 2015

with Report of Independent Auditors

**INTERNATIONAL SISTER CITIES ASSOCIATION
OF FORT WORTH, INC.
dba
FORT WORTH SISTER CITIES INTERNATIONAL
FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
International Sister Cities Association of Fort Worth, Inc.
dba Fort Worth Sister Cities International

We have audited the accompanying financial statements of International Sister Cities Association of Fort Worth, Inc. dba Fort Worth Sister Cities International (the “Association”) which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of September 30, 2016 and 2015, and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
December 15, 2016

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 90,067	\$ 196,296
Accounts receivable	4,781	6,111
Pledge receivable, net - short-term	31,786	32,106
Investments – short-term	-	25,687
Prepaid expenses	14,784	18,106
Total current assets	141,418	278,306
Pledge receivable, net - long-term	44,471	76,257
Investments - long-term	471,784	405,911
Property and equipment, net	345	2,411
Other assets	675	361
Total assets	\$ 658,693	\$ 763,246
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 50,621	\$ 100,446
Deferred revenue	53,168	58,982
Total liabilities	103,789	159,428
Commitments and contingencies		
Net assets:		
Unrestricted:		
Designated	413,907	413,907
Undesignated	65,238	67,308
Temporarily restricted	75,759	122,603
Total net assets	554,904	603,818
Total liabilities and net assets	\$ 658,693	\$ 763,246

See accompanying notes to financial statements.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support:			
Contributions	\$ 52,885	\$ -	\$ 52,885
In-kind contributions	94,680	-	94,680
Fort Worth fee services agreement	50,000	-	50,000
Membership dues	281,518	-	281,518
Special events, net of direct donor cost of \$51,860	7,108	-	7,108
Programs and exchanges	581,668	-	581,668
Investment income, net	27,438	-	27,438
Net realized and unrealized gain on investments	5,656	-	5,656
Release of restrictions	46,844	(46,844)	-
Total revenue, gains, and other support	<u>1,147,797</u>	<u>(46,844)</u>	<u>1,100,953</u>
Expenses:			
Programs and exchanges	914,466	-	914,466
Fundraising	153,935	-	153,935
General and administrative	81,466	-	81,466
Total expenses	<u>1,149,867</u>	<u>-</u>	<u>1,149,867</u>
Change in net assets	(2,070)	(46,844)	(48,914)
Net assets at beginning of year	<u>481,215</u>	<u>122,603</u>	<u>603,818</u>
Net assets at end of year	<u>\$ 479,145</u>	<u>\$ 75,759</u>	<u>\$ 554,904</u>

See accompanying notes to financial statements.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

STATEMENT OF ACTIVITIES

Year Ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support:			
Contributions	\$ 44,803	\$ 102,191	\$ 146,994
In-kind contributions	110,380	-	110,380
Fort Worth fee services agreement	50,000	-	50,000
Membership dues	48,924	-	48,924
Special events, net of direct donor cost of \$42,804	222,547	-	222,547
Programs and exchanges	679,583	-	679,583
Investment income, net	25,493	-	25,493
Net realized and unrealized loss on investments	(40,775)	-	(40,775)
Release of restrictions	127,946	(127,946)	-
Total revenue, gains, and other support	<u>1,268,901</u>	<u>(25,755)</u>	<u>1,243,146</u>
Expenses:			
Programs and exchanges	1,047,241	-	1,047,241
Fundraising	147,975	-	147,975
General and administrative	53,416	-	53,416
Total expenses	<u>1,248,632</u>	<u>-</u>	<u>1,248,632</u>
Change in net assets	20,269	(25,755)	(5,486)
Net assets at beginning of year	<u>460,946</u>	<u>148,358</u>	<u>609,304</u>
Net assets at end of year	<u>\$ 481,215</u>	<u>\$ 122,603</u>	<u>\$ 603,818</u>

See accompanying notes to financial statements.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2016

Programs and Exchanges

	Sister Cities Outreach & Education	Youth & Educator Ambassador Programs	International Leadership Academy	Junior International Leadership Academy	Cuba Educational Mission	Guiyang, China 5th Anniversary	Women's Policy Forum Conference - Toluca, Mexico	FWISD Spanish Immersion & Enrichment Camp	Total Programs and Exchanges	Fundraising	General & Administrative	Total
Bank fees	\$ 478	\$ 3,065	\$ 465	\$ 237	\$ 2,265	\$ 1,004	\$ 373	\$ 151	\$ 8,038	\$ 1,648	\$ 325	\$ 10,011
Contract labor	-	2,720	13,900	2,700	-	-	-	500	19,820	-	24,850	44,670
Copier lease	608	1,375	296	197	267	226	213	256	3,438	1,040	551	5,029
Depreciation	250	565	121	81	110	93	87	105	1,412	428	226	2,066
Dues and fees	485	858	185	123	167	141	133	160	2,252	649	344	3,245
Employee salaries	39,756	89,903	19,335	12,857	17,494	14,765	13,910	16,738	224,758	68,034	35,936	328,728
Payroll taxes	2,900	6,557	1,410	938	1,276	1,077	1,014	1,221	16,393	4,962	2,629	23,984
Employee benefits	4,921	11,128	2,393	1,592	2,165	1,828	1,722	2,072	27,821	8,422	4,461	40,704
Gift and promotional	54	5,803	845	318	1,062	91	19	23	8,215	1,413	49	9,677
Insurance	560	1,265	272	181	246	208	196	236	3,164	958	507	4,629
Legal and professional	1,981	4,480	964	641	872	736	693	834	11,201	3,390	1,796	16,387
Marketing	2,074	4,716	1,242	671	973	770	726	873	12,045	26,594	1,880	40,519
Meeting expenses	656	1,299	331	172	776	198	186	224	3,842	3,440	482	7,764
Parking	349	789	170	113	154	130	122	147	1,974	597	316	2,887
Postage and shipping	369	889	180	119	241	207	129	156	2,290	1,002	335	3,627
Rent	5,372	13,325	19,203	3,655	1,776	1,499	1,412	1,699	47,941	7,455	3,658	59,054
Scholarships	-	121,102	7,080	2,650	-	-	-	-	130,832	-	-	130,832
Supplies	1,547	1,333	3,539	1,408	255	259	203	244	8,788	10,865	526	20,179
Technology	1,100	2,488	535	356	484	409	385	463	6,220	1,883	997	9,100
Telephone	927	2,096	451	300	408	344	324	390	5,240	1,586	840	7,666
Travel, meals and entertainment	6,030	124,485	72,432	549	93,414	46,434	15,247	10,191	368,782	9,569	758	379,109
Total Functional Expenses	\$ 70,417	\$ 400,241	\$ 145,349	\$ 29,858	\$ 124,405	\$ 70,419	\$ 37,094	\$ 36,683	\$ 914,466	\$ 153,935	\$ 81,466	\$ 1,149,867

See accompanying notes to financial statements.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2015

Programs and Exchanges

	Sister Cities Outreach & Education	Youth & Educator Ambassador Programs	International Leadership Academy	Junior International Leadership Academy	DFW International Airport Mission to Mexico and Official Exchange to Toluca, Mexico	Trier, Germany & Reggio Emilia, Italy Official Visits and Tricolore Sports Games	FWISD Spanish Immersion & Enrichment Camp	Educational Mission to Vietnam	Total Programs and Exchanges	Fundraising	General & Administrative	Total
Bank fees	\$ 565	\$ 4,629	\$ 513	\$ 193	\$ 609	\$ 30	\$ 111	\$ 1,795	\$ 8,445	\$ 1,011	\$ 246	\$ 9,702
Contract labor	-	-	18,208	3,306	-	-	13,000	-	34,514	10,261	8,309	53,084
Copier lease	619	1,679	471	244	310	61	224	408	4,016	536	496	5,048
Depreciation	253	687	193	100	127	25	92	167	1,644	219	203	2,066
Dues and fees	339	917	257	133	169	33	122	222	2,192	292	271	2,755
Employee salaries	33,178	90,036	25,249	13,071	16,643	3,275	11,989	21,839	215,280	28,713	26,629	270,622
Payroll taxes	2,283	6,195	1,737	899	1,145	225	825	1,503	14,812	1,976	1,832	18,620
Employee benefits	5,063	13,738	3,853	1,994	2,539	500	1,829	3,332	32,848	4,381	4,063	41,292
Gift and promotional	1,131	3,033	1,672	1,291	38	120	27	50	7,362	245	61	7,668
Insurance	589	1,600	448	232	296	58	213	388	3,824	510	473	4,807
Legal and professional	2,195	5,960	1,671	865	1,102	217	794	1,446	14,250	1,901	1,763	17,914
Long range planning	61	165	46	24	31	6	22	40	395	53	714	1,162
Marketing	3,214	6,127	1,820	978	1,163	220	805	1,532	15,859	28,089	1,789	45,737
Meeting expenses	644	1,301	445	189	240	47	173	499	3,538	940	385	4,863
Parking	317	861	241	125	159	31	115	209	2,058	275	255	2,588
Postage and shipping	539	2,046	231	120	153	30	110	200	3,429	2,069	293	5,791
Rent	5,427	15,227	25,648	3,755	2,075	408	1,495	2,723	56,758	6,830	3,320	66,908
Scholarships	-	139,405	6,900	2,475	-	-	-	-	148,780	-	-	148,780
Supplies	860	13,334	4,250	1,342	187	37	247	245	20,502	14,640	299	35,441
Technology	1,050	2,849	799	414	527	104	379	691	6,813	909	843	8,565
Telephone	1,044	2,833	794	411	524	103	377	687	6,773	903	838	8,514
Travel, meals and entertainment	8,777	222,532	115,212	521	19,179	3,520	4,702	68,708	443,149	43,222	334	486,705
Total Functional Expenses	\$ 68,148	\$ 535,154	\$ 210,658	\$ 32,682	\$ 47,216	\$ 9,050	\$ 37,651	\$ 106,684	\$ 1,047,241	\$ 147,975	\$ 53,416	\$ 1,248,632

See accompanying notes to financial statements.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ (48,914)	\$ (5,486)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	2,066	2,066
Net realized and unrealized (gain) loss on investments	(5,656)	40,775
Non-cash rent expense	32,106	32,504
Donated investment	(7,505)	(10,161)
Net changes in operating assets and liabilities:		
Accounts receivable	1,330	13,936
Prepaid expenses	3,322	64,367
Other assets	(314)	706
Accounts payable and accrued liabilities	(49,825)	70,852
Deferred revenue	(5,814)	(87,567)
Net cash provided by (used in) operating activities	(79,204)	121,992
 Cash Flows from Investing Activities:		
Proceeds from sale of investments	61,837	294,708
Purchase of investments	(88,862)	(318,237)
Net cash used in investing activities	(27,025)	(23,529)
 Net increase (decrease) in cash and cash equivalents	(106,229)	98,463
 Cash and cash equivalents at beginning of year	196,296	97,833
 Cash and cash equivalents at end of year	\$ 90,067	\$ 196,296

See accompanying notes to financial statements.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2016 and 2015

A. Nature of Activities

International Sister Cities Association of Fort Worth, Inc. dba Fort Worth Sister Cities International (the “Association” or “FWSCI”), a 501(c)(3) nonprofit, is dedicated solely to promoting Fort Worth globally and enriching the community through international education, exchange and commerce. FWSCI provides a world of opportunities for Fort Worth’s city leaders, citizens, educators, students and businesses alike.

FWSCI manages the City of Fort Worth’s (the “City”) eight sister city relationships around the world. These sister city relationships:

- Orchestrate internationally recognized inbound and outbound exchange programs,
- Provide essential instruction for protocol and diplomacy,
- Produce unparalleled youth and educator programs,
- Conduct exchanges to foster economic development and mutual respect to improve the lives of Fort Worth citizens and enhance global opportunities.

The programs of the Association include:

Sister Cities Outreach and Education:

Regular meetings, events, and activities organized by members that feature the cultures, business connections, and global initiatives of Fort Worth’s eight sister cities.

Youth and Educator Ambassador Programs:

Educational and cultural youth exchanges between Fort Worth and its sister cities.

International Leadership Academy:

A summer program where high school students from all sister cities are invited to participate in cultural, leadership and educational activities, explore problems and problem solving around the world, discuss issues and ideas and build relationships through home-housing in Fort Worth. The international educators also conducted a global teacher’s summit during this period to share teaching methodologies with local area educators.

Junior International Leadership Academy:

A summer program where middle school students from Fort Worth participate in cultural, leadership and educational activities, explore problems and problem solving around the world, discuss issues and ideas and build relationships.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (continued)

A. Nature of Activities – continued

Exploratory Mission to Cuba:

An outbound exchange to Cuba led by then Board Chairwoman Ann Rice, Director Emeritus Mike Hyatt, board member Jane Schlansker and President/CEO Mae Ferguson for a people-to-people educational mission. The trip provided the delegates an opportunity to meet the people of Cuba enabling them to develop friendships and a better understanding of the rich and varied cultural fabric of this unique nation through briefings with local university leaders, U.S. Embassy staff and the business community.

Trier, Germany and Reggio Emilia, Italy Official Visits:

An outbound exchange to Trier, Germany and Reggio Emilia, Italy to pay an official visit to the new mayors of those sister city partners. The delegation from Fort Worth included Fort Worth Mayor Betsy Price, Director Emeritus Mike Hyatt, Fort Worth Chamber of Commerce Executive Vice President David Berzina, and President/CEO Mae Ferguson.

Reggio Emilia, Italy Tricolore Sports Games:

An outbound sports exchange to Reggio Emilia, Italy led by board members and staff for student athletes to participate in the Tricolore Sports Games of Reggio Emilia. Held every four years, these games began due to admiration for the World Olympic games and its ability to create peace and unity among people even during times of war or political unrest. Fort Worth has been the only U.S. city to participate since the games' inception in 1993. Sixty-four student athletes, coaches, medical and leadership team members participated in 2015 in addition to parents and other relatives.

DFW International Airport Mission to Mexico:

An outbound exchange to Mexico led by Fort Worth Mayor Betsy Price and Dallas Mayor Mike Rawlings, DFW Airport executives, Sister Cities board members Michael Jacobsson, Julie Johncox, Dr. Sheryl Harris, Bob Jameson, Anette Soto and President/CEO Mae Ferguson to discuss business opportunities, as well as travel and tourism in Mexico City and Toluca, Mexico. Mayor Price and the Fort Worth delegates met with numerous businesses and the press while in the sister city of Toluca to promote travel to Fort Worth, as well as increasing commercial opportunities between the two cities.

Official Exchange to Toluca, Mexico:

An outbound exchange to Toluca, Mexico led by Councilmember Sal Espino and board members to celebrate Toluca's day of the dead holiday, Dia de Los Muertos, and to meet with the new Mayor, city officials and sister city counterparts to discuss future business opportunities and programs to strengthen the strong sister city relationship.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (continued)

A. Nature of Activities – continued

Guiyang, China 5th Anniversary Celebration:

An outbound exchange to Guiyang, China led by then Mayor Pro Tem Salvador Espino, board members and President/CEO Mae Ferguson to celebrate the successful five-year anniversary of the Fort Worth and Guiyang sister cities partnership. The delegates first experienced the city of Beijing and its culture and history before the official celebration in Guiyang and ended the exchange with a tour of Shanghai. The program re-affirmed the strong partnership between the two cities.

FWISD Spanish Immersion & Enrichment Camp:

In its' third year, this is a partnership with the Fort Worth Independent School District developed to provide Spanish Immersion and Enrichment to Fort Worth elementary students. It is led by native Spanish speakers from the prestigious Tec de Monterrey University in Toluca, Mexico.

Educational Mission to Vietnam:

An exploratory mission to Vietnam led by Director Emeritus Mary Palko and board Chairwoman Ann Rice to ascertain the viability of a relationship between Fort Worth and a city in Vietnam, as well as to gather educational information on the country.

Women's Policy Forum in Toluca, Mexico:

An outbound exchange to Toluca, Mexico led by then Board Chairwoman Ann Rice to participate in a Women's Policy Forum sponsored three-day symposia focused on women's issues of respect, health, and education. A group of seventeen Fort Worth women traveled to Toluca for this highly successful exchange. A reciprocal exchange to Fort Worth for similar symposia is planned for 2017.

B. Summary of Significant Accounting Policies

A summary of the Association's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Accounting

The accounts are maintained and the financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At September 30, 2016 and 2015, the Association had no such investments. The Association maintains deposits primarily in two financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Association has not experienced any losses related to amounts in excess of FDIC limits.

Pledges and Accounts Receivable

Unconditional promises to give or pledges receivable are recorded as revenue in the year made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Management provides for estimated uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for uncollectible pledges based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible pledges and a credit to the applicable contribution receivable. Management considers all outstanding pledges to be fully collectible.

Investments

GAAP requires investments with readily determinable fair values to be stated at fair value with unrealized gains and losses from fluctuations in market value included in the statement of activities. The fair values of investments in equity securities and debt securities (including mutual fund shares) with readily determinable fair values are based on the quoted market price of the shares owned at September 30, 2016 and 2015.

GAAP establishes 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 lowest priority to unobservable inputs (Level 3 measurements).

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
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NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Investments – continued

The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

Investment gains and losses are accounted for using the average cost basis of the securities sold. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Property and Equipment

Property and equipment are carried at cost. The Association capitalizes all property and equipment with costs greater than \$1,000 and a useful life greater than three years. Donated property and equipment with estimated useful values greater than \$1,000 and a useful life greater than three years are also capitalized at the estimated fair value at the date of donation. There were no donations of property and equipment during 2016 and 2015. Depreciation is provided on the straight-line method over the assets' estimated service lives. Expenditures for maintenance and repairs are charged to expense in the period in which they are incurred, and betterments are capitalized. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the accompanying statement of activities of the respective period. The estimated useful lives of property and equipment range from 5 to 7 years.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Donated Assets and Services

Donated assets are recorded at their estimated fair value (as determined by management) at the date of donation. Donated services are recognized as contributions if the services, (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association. Volunteers provide many hours of service throughout the year that are not recognized as contributions in the financial statements, because the recognition criteria under GAAP are not met.

Restricted and Unrestricted Revenue 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. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

Expenses are allocated to program services, fundraising, and management and general based on the nature of the expense and estimates made by management.

Federal Income Taxes

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as an organization other than a private foundation. The Association follows the guidance under GAAP which prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Management believes that it has not taken a tax position that, if challenged, would have a material effect on the Association's financial statements. The Association files Form 990 in the United States federal jurisdiction.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were approximately \$41,000 and \$46,000 for the years ended September 30, 2016 and 2015, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (continued)

C. Pledge Receivable

The Association has one pledge receivable related to donated rent (see Note F and I) which it anticipates receiving over the next several years. The pledge receivable has been discounted using a discount rate of 1.00% and consisted of the following at September 30:

	2016	2015
Pledge receivable in less than one year	\$ 32,604	\$ 32,604
Pledge receivable thereafter	46,170	78,774
Total pledge receivable	78,774	111,378
Less: unamortized discount	2,517	3,015
Net pledge receivable	\$ 76,257	\$ 108,363

D. Investments

The fair values of investments in equity securities, mutual funds, and corporate bonds are based on the quoted market price in an active market of the shares owned at September 30, 2016 and 2015. All of the Association's investments are valued using Level 1 inputs and consisted of the following asset classes at September 30:

	2016	2015
Equity securities	\$ 49,430	\$ 45,820
Mutual funds		
Large cap growth	162,881	128,144
Large cap value	86,788	50,021
Small cap growth	29,759	23,549
Small cap blend	29,470	28,005
Large cap blend	-	43,023
Mid cap blend	-	8,419
Corporate bonds	113,456	104,617
Total investments	\$ 471,784	\$ 431,598

These items are classified in their entirety based on the lowest priority level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (continued)

D. Investments – continued

The components of investment income for the years ended September 30, 2016 and 2015 is summarized as follows:

	2016	2015
Interest and dividend income	\$ 30,489	\$ 28,288
Net realized and unrealized gain (loss) on investments	5,656	(40,775)
Investment gains (losses) before investment fees	36,145	(12,487)
Less investment fees	3,051	2,795
Investment income (loss), net	\$ 33,094	\$ (15,282)

E. Property and Equipment

Property and equipment consisted of the following at September 30:

	2016	2015
Office equipment and furniture	\$ 40,944	\$ 40,944
Less accumulated depreciation	(40,599)	(38,533)
	\$ 345	\$ 2,411

F. Temporarily Restricted and Board Designated Net Assets

Board designated net assets at September 30, 2016 and 2015 are \$413,907, which has been designated by the board to be used as an emergency/special needs fund.

Temporarily restricted net assets consisted of the following at September 30:

	2016	2015
Donated rent	\$ 75,759	\$ 108,363
Scholarships	-	14,240
	\$ 75,759	\$ 122,603

Donation of rent is recognized as revenue when pledged and is considered temporarily restricted as to time over the five year lease term. Restriction is released as rent expense is recorded (see Note C and I).

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
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NOTES TO FINANCIAL STATEMENTS (continued)

G. Fort Worth Fee Services Agreement

The Association receives financial support from the City to coordinate all activities involving the City and its sister cities. The Association received a \$50,000 funding commitment from the City for each of the fiscal years ended September 30, 2014 through September 30, 2018 for performing coordination of cultural, educational, business, and sports exchanges between the City and its sister cities including arrangement of meeting facilities, hotel accommodations, and travel plans in conjunction with sister cities activities, and attendance at meetings as requested by City officials.

H. Deferred Revenue

Deferred revenue is recognized in the period in which the revenue relates and consisted of the following at September 30:

	2016	2015
Cuba Education, Arts and Culture exchange	\$ 26,391	\$ 20,000
Trier 30th Anniversary and Christkindlmkt exchange	16,000	-
Amazingly Global Race fundraising	4,677	9,332
Nagaoka Middle School program	3,600	-
Nagaoka Youth Ambassador program	2,500	-
Women's Policy Forum conference	-	23,550
Other programs	-	6,100
	\$ 53,168	\$ 58,982
Total deferred revenue		

I. Commitments and Contingencies

Leases

The Association's lease obligations include rent for office space and office equipment. In January 2014, the Association entered into a new lease for office space. The lease term is from January 30, 2014 to January 29, 2019. The lease provides for in-kind rent for the lease term and any renewal period. The monthly payments under this rental agreement are less than the fair market value. The fair market value of the pledged rent receivable balance at September 30, 2016 was \$76,257 for the remaining lease term. Rent expense for the years ended September 30, 2016 and 2015 was approximately \$33,000 and \$36,000, respectively, including approximately \$32,000 and \$33,000 of donated rent expense, respectively.

**INTERNATIONAL SISTER CITIES ASSOCIATION OF FORT WORTH, INC.
dba FORT WORTH SISTER CITIES INTERNATIONAL**

NOTES TO FINANCIAL STATEMENTS (continued)

I. Commitments and Contingencies – continued

Leases – continued

Future minimum annual lease obligations, excluding donated rent, as of September 30, 2016, are approximately as follows:

2017	\$ 3,000
2018	3,000
2019	<u>2,000</u>
Total	<u>\$ 8,000</u>

Employee Health Insurance

The Association entered into an agreement for health insurance during 2007. Under this agreement, the Association is responsible for medical expenditures in excess of employee deductibles, with a maximum obligation of up to \$2,000 per employee. No liability exists as of September 30, 2016 and 2015 related to this agreement as there are no known or expected claims.

J. Retirement Plan

The Association has established a SIMPLE IRA plan covering substantially all employees. During the years ended September 30, 2016 and 2015, the Association made contributions to the plan totaling approximately \$9,000 and 7,000, respectively.

K. Related Party

Lodging and meal services for certain programs are provided by businesses managed by various members of the Association's board of directors. During the years ended September 30, 2016 and 2015, the Association paid approximately \$105,000 and \$97,000, respectively to such related parties.

L. Subsequent Events

In preparing the accompanying financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through December 15, 2016, the date the financial statements were available for issuance.

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