

KIWANIS CAL-NEV-HA FOUNDATION

**Financial Statements
and
Independent Auditor's Report**

**For the Years Ended
September 30, 2017 and 2016**

- Tentative Report
For Discussion Purposes Only
Subject to Revision

KIWANIS CAL-NEV-HA FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kiwanis Cal-Nev-Ha Foundation
Rancho Cucamonga, CA

We have audited the accompanying financial statements of Kiwanis Cal-Nev-Ha Foundation (the Foundation), a California nonprofit public benefit corporation, which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, cash flows and functional expenses 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 audit. 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 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.

Board of Directors
Kiwanis Cal-Nev-Ha Foundation
Rancho Cucamonga, CA

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the Foundation as of September 30, 2017 and 2016, 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.

Other Matters

The September 30, 2016 financial statements were audited by Vicenti, Lloyd & Stutzman LLP, whose practice became part of CliftonLarsonAllen LLP as of June 1, 2017, and whose report dated December 10, 2016, expressed an unmodified opinion on those statements.

CliftonLarsonAllen LLP
Glendora, CA
January 16, 2018

- Tentative Report
For Discussion Purposes Only
Subject to Revision

KIWANIS CAL-NEV-HA FOUNDATION

STATEMENTS OF FINANCIAL POSITION
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 24,393	\$ 18,203
Investments	1,869,838	1,922,518
Accounts receivable, affiliated organizations	79,631	93,298
Accounts receivable, other	1,550	3,255
Current portion of pledges receivable	2,450	26,833
Inventory	11,421	13,059
Prepaid expenses	3,082	3,112
Deposits	2,356	422
Current portion of notes receivable	<u>18,179</u>	<u>18,047</u>
Total current assets	<u>2,012,900</u>	<u>2,098,747</u>
Non-Current Assets		
Pledges receivable (net of current portion)	71,014	68,855
Notes receivable (net of current portion)	21,081	50,187
Property and equipment, net	<u>2,647,774</u>	<u>2,732,562</u>
Total non-current assets	<u>2,739,869</u>	<u>2,851,604</u>
Total assets	<u>\$ 4,752,769</u>	<u>\$ 4,950,351</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable, affiliated organizations	\$ 651	\$ 830
Accounts payable and accrued expenses	32,872	49,198
Grants and scholarships payable	155,503	121,791
Tenant deposit	10,331	10,331
Current portion of notes payable	<u>126,250</u>	<u>1,300,000</u>
Total current liabilities	<u>325,607</u>	<u>1,482,150</u>
Long-Term Liabilities		
Note payable (net of current portion)	<u>1,617,750</u>	<u>574,000</u>
Total long-term liabilities	<u>1,617,750</u>	<u>574,000</u>
Total liabilities	<u>1,943,357</u>	<u>2,056,150</u>
Net Assets (Deficit)		
Unrestricted (deficit)	(399,834)	(376,528)
Temporarily restricted	1,409,820	1,476,390
Permanently restricted	<u>1,799,426</u>	<u>1,794,339</u>
Total net assets	<u>2,809,412</u>	<u>2,894,201</u>
Total liabilities and net assets	<u>\$ 4,752,769</u>	<u>\$ 4,950,351</u>

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

KIWANIS CAL-NEV-HA FOUNDATION

**STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Revenues and Grants		
Contributions	\$ 174,547	\$ 353,608
Fundraising events, net	16,967	7,376
Investment income	57,930	66,876
Rental income	199,450	190,294
Other	<u>10,464</u>	<u>7,094</u>
Total unrestricted revenues and grants	<u>459,358</u>	<u>625,248</u>
Net Assets Released from Restrictions		
Satisfaction of program restrictions	<u>526,773</u>	<u>464,811</u>
Total unrestricted revenues, gains and other support	<u>986,131</u>	<u>1,090,059</u>
Expenses		
Pediatric trauma	295,091	212,140
Scholarships	160,063	164,002
Youth	77,672	83,335
Awards	42,111	39,743
Grants	44,763	51,796
Management and general:		
General	73,778	85,473
Building	263,974	270,959
Fundraising	<u>51,985</u>	<u>55,479</u>
Total expenses	<u>1,009,437</u>	<u>962,927</u>
Increase (decrease) in unrestricted net assets	<u>(23,306)</u>	<u>127,132</u>
Changes in Temporarily Restricted Net Assets		
Contributions	341,572	344,222
Net assets released from restrictions	(526,773)	(464,811)
Investment return	<u>118,631</u>	<u>147,851</u>
Increase (decrease) in temporarily restricted net assets	<u>(66,570)</u>	<u>27,262</u>
Changes in Permanently Restricted Net Assets		
Contributions	<u>5,087</u>	<u>555</u>
Increase (decrease) in permanently restricted net assets	<u>5,087</u>	<u>555</u>
Increase (decrease) in net assets	(84,789)	154,949
Net assets, beginning of year	<u>2,894,201</u>	<u>2,739,252</u>
Net assets, end of year	<u>\$ 2,809,412</u>	<u>\$ 2,894,201</u>

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

KIWANIS CAL-NEV-HA FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2017**

	Achievement Services						Support Services				Total
	Pediatric						Fund				2017
	Trauma	Scholarships	Youth	Awards	Grants	Total	General	Building	Raising	Total	
Audit fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,485	\$ -	\$ -	\$ 14,485	\$ 14,485
Awards	54	-	-	17,141	2,845	20,040	129	1,136	1,955	3,220	23,260
Bank charges	-	-	-	-	-	-	-	-	2	2	2
Banner patches	-	-	-	-	27	27	-	-	467	467	494
Benefits	5,928	2,221	522	1,182	1,366	11,219	1,044	324	1,762	3,130	14,349
Community service items	8,298	-	-	-	-	8,298	-	-	-	-	8,298
Computer supplies and support	75	-	-	-	-	75	3,419	257	5,532	9,208	9,283
Conventions and meetings	429	477	8,142	-	-	9,048	6,952	-	3,120	10,072	19,120
Credit card fees	158	-	-	1,487	116	1,761	114	88	1,812	2,014	3,775
Depreciation	271	-	-	-	-	271	666	84,882	216	85,764	86,035
District office support	10,355	8,009	1,333	2,983	3,616	26,296	1,802	785	2,512	5,099	31,395
Dues and subscriptions	55	-	-	-	-	55	3,052	2,460	454	5,966	6,021
Fundraising - general	11	-	-	-	-	11	-	-	1,914	1,914	1,925
Grants	186,364	-	3,280	-	18,775	208,419	-	-	-	-	208,419
Insurance	507	188	52	105	125	977	1,049	6,027	181	7,257	8,234
Interest expense	-	-	-	-	-	-	-	85,933	-	85,933	85,933
Office	-	-	-	-	-	-	1,082	8	4	1,094	1,094
Pension	3,752	1,414	397	753	867	7,183	265	207	1,118	1,590	8,773
Postage and mailing	1,249	25	33	3,055	77	4,439	1,395	192	443	2,030	6,469
Printing and publications	32	13	-	302	-	347	1,373	34	54	1,461	1,808
Professional services	-	150	-	-	-	150	12,617	-	1,750	14,367	14,517
Promotional	30	-	-	-	-	30	1,152	425	940	2,517	2,547
Rent	551	-	-	-	-	551	-	-	551	551	1,102
Repairs and maintenance	-	-	-	-	-	-	-	23,596	-	23,596	23,596
Salaries and wages	65,094	24,609	6,963	13,098	15,090	124,854	10,905	3,597	19,491	33,993	158,847
Scholarships	-	119,715	-	-	-	119,715	-	-	-	-	119,715
Supplies	11	-	-	-	-	11	29	1,124	-	1,153	1,164
Tax and license	4,942	1,853	523	990	1,139	9,447	1,125	27,765	1,555	30,445	39,892
Telephone	3,897	423	461	1,015	720	6,516	497	6,602	642	7,741	14,257
Travel	3,028	966	55,966	-	-	59,960	10,626	-	5,510	16,136	76,096
Utilities	-	-	-	-	-	-	-	18,532	-	18,532	18,532
Total	\$ 295,091	\$ 160,063	\$ 77,672	\$ 42,111	\$ 44,763	\$ 619,700	\$ 73,778	\$ 263,974	\$ 51,985	\$ 389,737	\$ 1,009,437

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

KIWANIS CAL-NEV-HA FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2016**

	Achievement Services						Support Services				Total
	Pediatric						Fund				2016
	Trauma	Scholarships	Youth	Awards	Grants	Total	General	Building	Raising	Total	
Audit fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,590	\$ -	\$ -	\$ 8,590	\$ 8,590
Awards	-	-	-	15,316	31	15,347	207	2,511	2,208	4,926	20,273
Bank charges	-	-	-	-	-	-	-	-	2	2	2
Banner patches	-	-	-	-	-	-	-	-	412	412	412
Benefits	5,903	2,243	535	1,221	1,711	11,613	1,047	329	1,890	3,266	14,879
Community services items	6,086	-	-	-	-	6,086	-	-	-	-	6,086
Computer supplies and support	399	1	-	-	-	400	4,471	49	5,149	9,669	10,069
Conventions and meetings	719	722	7,646	-	-	9,087	14,090	-	3,058	17,148	26,235
Credit card fees	172	16	-	908	29	1,125	210	57	2,198	2,465	3,590
Depreciation	298	-	-	-	-	298	533	92,782	216	93,531	93,829
District office support	9,900	7,653	1,275	3,150	3,450	25,428	1,422	750	2,400	4,572	30,000
Dues and subscriptions	365	-	-	-	-	365	2,306	2,460	1,781	6,547	6,912
Fundraising - general	-	-	-	-	-	-	-	-	1,800	1,800	1,800
Grants	108,045	-	7,069	-	25,038	140,152	-	-	-	-	140,152
Insurance	712	265	79	144	208	1,408	888	5,859	298	7,045	8,453
Interest expense	-	-	-	-	-	-	-	90,692	-	90,692	90,692
Office	-	1	-	-	-	1	1,244	-	227	1,471	1,472
Pension	3,908	1,486	438	810	1,134	7,776	616	218	1,251	2,085	9,861
Postage and mailing	1,199	35	43	2,443	18	3,738	1,216	48	748	2,012	5,750
Printing and publications	22	-	52	11	1	86	639	8	416	1,063	1,149
Professional services	-	150	-	-	-	150	16,759	-	1,750	18,509	18,659
Promotional	-	-	-	-	-	-	822	370	1,565	2,757	2,757
Rent	542	-	-	-	-	542	-	-	542	542	1,084
Repairs and maintenance	-	-	-	-	-	-	-	24,171	-	24,171	24,171
Salaries and wages	62,051	23,471	6,913	12,786	17,981	123,202	9,746	3,449	19,911	33,106	156,308
Sales items	-	-	-	-	-	-	-	-	289	289	289
Scholarships	-	124,916	-	-	-	124,916	-	-	-	-	124,916
Supplies	-	-	-	-	-	-	103	931	-	1,034	1,034
Tax and license	4,665	1,765	524	966	1,355	9,275	1,143	27,627	1,587	30,357	39,632
Telephone	4,145	513	461	1,672	840	7,631	430	3,276	1,368	5,074	12,705
Travel	3,009	765	58,300	316	-	62,390	18,991	-	4,413	23,404	85,794
Utilities	-	-	-	-	-	-	-	15,372	-	15,372	15,372
Total	\$ 212,140	\$ 164,002	\$ 83,335	\$ 39,743	\$ 51,796	\$ 551,016	\$ 85,473	\$ 270,959	\$ 55,479	\$ 411,911	\$ 962,927

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

KIWANIS CAL-NEV-HA FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ (84,789)	\$ 154,949
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	86,035	93,829
Net unrealized (gain) loss on investments	(105,908)	(141,044)
Contributed equipment	-	10,765
(Increase) decrease in current assets:		
Accounts receivable, affiliated organizations	13,667	10,353
Accounts receivable, other	1,705	(1,755)
Pledges receivable	22,224	(5,487)
Inventories	1,638	2,958
Prepaid expenses	30	(1,839)
Deposits	(1,934)	693
Increase (decrease) in current liabilities:		
Accounts payable, affiliated organizations	(179)	(3,522)
Accounts payable and accrued expenses	(16,326)	10,586
Grants and scholarships payable	33,712	(66,616)
Net Cash Flows from Operating Activities	<u>(50,125)</u>	<u>63,870</u>
Cash Flows From Investing Activities		
Investments sold	333,588	268,536
Investment purchased	(175,000)	(231,769)
Purchase of property and equipment	(1,247)	(17,929)
Repayment of note receivable	28,974	22,649
Net Cash Flows from Investing Activities	<u>186,315</u>	<u>41,487</u>
Cash Flows From Financing Activities		
Payments on loans	<u>(130,000)</u>	<u>(115,000)</u>
Net Cash Flows from Financing Activities	<u>(130,000)</u>	<u>(115,000)</u>
Net Increase (Decrease) in Cash	6,190	(9,643)
Cash and cash equivalents at the beginning of the year	<u>18,203</u>	<u>27,846</u>
Cash and cash equivalents at the ending of the year	<u>\$ 24,393</u>	<u>\$ 18,203</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 85,933</u>	<u>\$ 90,692</u>

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

KIWANIS CAL-NEV-HA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 1: ORGANIZATION

The Kiwanis Cal-Nev-Ha Foundation (the Foundation) was organized in 1965 under the nonprofit corporation laws of the state of California. The Foundation is controlled by its Board of Directors who are elected by, and are officers, past officers of or members of the California-Nevada-Hawaii District of Kiwanis International (the District). The Foundation's primary purpose is to raise funds and distribute them for charitable and educational purposes. The Foundation's office is located at 8360 Red Oak Street, Suite 201 in Rancho Cucamonga, California.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation - Under FASB ASC 958-210, the Foundation is required 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) based upon the existence or absence of donor-imposed restrictions.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Contributions - Contributions are measured at their fair value at the date of contribution and are reported as an increase in net assets. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Recognition of Support and Revenue - All items of support and revenue are recognized as income in the period earned, unless restricted by the donor for a particular purpose. In those instances, revenue is deemed to be earned when the Foundation has incurred expenses in compliance with the specific restrictions.

KIWANIS CAL-NEV-HA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Foundation considers all unrestricted and highly liquid investments with an initial maturity of three months or less to be cash. Cash held in the investment accounts that are permanently restricted or temporarily restricted has been classified as investments in the statement of financial position.

Property and Equipment - Property and Equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives of five to forty years. Expenses which do not extend the useful lives of the assets are charged to expense when incurred. The Foundation has elected to capitalize and depreciate all assets costing \$500 or more; all other assets are charged to expense in the year incurred. Depreciation expense for the years ended September 30, 2017 and 2016 was \$86,035 and \$93,829, respectively.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contributed Services - No amounts have been reflected in the statements for contributed service in as much as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Foundation's program services.

Estimates - The preparation of 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.

Income Taxes - The Foundation is a nonprofit organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and exempt from California tax under Section 23701(d) of the Revenue and Taxation Code. The Foundation engages in activities that may be subject to unrelated business income tax. However, the activities engaged in resulted in a net loss and therefore, there is no provision for income taxes recorded in the financial statements. The Foundation annually files forms 990, 199, and RRF-1 with appropriate agencies. Income tax returns for 2011 and forward may be audited by regulatory agencies; however, the Foundation is not aware of any such actions at this time. The Foundation has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

KIWANIS CAL-NEV-HA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventory - Inventory is valued at the lower of cost (first-in, first-out basis) or market, and consists primarily of supplies such as recognition pins.

Fair Value Measurements - Effective July 1, 2008, the Foundation determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels, as defined by FASB ASC 820-10, used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities and corporate debt securities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Foundation used the market approach to determine fair value for all investment assets.

Subsequent events - All events subsequent to the balance sheet date of September 30, 2017, through January 16, 2018, which is the date these financial statements were available to be issued, have been evaluated in accordance with applicable accounting standards. Management has determined that there were no other subsequent events or transactions that would have a material impact on the current year financial statements.

NOTE 3: CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

KIWANIS CAL-NEV-HA FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 3: CONCENTRATION OF CREDIT RISK

The Foundation maintains investment balances which are insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC). At times, balances in these accounts exceed the insured amounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its investments.

NOTE 4: ACCOUNTS RECEIVABLE

All accounts receivable at September 30, 2017 and 2016 are determined to be collectible; therefore, no provision for doubtful accounts has been established.

Accounts receivable at September 30, 2017 and 2016, were comprised of the following:

	2017	2016
A/R - affiliated organizations		
Service leadership programs	\$ 68,300	\$ 80,036
District	29	297
Officers and staff	663	737
Cal - Nev - Ha Investors	10,639	12,228
Total	<u>\$ 79,631</u>	<u>\$ 93,298</u>
A/R - Other		
General	\$ 1,550	\$ 3,255
Total	<u>\$ 1,550</u>	<u>\$ 3,255</u>

NOTE 5: PLEDGES RECEIVABLE

All pledges receivable at September 30, 2017 and 2016 are determined to be collectible; therefore, no provision for doubtful accounts has been established.

Pledges receivable at September 30, 2017 are expected to be received as follows:

Less than one year	\$ 2,450
Between one and five years	<u>71,014</u>
	<u>\$ 73,464</u>

KIWANIS CAL-NEV-HA FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 6: NOTES RECEIVABLE

In February 2010, the Foundation entered into a note receivable for \$133,803 with a tenant for tenant improvements made to the office space located at 8360 Red Oak Street in Rancho Cucamonga, California. The note is payable to the Foundation in monthly payments bearing interest of 6.5% per annum for the initial lease of the term. The term of the lease is 10 years ending on December 31, 2019. At September 30, 2017 and 2016, the unpaid balance is \$39,260 and \$54,351, respectively, with \$16,101 as the current portion. Management has determined the unpaid balance to be collectible and, accordingly, deems no provision for bad debt is necessary.

In August 2012, the Foundation entered into a note receivable for \$29,598 with a tenant for tenant improvements made to the office space located at 8360 Red Oak Street in Rancho Cucamonga, California. The note is payable to the Foundation in monthly payments bearing interest of 7.0% per annum for the initial lease of the term. The term of the lease is 5 years ending on May 31, 2017. At September 30, 2017 and 2016, the unpaid balance is \$0 and \$13,883, respectively.

NOTE 7: INVESTMENTS

Investments are carried at market value. Accordingly, investment income includes both realized and unrealized gains and losses. For additional information on how the Foundation measures fair value, refer to Note 2 Summary of Significant Accounting Policies.

Investments are comprised of the following at September 30, 2017 and 2016:

	2017		
	Fair Value	Level 1	Level 2
Cash equivalents	\$ 59,780	\$ 59,780	\$ -
Fixed income securities/bonds	97,509	-	97,509
Equity securities	968,338	968,338	-
Mutual funds	744,211	744,211	-
Total	<u>\$ 1,869,838</u>	<u>\$ 1,772,329</u>	<u>\$ 97,509</u>
	2016		
	Fair Value	Level 1	Level 2
Cash equivalents	\$ 128,215	\$ 128,215	\$ -
Fixed income securities/bonds	104,048	-	104,048
Equity securities	867,701	867,701	-
Mutual funds	822,554	822,554	-
Total	<u>\$ 1,922,518</u>	<u>\$ 1,818,470</u>	<u>\$ 104,048</u>

KIWANIS CAL-NEV-HA FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 7: INVESTMENTS

Investment activity is comprised of the following at September 30, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 70,653	\$ 73,683
Net unrealized and realized gains (losses)	105,908	141,044
Total investment return	<u>\$ 176,561</u>	<u>\$ 214,727</u>

NOTE 8: PROPERTY AND EQUIPMENT

A schedule of changes in property and equipment and accumulated depreciation for the year ended September 30, 2017, is as follows:

	2017			
	Balance Beginning	Additions	Retirements	Balance Ending
Land	\$ 392,084	\$ -	\$ -	\$ 392,084
Building	3,115,324	-	-	3,115,324
Furniture and equipment	81,627	1,247	4,670	78,204
Total property and equipment	<u>\$ 3,589,035</u>	<u>\$ 1,247</u>	<u>\$ 4,670</u>	<u>\$ 3,585,612</u>
Less accumulated depreciation for:				
Building	\$ 790,620	\$ 81,137	\$ -	\$ 871,757
Furniture and equipment	65,853	4,898	4,670	66,081
Total accumulated depreciation	856,473	86,035	4,670	937,838
Property and equipment, net	<u>\$ 2,732,562</u>	<u>\$ (84,788)</u>	<u>\$ -</u>	<u>\$ 2,647,774</u>

A schedule of changes in property and equipment and accumulated depreciation for the year ended September 30, 2016, is as follows:

	2016			
	Balance Beginning	Additions	Retirements	Balance Ending
Land	\$ 392,084	\$ -	\$ -	\$ 392,084
Building	3,098,593	16,731	-	3,115,324
Furniture and equipment	72,684	10,115	1,172	81,627
Total property and equipment	<u>\$ 3,563,361</u>	<u>\$ 26,846</u>	<u>\$ 1,172</u>	<u>\$ 3,589,035</u>
Less accumulated depreciation for:				
Building	\$ 701,760	\$ 88,860	\$ -	\$ 790,620
Furniture and equipment	53,139	13,886	1,172	65,853
Total accumulated depreciation	754,899	102,746	1,172	856,473
Property and equipment, net	<u>\$ 2,808,462</u>	<u>\$ (75,900)</u>	<u>\$ -</u>	<u>\$ 2,732,562</u>

KIWANIS CAL-NEV-HA FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 9: LONG-TERM DEBT

Notes Payable

On April 12, 2007, the Foundation secured a five year \$750,000 interest only loan through Cal-Nev-Ha Investors, Inc. (a related party, see Note 14). As of September 30, 2013, there had been thirteen different amendments to the original loan for additional amounts ranging from \$15,000 to \$190,000, bringing the promissory note balance to \$1,725,000, which bears interest at 4.25%. The original loan plus amendments calls for interest only quarterly payments with maturities ranging from April 2012 to April 2022. The loan is secured by a deed of trust on the facility located in San Bernardino County, State of California. The balance at September 30, 2017 is \$460,000.

On December 21, 2009, the Foundation secured a five year \$75,000 interest only loan through Cal-Nev-Ha Investors, Inc. The original note has been amended eleven times for additional amounts ranging from \$10,000 to \$110,000, bringing the promissory note balance to \$574,000, which bears interest at 4.75%. The original loan plus amendments calls for interest only quarterly payments with maturities ranging through December 2019. The loan is secured by a deed of trust on the facility located in San Bernardino County, State of California. The balance at September 30, 2017 is \$574,000.

On June 9, 2011, the Foundation secured a five year \$127,500 interest only loan through Cal-Nev-Ha Investors, Inc. The original note has been amended eleven times for additional amounts ranging from \$15,000 to \$100,000, bringing the promissory note balance to \$710,000, which bears interest at 4.75%. The original loan plus amendment calls for interest only quarterly payments with maturities ranging through June 2021. The loan is secured by a deed of trust on the facility located in San Bernardino County, State of California. The balance at September 30, 2017 is \$710,000.

Notes payable consist of the following:

	Balance Beginning	Additions	Reductions	Balance Ending	Current Portion
Cal-Nev-Ha Investors Inc. promissory note (2007)	\$ 590,000	\$ -	\$ 130,000	\$ 460,000	\$ 126,250
Cal-Nev-Ha Investors Inc. promissory note (2009)	574,000	-	-	574,000	-
Cal-Nev-Ha Investors Inc. promissory note (2011)	710,000	-	-	710,000	-
Total	<u>\$1,874,000</u>	<u>\$ -</u>	<u>\$ 130,000</u>	<u>\$1,744,000</u>	<u>\$ 126,250</u>

KIWANIS CAL-NEV-HA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 9: LONG-TERM DEBT

Required payments of principal on the long-term notes payable as of September 30, 2017, including maturities, are as follows:

Year Ending September 30	
2018	\$ 126,250
2019	132,250
2020	138,500
2021	145,000
2022	152,000
Thereafter	<u>1,050,000</u>
Total	<u>\$ 1,744,000</u>

NOTE 10: VACATION AND SICK LEAVE

At September 30, 2017 and 2016, the Foundation had \$13,307 and \$10,127 in unpaid accumulated vacation, respectively, and no unpaid sick leave. These amounts are included in the accounts payable and accrued expenses on the statement of financial position.

NOTE 11: EMPLOYEE RETIREMENT

Deferred Compensation and 401(k)

The Foundation offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 401(k). Full-time employees having completed six months of service and attained the age of 21 are eligible to participate. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Employees may contribute by electing to reduce their salary and defer the receipt of up to 25% of compensation. The employer may also make contributions including matching contributions to the plan. Effective October 1, 2005, the employer is required to match a participant's contribution between 1% and 5% of compensation. Employees are vested in their effective contributions.

The Foundation does not meet the criteria for fiduciary fund reporting since it does not have either significant administrative involvement (e.g. custody) or perform the investment function of the plan. The administration investment functions are the responsibility of John Hancock USA; therefore, the fair market value of the plans assets at September 30, 2017 and 2016 is not included in the Foundation's financial statements.

Merit Plan

The Foundation also has a Merit Plan. Full-time employees having completed six months of service and attained the age of 21 are eligible to participate.

KIWANIS CAL-NEV-HA FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 11: EMPLOYEE RETIREMENT

The Foundation has elected “safe harbor” provisions under the Internal Revenue Code section 401(k) which requires an annual contribution of no less than 3% of compensation.

Pension expense was \$8,773 and \$9,861 for the years ended September 30, 2017 and 2016, respectively. The participant's vesting schedule for employer contributions is as follows:

	<u>% Vested</u>
Less than 3	0
At least 3	20
At least 4	40
At least 5	60
At least 6	80
At least 7	100

NOTE 12: RESTRICTION OF NET ASSETS

Net assets were restricted to the following programs for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unrestricted (Deficit)		
General	<u>(399,834)</u>	<u>(376,528)</u>
Temporarily restricted		
Awards	8,105	8,984
Grants	14,964	15,569
Rose Float - Walker	92,994	90,430
Rose Float - Medallion	9,726	8,758
PTP	176,811	209,297
Scholarships	<u>1,107,220</u>	<u>1,143,352</u>
Total	<u>1,409,820</u>	<u>1,476,390</u>
Permanently restricted		
Awards	1,433	1,433
Distinguished service awards	194,191	194,191
Dunlap Fellowships	1,139,163	1,139,163
Grants	27,892	27,892
Rose Float - Medallions	77,760	72,673
Scholarships	<u>358,987</u>	<u>358,987</u>
Total	<u>1,799,426</u>	<u>1,794,339</u>

KIWANIS CAL-NEV-HA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 13: DONOR DESIGNATED ENDOWMENTS

The Foundation consists of various funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowments are classified and reported based on existence of donor-imposed restrictions as unrestricted, temporarily restricted, or permanently restricted.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) plus the original value of subsequent gifts to the endowment, and (c) plus accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution while growing the funds if possible. The Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 4-5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

KIWANIS CAL-NEV-HA FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 13: DONOR DESIGNATED ENDOWMENTS

The temporarily restricted endowment assets in the tables below represent earnings from the permanently restricted assets. Endowment net asset composition by type of fund is as follows:

	2017		
	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowments	<u>\$ 32,120</u>	<u>\$ 1,799,426</u>	<u>\$ 1,831,546</u>

Changes in endowments net assets for the year ended September 30, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance at September 30, 2016	\$ 18,590	\$ 1,794,339	\$ 1,812,929
Contributions	-	5,087	5,087
Investment income	59,076	-	59,076
Amounts appropriated for expenditure	(45,546)	-	(45,546)
Balance at September 30, 2017	<u>\$ 32,120</u>	<u>\$ 1,799,426</u>	<u>\$ 1,831,546</u>

	2016		
	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowments	<u>\$ 18,590</u>	<u>\$ 1,794,339</u>	<u>\$ 1,812,929</u>

Changes in endowments net assets for the year ended September 30, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance at September 30, 2015	\$ 18,590	\$ 1,793,784	\$ 1,812,374
Contributions	-	555	555
Investment income	72,137	-	72,137
Amounts appropriated for expenditure	(72,137)	-	(72,137)
Balance at September 30, 2016	<u>\$ 18,590</u>	<u>\$ 1,794,339</u>	<u>\$ 1,812,929</u>

KIWANIS CAL-NEV-HA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 14: RELATED PARTY TRANSACTIONS

Cal-Nev-Ha Investors, Inc.

Cal-Nev-Ha Investors, Inc. (Investors) was incorporated under the General Corporation Law of California on May 8, 2003. The Foundation owns all of the outstanding stock of Cal-Nev-Ha Investors, Inc. valued at \$1,000. Management has elected not to consolidate the activity of Investors in these financial statements as it believes the effects of this consolidation would be immaterial.

The Foundation has advanced funds to Cal-Nev-Ha Investors, Inc. for organizational costs and other costs. As of September 30, 2017 and 2016, these amounts totaling \$10,639 and \$12,228, respectively, are included in accounts receivable on the accompanying statement of financial position.

During the year ended June 30, 2008, the Foundation borrowed funds from Cal-Nev-Ha Investors, Inc. for the construction of an office building in Rancho Cucamonga, California. During the years ended September 30, 2017 and 2016, the Foundation paid interest of \$85,933 and \$90,692, respectively, to Cal-Nev-Ha Investors, Inc.

California-Nevada-Hawaii District of Kiwanis International (the District)

The Foundation paid \$31,396 and \$30,000 to the District in fiscal years 2017 and 2016, respectively, for administrative expenses.

The Foundation receives rent from the District for office space located at 8360 Red Oak Street, Suite 201 in Rancho Cucamonga, California. During the years ended September 30, 2017 and 2016, the Foundation received \$55,618 and \$56,258, respectively, from the District.

NOTE 15: FUTURE RENTAL REVENUE

The Foundation leases office space to tenants under non-cancelable operating leases with terms three to ten years. The office space located at 8360 Red Oak Street in Rancho Cucamonga, California. The following is a schedule by years of future minimum rentals under the lease agreements at September 30, 2017. Total rental revenues for these leases consisted of \$199,450 and \$190,294 for the years ended September 30, 2017 and 2016, respectively.

Expected future payments under these leases are as follows:

2018	\$	142,478
2019		82,053
2020		21,130
Total	\$	<u>245,661</u>

KIWANIS CAL-NEV-HA FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 16: HOPE 4 KIDS PROGRAM

Beginning in 2000, the Foundation received periodic contributions for the purpose of funding a grant program known as Hope 4 Kids in order to provide aid to families with children living in shelters or who were about to become homeless. In 2016-2017, recognizing the finite resources available to the Foundation and that the Hope 4 Kids program did not align with the strategic goals and mission of the Foundation, the Board identified another tax exempt nonprofit organization whose mission could effectively incorporate the funds and the purpose of the Hope 4 Kids program. Accordingly, in August of 2017 the Foundation executed charitable funds transfer agreements with seven Family Promise affiliates located in California, Nevada and Hawaii and transferred the accumulated balance plus earnings of the Hope 4 Kids program. In consideration for this transfer, the Family Promise affiliates agreed to hold the funds as a temporarily restricted fund, to be used to provide aid to families with children living in shelters or who are about to become homeless. Each of the seven Family Promise affiliates received grant from the Foundation in the amount of \$12,427 representing the Hope 4 Kids funds and accumulated earnings with totaled \$86,987.

- Tentative Report
For Discussion Purposes Only
Subject to Revision