

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

SISTER CITIES INTERNATIONAL

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Sister Cities International (Sister Cities), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sister Cities as of December 31, 2014 and 2013, 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.

July 16, 2015

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SISTER CITIES INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 103,881	\$ 1,082,115
Investments (Notes 2, 4 and 8)	531,081	69,228
Grants receivable	36,521	64,946
Other receivables and advances	49,380	74,882
Prepaid expenses	<u>34,161</u>	<u>76,944</u>
Total current assets	<u>755,024</u>	<u>1,368,115</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, net of accumulated depreciation of \$242,664 and \$229,499 for 2014 and 2013, respectively	<u>16,975</u>	<u>30,140</u>
NONCURRENT ASSETS		
Investments, net of current portion (Notes 2, 4 and 8)	83,636	93,599
Security deposits	<u>39,285</u>	<u>81,555</u>
Total noncurrent assets	<u>122,921</u>	<u>175,154</u>
TOTAL ASSETS	<u>\$ 894,920</u>	<u>\$ 1,573,409</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Lines of credit (Note 3)	\$ 127	\$ -
Accounts payable and accrued expenses	65,848	33,837
Refundable advances	136	13,649
Deferred membership dues	66,770	53,530
Deferred event revenue	<u>10,200</u>	<u>17,825</u>
Total current liabilities	<u>143,081</u>	<u>118,841</u>
NONCURRENT LIABILITIES		
Deferred rent (Note 7)	<u>77,529</u>	<u>73,828</u>
Total liabilities	<u>220,610</u>	<u>192,669</u>
NET ASSETS		
Unrestricted:		
Undesignated	55,054	1,209,240
Board-designated (Note 4)	<u>619,256</u>	<u>171,500</u>
Total unrestricted net assets	<u>674,310</u>	<u>1,380,740</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 894,920</u>	<u>\$ 1,573,409</u>

SISTER CITIES INTERNATIONAL

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
SUPPORT AND REVENUE		
U.S. Government awards	\$ 271,525	\$ 373,777
Contributions and grants	212,787	1,016,023
In-kind contributions	85,398	65,266
Conferences and events	387,386	318,521
Membership dues	308,602	308,637
Awards and visa fees	2,000	1,700
Interest and investment income (Note 2)	30,785	6,447
Other	<u>4,223</u>	<u>5,849</u>
Total support and revenue	<u>1,302,706</u>	<u>2,096,220</u>
EXPENSES (Note 5)		
Salaries, taxes and related benefits (Note 6)	750,244	771,550
Professional fees	112,048	94,279
Office supplies and expense	12,676	20,857
Telecommunications	14,095	22,883
Postage and shipping	8,318	8,924
Occupancy (Note 7)	157,547	154,926
Equipment expense	8,239	7,957
Printing and publications	52,043	23,594
Travel	196,033	334,522
Conferences, conventions and meetings	364,606	194,121
Depreciation	13,165	13,164
Grants and contracts	156,803	627,125
Other program services	10,145	40,644
Insurance	10,454	9,055
Consultants	54,365	51,367
Bad debt	898	-
Interns	6,919	10,308
Computer and website	49,245	89,931
Bank fees	18,452	17,122
Interest expense	1,483	3,103
Other	<u>11,358</u>	<u>8,439</u>
Total expenses	<u>2,009,136</u>	<u>2,503,871</u>
Changes in net assets	(706,430)	(407,651)
Net assets at beginning of year	<u>1,380,740</u>	<u>1,788,391</u>
NET ASSETS AT END OF YEAR	<u>\$ 674,310</u>	<u>\$ 1,380,740</u>

SISTER CITIES INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (706,430)	\$ (407,651)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	13,165	13,164
Unrealized loss on investments	477	2,080
Realized gain on sales of investments	-	(4,098)
Bad debt	898	-
(Increase) decrease in:		
Grants receivable	28,425	(57,993)
Other receivables and advances	24,604	(36,001)
Prepaid expenses	42,783	(118)
Security deposits	42,270	(39,808)
Increase (decrease) in:		
Accounts payable and accrued expenses	32,011	(200,802)
Refundable advances	(13,513)	11,221
Deferred membership dues	13,240	11,150
Deferred event revenue	(7,625)	(61,216)
Deferred rent	<u>3,701</u>	<u>18,650</u>
Net cash used by operating activities	<u>(525,994)</u>	<u>(751,422)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(462,367)	(56,380)
Proceeds from sales of investments	<u>10,000</u>	<u>31,689</u>
Net cash used by investing activities	<u>(452,367)</u>	<u>(24,691)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from lines of credit	101,483	-
Repayments on lines of credit	<u>(101,356)</u>	<u>(59,956)</u>
Net cash provided (used) by financing activities	<u>127</u>	<u>(59,956)</u>
Net decrease in cash and cash equivalents	(978,234)	(836,069)
Cash and cash equivalents at beginning of year	<u>1,082,115</u>	<u>1,918,184</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 103,881</u>	<u>\$ 1,082,115</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 1,483</u>	<u>\$ 3,103</u>

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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

Basis of presentation -

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

Cash and cash equivalents -

For financial statement presentation, cash and money market accounts, with maturities of three months or less, are considered to be cash equivalents. Included in cash and cash equivalents as of December 31, 2014 and 2013 are \$4,813 and \$8,672, respectively, which have been internally designated by the Board of Directors (see Note 4).

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

Grants and other receivables and advances -

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

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in interest and investment income in the accompanying Statements of Activities and Changes in Net Assets. For the years ended December 31, 2014 and 2013, \$614,443 and \$162,827 of investments, respectively, have been internally designated by the Board of Directors (see Note 4).

Furniture and equipment -

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

Income taxes -

Sister Cities is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

Income taxes (continued) -

Accordingly, no provision has been made for Federal income taxes in the accompanying financial statements. Sister Cities is not a private foundation.

Uncertain tax positions -

For the years ended December 31, 2014 and 2013, Sister Cities has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

In-kind contributions -

In-kind contributions consist primarily of time donated by consultants and attorneys. These services are reported at their fair value, based on estimates of the number of donated hours and market rates for the services provided. In-kind contributions of \$85,398 and \$65,266, representing the fair value of these services, have been recorded as revenue and expenses in the accompanying financial statements for the years ended December 31, 2014 and 2013, respectively.

Sister Cities also receives additional donated time from various volunteers. These donated services are not reflected in the accompanying financial statements since these services do not meet the criteria for recognition as contributed services.

Contributions and grants -

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

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

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

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

Membership dues -

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

Classification of net assets -

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

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Sister Cities and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Sister Cities and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions. At December 31, 2014 and 2013, Sister Cities had no temporarily restricted net assets.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment risks and uncertainties -

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

Fair value measurement -

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

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

2. INVESTMENTS

Investments at December 31, 2014 and 2013 are comprised of the following:

	<u>2014</u>		<u>2013</u>	
	<u>Fair Value</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Cost Basis</u>
Current:				
Mutual funds	\$ 521,328	\$ 501,906	\$ 60,049	\$ 39,336
Government securities	<u>9,753</u>	<u>10,007</u>	<u>9,179</u>	<u>10,007</u>
Subtotal - current investments	<u>531,081</u>	<u>511,913</u>	<u>69,228</u>	<u>49,343</u>
Noncurrent:				
Corporate bonds	73,466	71,025	83,038	81,228
Certificates of deposit	<u>10,170</u>	<u>10,000</u>	<u>10,561</u>	<u>10,000</u>
Subtotal - noncurrent investments	<u>83,636</u>	<u>81,025</u>	<u>93,599</u>	<u>91,228</u>
TOTAL INVESTMENTS	<u>\$ 614,717</u>	<u>\$ 592,938</u>	<u>\$ 162,827</u>	<u>\$ 140,571</u>

The following are included in interest and investment income for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 31,262	\$ 4,429
Unrealized loss on investments	(477)	(2,080)
Realized gain on sales of investments	<u>-</u>	<u>4,098</u>
TOTAL INTEREST AND INVESTMENT INCOME	<u>\$ 30,785</u>	<u>\$ 6,447</u>

3. LINES OF CREDIT

During 2009, Sister Cities established a line of credit with a local financial institution in the amount of \$60,000. The line of credit is secured by Sister Cities' receivables. Borrowings on the line bear interest of 5.25% at December 31, 2014 and 2013. Outstanding borrowings (including accrued interest) aggregated \$127 as of December 31, 2014. There were no outstanding borrowings as of December 31, 2013.

Sister Cities also has a line of credit with a local financial institution in the amount of \$80,000. The line of credit is secured by Sister Cities' receivables. Borrowings on the line bear interest of 8.25% at December 31, 2014 and 2013. There was no balance on this line of credit as of December 31, 2014 and 2013.

In November 2012, Sister Cities established a third line of credit with a local financial institution in the amount of \$50,000. The line of credit is secured by Sister Cities' receivables, equipment and inventories. The line of credit bears interest at the bank's prime rate, plus six percentage points. There was no balance on this line of credit as of December 31, 2014 and 2013.

SISTER CITIES INTERNATIONAL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

4. UNRESTRICTED BOARD-DESIGNATED NET ASSETS

The Board of Directors designated a portion of Sister Cities' unrestricted net assets in the name of Lou Wozar. As of December 31, 2014 and 2013, the amounts designated by the Board of Directors totaled \$177,458 and \$171,500, respectively (Note 1).

In October of 2014, the Board of Directors voted to designate a portion of Sister Cities' unrestricted net assets to establish a Reserve fund. As of December 31, 2014, the amounts designated by the Board of Directors totaled \$441,798, and is included in investments and board-designated net assets on the accompanying Statements of Financial Position. There was no such designation as of December 31, 2013.

5. FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses of Sister Cities, on a functional basis, are estimated as follows at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Program Services	\$ 1,396,280	\$ 1,881,451
Development	14,457	10,138
Management and General	<u>598,399</u>	<u>612,282</u>
TOTAL EXPENSES	<u>\$ 2,009,136</u>	<u>\$ 2,503,871</u>

6. RETIREMENT PLAN

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

Retirement expense for the years ended December 31, 2014 and 2013 totaled \$17,919 and \$15,238, respectively.

7. COMMITMENT

On January 1, 2011, Sister Cities entered into a lease agreement for office space that has a lease term of ten years, expiring on December 31, 2020. Base rent is \$134,140 per year, plus a proportionate share of expenses, increasing by a factor of 2.5% per year.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability. As of December 31, 2014 and 2013, the liability totaled \$77,529 and \$73,828, respectively.

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

7. COMMITMENT (Continued)

The following is a schedule of future minimum payments required under the lease agreement as of December 31, 2014:

Year Ending December 31,

2015	\$	147,464
2016		153,949
2017		158,357
2018		162,316
2019		166,374
Thereafter		<u>199,072</u>
	\$	<u>987,532</u>

Occupancy expense for the office lease and storage fees totaled \$157,547 and \$154,926 for the years ended December 31, 2014 and 2013, respectively.

8. FAIR VALUE MEASUREMENT

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

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

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

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

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

SISTER CITIES INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

8. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, Sister Cities' investments as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current:				
Mutual funds	\$ 521,328	\$ -	\$ -	\$ 521,328
U.S. Government securities	<u>-</u>	<u>9,753</u>	<u>-</u>	<u>9,753</u>
Subtotal - current investments	<u>521,328</u>	<u>9,753</u>	<u>-</u>	<u>531,081</u>
Noncurrent:				
Corporate bonds	-	73,466	-	73,466
Certificates of deposit	<u>-</u>	<u>10,170</u>	<u>-</u>	<u>10,170</u>
Subtotal - noncurrent investments	<u>-</u>	<u>83,636</u>	<u>-</u>	<u>83,636</u>
TOTAL	<u>\$ 521,328</u>	<u>\$ 93,389</u>	<u>\$ -</u>	<u>\$ 614,717</u>

The table below summarizes, by level within the fair value hierarchy, Sister Cities' investments as of December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current:				
Mutual funds	\$ 60,049	\$ -	\$ -	\$ 60,049
U.S. Government securities	<u>-</u>	<u>9,179</u>	<u>-</u>	<u>9,179</u>
Subtotal - current investments	<u>60,049</u>	<u>9,179</u>	<u>-</u>	<u>69,228</u>
Noncurrent:				
Corporate bonds	-	83,038	-	83,038
Certificates of deposit	<u>-</u>	<u>10,561</u>	<u>-</u>	<u>10,561</u>
Subtotal - noncurrent investments	<u>-</u>	<u>93,599</u>	<u>-</u>	<u>93,599</u>
TOTAL	<u>\$ 60,049</u>	<u>\$ 102,778</u>	<u>\$ -</u>	<u>\$ 162,827</u>

9. SUBSEQUENT EVENTS

In preparing these financial statements, Sister Cities has evaluated events and transactions for potential recognition or disclosure through July 16, 2015, the date the financial statements were issued.