Independent Sector and Subsidiary

Consolidated Financial Report
December 31, 2016

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RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Independent Sector
Washington, D.C.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Independent Sector and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2016, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, (collectively, 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 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 Independent Sector and Subsidiary as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Independent Sector and Subsidiary's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

RSM US LLP

Washington, D.C.
April 11, 2017

Independent Sector and Subsidiary

Consolidated Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Assets		
Cash	**$ 1,256,807**	$ 2,789,209
Investments	**8,412,909**	9,378,309
Accounts and other receivables	**88,805**	98,187
Grants receivable and promises to give	**847,204**	1,852,395
Prepaid expenses and other assets	**149,964**	77,867
Deferred rent receivable	**147,847**	166,808
Deferred lease incentives	**458,484**	441,984
Leasing commission costs, net	**223,934**	79,079
Property and equipment, net	**28,192,686**	28,853,070
Total assets	**$ 39,778,640**	$ 43,736,908
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,063,708**	$ 698,840
Deferred revenue	**5,850**	6,720
Deferred rent liability	**51,127**	31,068
Notes payable	**11,873,107**	12,442,403
Deposits held in escrow	**152,524**	176,830
Total liabilities	**13,146,316**	13,355,861
Net assets:		
Unrestricted:		
Undesignated	**18,780,615**	21,546,958
Board designated	**6,612,008**	6,358,065
	25,392,623	27,905,023
Temporarily restricted	**1,239,701**	2,476,024
Total net assets	**26,632,324**	30,381,047
Total liabilities and net assets	**$ 39,778,640**	$ 43,736,908

See notes to consolidated financial statements.

Independent Sector and Subsidiary

Consolidated Statement of Activities
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016			
	Unrestricted	**Temporarily Restricted**	**Total**	2015 Total
Revenue and support:				
Grants and contributions	**$ 2,575,962**	**$ 488,200**	**$ 3,064,162**	$ 6,318,579
Membership contributions	**2,062,310**	**-**	**2,062,310**	2,029,981
Rental income	**1,673,886**	**-**	**1,673,886**	1,734,024
Conference fees	**809,568**	**-**	**809,568**	767,394
Investment return designated for current operations	**210,000**	**-**	**210,000**	200,000
In-kind contributions	**204,630**	**-**	**204,630**	72,075
Publication sales and other	**20,019**	**-**	**20,019**	120,335
Net assets released from restrictions:				
Satisfaction of program restrictions	**681,190**	**(681,190)**	**-**	-
Satisfaction of time restrictions	**1,043,333**	**(1,043,333)**	**-**	-
Total revenue and support	**9,280,898**	**(1,236,323)**	**8,044,575**	11,242,388
Expenses:				
Program services:				
Public policy and community engagement	**2,369,266**	**-**	**2,369,266**	2,243,849
National conference	**1,634,007**	**-**	**1,634,007**	1,833,746
Programs and practice	**1,197,282**	**-**	**1,197,282**	944,818
Communications and marketing	**1,108,959**	**-**	**1,108,959**	798,905
Planning and learning	**712,310**	**-**	**712,310**	570,989
Networks and member engagement	**612,060**	**-**	**612,060**	815,130
Total program services	**7,633,884**	**-**	**7,633,884**	7,207,437
Supporting services:				
Fundraising	**1,076,841**	**-**	**1,076,841**	931,528
General and administrative	**1,523,094**	**-**	**1,523,094**	765,850
Strategic visioning	**367,357**	**-**	**367,357**	620,335
Membership development	**100,322**	**-**	**100,322**	95,598
Total supporting services	**3,067,614**	**-**	**3,067,614**	2,413,311
Building services:				
Tenant operations	**909,672**	**-**	**909,672**	919,637
Building operations	**448,048**	**-**	**448,048**	452,956
Total building services	**1,357,720**	**-**	**1,357,720**	1,372,593
Total expenses	**12,059,218**	**-**	**12,059,218**	10,993,341
Change in net assets from operations	**(2,778,320)**	**(1,236,323)**	**(4,014,643)**	249,047
Investment return (short) in excess of amounts for current operations	**265,920**	**-**	**265,920**	(191,817)
Change in net assets	**(2,512,400)**	**(1,236,323)**	**(3,748,723)**	57,230
Net assets:				
Beginning	**27,905,023**	**2,476,024**	**30,381,047**	30,323,817
Ending	**$ 25,392,623**	**$ 1,239,701**	**$ 26,632,324**	$ 30,381,047

See notes to consolidated financial statements.

Independent Sector and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016															
	Program Services							Supporting Services								
	Public Policy & Community Engagement	National Conference	Programs & Practice	Communications & Marketing	Planning & Learning	Networks & Member Engagement	Total Program Services	Fundraising	General & Administrative	Strategic Visioning	Membership Development	Total Supporting Services	Total Building Services	Consolidated Total	2015 Consolidated Total
Employee costs	$ 1,057,836	$ 609,405	$ 670,428	$ 533,420	$ 517,453	$ 328,688	$ 3,717,230	$ 578,844	$ 1,799,837	$ 197,984	$ 69,184	$ 2,645,849	$ -	$ 6,363,079	$ 5,231,436
Consultants	609,889	116,759	63,885	222,715	2,700	6,309	1,022,257	174,790	452,428	80,000	-	707,218	-	1,729,475	1,821,156
Building operations	-	-	-	-	-	-	-	-	-	-	-	-	1,222,877	1,222,877	1,224,925
Travel and meetings	32,260	449,104	126,129	36,071	2,845	7,288	653,697	24,630	55,055	2,747	108	82,540	-	736,237	869,785
Office supplies	18,744	28,988	7,966	22,808	1,577	26,247	106,330	5,111	185,873	5	-	190,989	48,567	345,886	315,037
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	310,760	310,760	322,824
Printing and reproduction	234	5,007	1,390	18,364	-	14,263	39,258	-	11,032	-	-	11,032	-	50,290	53,607
Depreciation and amortization	-	-	-	-	-	-	-	-	179,736	-	-	179,736	865,314	1,045,050	1,028,681
Telephone and webinars	3,491	-	1,338	630	1,308	225	6,992	543	33,862	735	-	35,140	10,702	52,834	53,815
In-kind expenses	30,000	43,000	-	-	12,900	48,830	134,730	-	68,000	-	-	68,000	-	202,730	72,075
	1,752,454	1,252,263	871,136	834,008	538,783	431,850	5,680,494	783,918	2,785,823	281,471	69,292	3,920,504	2,458,220	12,059,218	10,993,341
Occupancy	192,146	99,966	119,435	84,081	49,621	71,791	617,040	102,174	347,214	20,813	13,259	483,460	(1,100,500)	-	-
Total before allocation of general and administrative costs	1,944,600	1,352,229	990,571	918,089	588,404	503,641	6,297,534	886,092	3,133,037	302,284	82,551	4,403,964	1,357,720	12,059,218	10,993,341
Allocated expenses	424,666	281,778	206,711	190,870	123,906	108,419	1,336,350	190,749	(1,609,943)	65,073	17,771	(1,336,350)	-	-	-
Total expenses	$ 2,369,266	$ 1,634,007	$ 1,197,282	$ 1,108,959	$ 712,310	$ 612,060	$ 7,633,884	$ 1,076,841	$ 1,523,094	$ 367,357	$ 100,322	$ 3,067,614	$ 1,357,720	$ 12,059,218	$ 10,993,341

See notes to consolidated financial statements.

Independent Sector and Subsidiary

Consolidated Statement of Cash Flows
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ (3,748,723)**	$ 57,230
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**986,250**	971,710
Amortization of debt issuance costs	**30,397**	33,004
Amortization of leasing commission costs	**28,403**	23,967
Net realized and unrealized (gain) loss on investments	**(332,484)**	270,562
Deferred rent receivable	**18,961**	58,404
Deferred lease incentives	**(16,500)**	203,697
Deferred rent liability	**20,059**	(34,275)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts and other receivables	**9,382**	(57,661)
Grants receivable and promises to give	**1,005,191**	(473,030)
Prepaid expense and other assets	**(72,097)**	107,715
Increase (decrease) in:		
Accounts payable and accrued expenses	**377,910**	(411,814)
Deferred revenue	**(870)**	(82,200)
Deferred compensation plan liability	**-**	(275,234)
Deposits held in escrow	**(24,306)**	-
Net cash (used in) provided by operating activities	**(1,718,427)**	392,075
Cash flows from investing activities:		
Proceeds from sales of investments	**1,410,000**	1,999,216
Purchases of investments	**(112,116)**	(2,249,249)
Purchases of property and equipment	**(338,908)**	(194,909)
Payments of leasing commission costs	**(173,258)**	-
Redemptions from deferred compensation plan	**-**	275,234
Net cash provided by (used in) investing activities	**785,718**	(169,708)
Cash flows from financing activities:		
Principal payments on notes payable	**(599,693)**	(590,126)
Net cash used in financing activities	**(599,693)**	(590,126)
Net decrease in cash	**(1,532,402)**	(367,759)
Cash:		
Beginning	**2,789,209**	3,156,968
Ending	**$ 1,256,807**	$ 2,789,209
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 311,499**	$ 323,609
Supplemental disclosure of non-cash investing activities:		
Equipment acquired through accounts payable	**$ 10,693**	$ 23,735

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Independent Sector and Subsidiary (the Organization) is comprised of two entities: Independent Sector (Independent Sector) and 1602 IS LLC (LLC).

Independent Sector is a not-for-profit, nonpartisan leadership network of over 550 organizations representing a cross section of the charitable and philanthropic community including local, regional and national public charities, foundations, corporate giving programs and other organizations. Its mission is to lead and catalyze the charitable community, partnering with government, business and individuals to advance the common good. Independent Sector advocates on behalf of public policies that impact the sector, serving as a unified voice and the source of information on the most pressing federal legislative, regulatory and economic issues facing the charitable sector. It builds knowledge on behalf of the sector, working in collaboration with others to create, curate and disseminate knowledge designed to help organizations respond to challenges and opportunities, increase their impact and fulfill their missions. Independent Sector also connects organizations and leaders in the sector by serving as the vital meeting ground by bringing together key players in the charitable sector with government, business, communities and individuals to advance the common good.

Independent Sector established 1602 IS LLC (LLC), a single member limited liability company, to own and operate its headquarters building located at 1602 L Street, NW, Washington, D.C. Independent Sector and 1602 IS LLC are collectively referred to as the Organization.

A summary of the significant accounting policies of the Organization follows:

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when notification of the contribution is received, revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The consolidated financial statements include the accounts of Independent Sector and LLC. LLC is consolidated, since Independent Sector owns 100% of the equity in LLC. All material inter-company transactions have been eliminated.

Basis of presentation: The financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-for-Profit Entities Topic of the FASB ASC, Independent Sector 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. Independent Sector had no permanently restricted net assets at December 31, 2016.

Financial risk: The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

Independent Sector invests in a portfolio that contains mutual funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments with readily determinable fair values are reflected at fair market value (based on closing values at 4 p.m. Eastern Standard Time on the last trading day of the fiscal year). Investments are composed of mutual funds and cash. Cash deemed to be held for long-term purposes is included with investments, rather than cash, in the consolidated statement of financial position.

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that all receivables are fully collectible and that no provision for doubtful accounts is necessary.

Grants receivable and promises to give: Grants receivable consist of invoiced and unbilled amounts due based on completion of award requirements. Promises to give are recorded at the net realizable value. Long-term promises to give are discounted to net present value. An estimate is made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. When all collection efforts have been exhausted, the account is written off as bad debt expense. Management estimates that all grants receivable and promises to give are fully collectible, and no allowance for doubtful accounts is necessary as of December 31, 2016. All grants receivable and promises to give are due within one year.

Property and equipment and related depreciation and amortization: Property and equipment are stated at cost and are depreciated using the straight-line method. Donated furniture and equipment are initially stated at the fair value at the date of donation. The building is depreciated over forty years. Building improvements are depreciated over ten years. Furniture and equipment are depreciated over an estimated useful life of five years. Software is amortized over an estimated useful life of five years. Equipment purchased under capital leases is amortized over the life of the lease. Building improvements are capitalized for purchases over $10,000. Acquisitions of furniture, equipment, and software of more than $1,000 are capitalized. Expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses.

Valuation of long-lived assets: The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Leasing commission costs: The costs associated with obtaining leases for the LLC's building have been capitalized and amortized over the terms of the applicable leases using the straight-line method. Accumulated amortization expense at December 31, 2016, was $121,247.

Debt issuance costs: Debt issuance costs represent the costs associated with the notes payables issued. These costs are amortized over the life of the notes, using the effective interest method. Unamortized debt issuance costs are reported with notes payable.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Deferred rent receivable and lease incentives: LLC owns a nine-story, 52,896-square foot building to serve as Independent Sector's headquarters. Space not occupied by Independent Sector is available for leasing. Tenant leases contain fixed escalation clauses for increases in the annual minimum rent and incentive allowances for leasehold improvements. Under accounting principles generally accepted in the United States of America, all fixed rent increases and rent incentives are recognized on a straight-line basis over the term of the lease. The difference between the income and the required lease payments to be received is reflected as deferred rent receivable and deferred lease incentives in the accompanying consolidated statement of financial position.

Classification of net assets: The net assets of Independent Sector are classified and reported as follows:

Unrestricted net assets:

Undesignated net assets represent the portion of expendable funds that is available for support of Independent Sector's operations.

Board designated net assets represent a portion of unrestricted net assets for designated purposes and consists of a short-term building reserve fund and a long-term quasi-endowment fund which was created to establish a corpus for which investment income will be used for general operations.

Temporarily restricted net assets are specifically restricted by donors for various programs or for specific periods of time.

Revenue recognition: Grants and contributions are reported as revenue in the year in which payments are received and/or unconditional promises are communicated to Independent Sector. Grants and contributions are reported as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor 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 consolidated statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Membership contributions are recognized as revenue in the period received.

Rental income is recognized as revenue on a straight-line basis over the term of the lease agreement in the year to which the rental period pertains.

Conference fees are recognized in the year in which the event is held. Fees received in advance of the conference are recorded as deferred revenue.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Management has elected to allocate certain general and administrative costs among the programs and other supporting services benefited, based on the percentage of program/supporting service costs over total expenses, which have been summarized in the consolidated statement of activities.

Donated services: Donated services that create or enhance non-financial assets or that require specialized skills provided by individuals possessing those skills, which would typically need to be purchased if not provided by donation, are recorded at fair value in the period provided.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income tax status: Under Section 501(c)(3) of the Internal Revenue Code, Independent Sector is exempt from the payment of income taxes on income other than unrelated business income. For the year ended December 31, 2016, no provision for income taxes was required, as Independent Sector had no unrelated business tax liability.

LLC is a single member limited liability company that has elected to be treated as a disregarded entity. As such, LLC is not subject to federal income tax, but rather, its income or loss inures to Independent Sector. LLC is subject to the District of Columbia business franchise tax. There was no tax provision necessary to be accrued as of December 31, 2016.

The accounting standard on accounting for uncertainty in income taxes (FASB ASC Topic 740-10) addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management evaluated the Organization's tax positions and concluded that the Organization has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. Generally, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or functional detail. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Independent Sector's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Reclassifications: Certain items on the statement of activities in the prior year summarized comparative information have been reclassified to conform to the current year presentation with no effect on the changes in net assets or net assets.

Subsequent events: The Organization evaluated subsequent events through April 11, 2017, which is the date the consolidated financial statements were available to be issued.

Adopted accounting pronouncement: In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for the Organization for the year beginning January 1, 2016. The impact from the adoption of this ASU is reflected in Note 4.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recent accounting pronouncement: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale on whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit organization's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The amendments in this update clarify the guidance regarding the classification of operating, investing and financing activities for certain types of cash receipts and payments. The amendments in this update are effective for the annual periods, and the interim periods within those years, beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Organization is evaluating the impact of adoption, if any, to the financial statements.

Note 2. Investments

Investments consist of the following as of December 31, 2016:

Cash	$ 9,400
Mutual funds	8,403,509
	$ 8,412,909

For the year ended December 31, 2016, investment income consists of the following:

Interest and dividends	$ 143,436
Realized gains	107,034
Unrealized gains	225,450
	475,920
Investment return designated for current operations	(210,000)
Investment return in excess of amounts designated for current operations	$ 265,920

Note 3. Property and Equipment

Property and equipment consist of the following at December 31, 2016:

Building	$ 26,728,691
Land	5,391,820
Building improvements	2,445,030
Furniture, equipment and software	2,485,792
	37,051,333
Less accumulated depreciation and amortization	(8,858,647)
	$ 28,192,686

Depreciation expense was $986,250 for the year ended December 31, 2016.

Note 4. Notes Payable

Notes payable as of December 31, 2016, consist of the following:

Multi-model revenue bonds	$ 10,414,671
Foundation loans	1,625,000
	12,039,671
Less unamortized debt issuance costs	(166,564)
	$ 11,873,107

Note 4. Notes Payable (Continued)

On June 4, 2013, the Organization refinanced its outstanding debt of $14,100,000 from the acquisition and renovation of the headquarters building for the Organization located at 1602 L Street, NW, Washington, D.C. The financing included the following debt instruments:

The District of Columbia reissued multi-modal revenue bonds (the Bonds) totaling $11,600,000 under the indenture of trust agreement dated June 4, 2013, with a financial institution, as trustee, and the Organization, the borrower. The Bonds are due in monthly installments of $53,619, including interest at 2.77%, through June 1, 2028, with a final payment for the remaining expected principal balance of $5,654,913. The Organization has pledged the related land, building, and improvements as collateral for the Bonds. The Bonds shall mature and be payable subject to prior redemption or the terms and conditions set forth in the indenture agreement. The outstanding balance of the Bonds at December 31, 2016, was $10,414,671.

On June 4, 2013, the Organization obtained three separate loans with three foundations totaling $2,500,000. Each loan is payable in 40 equal quarterly installments totaling $62,500. Interest on the unpaid balance of the loans is equal to 1% per annum, due quarterly in arrears, through June 30, 2023. The outstanding balance on the foundation loans at December 31, 2016, was $1,625,000. The loans are collateralized by a junior mortgage lien representing no lower than a second priority lien on and security interest in the land and building.

Certain covenants, such as a debt coverage ratio and a minimum liquidity threshold, apply to the outstanding notes payable, including the Bonds and the foundation loans. Management monitors covenant compliance on a quarterly basis during the year. For the year ended December 31, 2016, the Organization was not in compliance with the debt coverage ratio, and the bank waived the covenant.

Interest expense was $310,760 for the year ended December 31, 2016, and is included in building services in the accompanying consolidated statement of activities.

Future maturities on the notes payable at December 31, 2016, are due as follows:

Years ending December 31:	
2017	$ 609,477
2018	619,562
2019	629,930
2020	640,589
2021	651,546
Thereafter	8,888,567
	$ 12,039,671

Note 5. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during 2016 consist of the following:

	Balance December 31, 2015	Contributions	Released	Balance December 31, 2016
Purpose restricted:				
Organization Design	$ -	$ 300,000	$ 84,518	$ 215,482
Ethics and Accountability	270,509	-	96,870	173,639
NGEN Initiative	200,002	40,000	200,000	40,002
Gardner Award	53,333	-	48,962	4,371
Website and Digital Strategy	147,929	-	147,929	-
Regional Meetings	31,358	-	31,358	-
C-Suite Program	28,364	-	28,364	-
2016 Candidate Education	23,079	-	23,079	-
Public Policy Action Institute	20,000	-	20,000	-
Tax and Fiscal Policy	110	-	110	-
Total	774,684	340,000	681,190	433,494
Time restricted grants:				
Other	1,701,340	148,200	1,043,333	806,207
	$ 2,476,024	$ 488,200	$ 1,724,523	$ 1,239,701

Note 6. Board Designated Net Assets

The unrestricted net assets of Independent Sector are reported as undesignated and board designated net assets. Undesignated net assets represent the portion of expendable funds that is available to support the operations of Independent Sector, while board designated net assets represent a portion of unrestricted net assets for designated purposes and consists of a short-term building operating fund and a long-term reserve fund which was created to establish a corpus for which investment income will be used for general operations. As of December 31, 2016, board designated net assets include the following:

Long-term quasi-endowment	$ 6,112,008
Short-term building reserve	500,000
	$ 6,612,008

The following disclosures are required for endowment funds. Independent Sector does not have any donor-restricted endowment funds at December 31, 2016, but does have the long-term reserve/quasi endowment fund.

The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. Independent Sector does not have any donor-restricted endowment funds and thus is not currently subject to the provisions of UPMIFA. However, the Board of Directors of Independent Sector is utilizing the guidance of UPMIFA in the administration of its quasi-endowment fund (long-term reserve fund). By definition, the board designated quasi-endowment funds shall be classified as a component of unrestricted net assets at all times as the Board is not able to create a permanent or temporary restriction on net assets as only external donors have this ability.

Note 6. Board Designated Net Assets (Continued)

In accordance with UPMIFA, Independent Sector considers the following factors in making a determination to appropriate or accumulate quasi-endowment funds:

- The duration and preservation of the fund
- The designated purpose(s) of the quasi-endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Independent Sector
- The investment policies of Independent Sector

Independent Sector has adopted investment and spending policies for the quasi-endowment assets that attempt to provide a predictable stream of funding to programs supported by its quasi-endowment and to reduce the likelihood of real principal erosion due to portfolio volatility.

Investment policy: The investment objective of the long-term reserve fund is to preserve the long-term, real purchasing power of the assets while providing a relatively predictable and growing stream of annual distributions in support of the operations of the Organization. The risk profile would indicate maximum loss of approximately -10% to -15% over any one-year period and no loss over the consecutive ten-year investment horizon. The Organization requires that board-designated reserve assets be invested in liquid securities, defined as securities with active and efficient secondary markets. The investment objectives of the short-term operating reserve are to preserve safety of principal, maintain an appropriate level of liquidity to fund operations, and to provide annual investment income to operations.

Spending policy: Independent Sector applies the moving average method of determining year-to-year spending in order to smooth distributions from the combined investment portfolio. The combined portfolio values are determined based on a three-year moving average of monthly combined portfolio market values ending June 30 each year.

Changes in long term reserve fund board designated net assets during 2016 consisted of the following:

Beginning balance	$ 5,858,065
Investment gain	416,003
Appropriated for spending	(162,060)
Ending balance	$ 6,112,008

The $500,000 short-term building operating fund is not considered a quasi-endowment and as such is not included in the schedule above.

Note 7. Fair Value Measurements

In accordance with accounting standards for fair value measurements for financial assets and liabilities measured on a recurring basis, Independent Sector has categorized its applicable financial instruments into a required 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 the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Note 7. Fair Value Measurements (Continued)

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques, as follows:

Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3: Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

The following table summarizes the assets measured at fair value on a recurring basis as of December 31, 2016:

	Total	Level 1
Financial assets:		
Mutual funds:		
Short-term bond	$ 2,069,379	$ 2,069,379
Intermediate-term bond	1,080,469	1,080,469
Short-term government	763,077	763,077
Large blend	663,257	663,257
Small blend	650,919	650,919
Diversified emerging markets	551,448	551,448
Real estate	514,624	514,624
Mid-cap value	505,516	505,516
Large value	329,155	329,155
Pacific/Asia Ex-Japan stock	314,445	314,445
Market neutral	224,476	224,476
Long short equity	195,036	195,036
Foreign large blend	192,209	192,209
Conservative allocation	157,592	157,592
Managed futures	126,614	126,614
World allocation	65,293	65,293
Total	$ 8,403,509	$ 8,403,509

Cash and cash equivalents are excluded from the fair value hierarchy as cash is generally measured at cost. As such, $9,400 of cash held in Independent Sector's investment portfolio at December 31, 2016, has been excluded from the previous table.

Independent Sector's mutual funds are publicly traded and are considered Level 1 items.

Note 8. Commitments

Building: LLC owns a nine-story, 52,896 square-foot building to serve as Independent Sector's headquarters. Independent Sector occupies various floors, with the remaining space of 30,020 square feet available for leasing to tenants and fully rented as of December 31, 2016. Non-cancelable leases with tenants expire between February 28, 2019 and December 31, 2024, and contain fixed escalation clauses for increases in the annual minimum rent and incentive allowances for leasehold improvements, which are recognized as deferred lease incentives and amortized on a straight-line basis over the term of the lease. The difference between the income and the required lease payments to be received is reflected as deferred rent receivable in the accompanying consolidated statement of financial position.

Future minimum rental payments to be received are as follows:

Years ending December 31:	
2017	$ 785,613
2018	1,058,026
2019	767,883
2020	542,562
2021	492,027
2022 – 2024	1,158,336
	$ 4,804,447

Contracts: Independent Sector has entered into agreements with several hotels to provide conference facilities and room accommodations for its meetings in 2017, 2018 and 2019. The agreements contain various clauses, whereby, Independent Sector is liable for liquidated damages in the event of cancellation or lower-than-anticipated attendance. Management of Independent Sector does not believe that any losses will be incurred under these contracts.

Note 9. Retirement Plans

Defined contribution plan: Independent Sector provides retirement benefits for its employees through a 403(b) defined contribution plan. Under the 403(b) plan, all full-time employees of Independent Sector who are at least 21 years of age are eligible to contribute any percentage of their salary up to the federal tax limit. Employees of Independent Sector who have completed one year of service in which they have worked at least 1,000 hours are eligible for employer-matching contributions of 100% of employee contributions up to 7.5% of the employee's annual salary. Vesting in the employer contributions to the plan is based on completed years of service, with 100% vesting by the end of five completed years of service. For the year ended December 31, 2016, employer contributions were $208,672.

Deferred compensation plan: Independent Sector offers its executives or highly compensated employees an opportunity to defer compensation pursuant to Section 457(b) of the Internal Revenue Code, to supplement such employees' retirement benefits under the employer's Employee Retirement Income Security Act (ERISA) qualified retirement plan. Employees are fully vested when plan contributions are made. Qualifying distributions may be made in a lump sum or in equal annual installments over a certain term, as elected by the participant, not to exceed ten years. For the year ended December 31, 2016, there were no employer contributions.