Independent Sector
And Subsidiary

Consolidated Financial Report
December 31, 2013

Contents

McGladrey

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 (collectively, the Organization) which comprise the consolidated statement of financial position as of December 31, 2013, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independent Sector and Subsidiary as of December 31, 2013, 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 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 3, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

McGladrey LLP

Gaithersburg, Maryland
March 28, 2014

Independent Sector And Subsidiary

Consolidated Statement Of Financial Position
December 31, 2013
(With Comparative Totals For 2012)

Assets	**2013**	2012
Cash And Cash Equivalents	**$ 4,650,237**	$ 3,344,503
Investments	**7,197,363**	7,165,101
Accounts And Other Receivables	**61,784**	86,011
Grants Receivable And Promises To Give, net	**1,370,016**	3,621,967
Deferred Rent Receivable	**254,245**	312,539
Deferred Lease Incentives	**849,378**	1,053,074
Property And Equipment, net	**30,488,859**	31,142,347
Debt Issuance Costs, net	**265,583**	258,701
Deferred Compensation Plan Assets	**244,494**	182,592
Other Assets	**65,997**	41,498
Total assets	**$ 45,447,956**	$ 47,208,333

Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 756,889**	$ 562,277
Deferred revenue	**1,640**	141,120
Deferred rent liability	**27,372**	-
Deferred compensation plan liability	**244,494**	182,592
Notes payable	**13,822,812**	14,900,000
Deposits held in escrow	**176,830**	170,030
Total liabilities	**15,030,037**	15,956,019
Net Assets		
Unrestricted		
Undesignated	**24,989,189**	21,042,336
Board designated	**2,500,000**	5,000,000
	27,489,189	26,042,336
Temporarily restricted	**2,928,730**	5,209,978
Total net assets	**30,417,919**	31,252,314
Total liabilities and net assets	**$ 45,447,956**	$ 47,208,333

See Notes To Consolidated Financial Statements.

Independent Sector And Subsidiary

Consolidated Statement Of Activities
Year Ended December 31, 2013
(With Comparative Totals For 2012)

	2013			2012
	Unrestricted	**Temporarily Restricted**	**Total**	Total
Revenue and support:				
Grants and contributions	**$ 2,610,317**	**$ 1,122,039**	**$ 3,732,356**	$ 5,842,672
Membership contributions	**2,802,850**	**-**	**2,802,850**	2,721,305
Rental income	**1,654,341**	**-**	**1,654,341**	1,484,430
Conference fees	**821,420**	**-**	**821,420**	603,540
Interest and dividends	**36,498**	**-**	**36,498**	43,457
Publication sales and other	**2,413**	**-**	**2,413**	5,255
Net assets released from restrictions:				
Satisfaction of program restrictions	**1,133,474**	**(1,133,474)**	**-**	-
Satisfaction of time restrictions	**1,469,813**	**(1,469,813)**	**-**	-
Total revenue and support	**10,531,126**	**(1,481,248)**	**9,049,878**	10,700,659
Expenses:				
Program services:				
National conference	**2,157,233**	**-**	**2,157,233**	1,766,421
Public policy and government affairs	**1,299,541**	**-**	**1,299,541**	1,554,724
Networks and member engagement	**1,002,956**	**-**	**1,002,956**	737,754
Programs and practice	**771,129**	**-**	**771,129**	794,003
Planning and learning	**759,147**	**-**	**759,147**	810,191
Communications and marketing	**550,696**	**-**	**550,696**	576,861
Total program services	**6,540,702**	**-**	**6,540,702**	6,239,954
Supporting services:				
General and administrative	**978,605**	**-**	**978,605**	889,305
Fundraising	**701,688**	**-**	**701,688**	712,705
Membership development	**105,039**	**-**	**105,039**	100,904
Total supporting services	**1,785,332**	**-**	**1,785,332**	1,702,914
Building services:				
Tenant operations	**877,027**	**-**	**877,027**	849,447
Building operations	**431,969**	**-**	**431,969**	418,385
Total building services	**1,308,996**	**-**	**1,308,996**	1,267,832
Total expenses	**9,635,030**	**-**	**9,635,030**	9,210,700
Change in net assets from operations	**896,096**	**(1,481,248)**	**(585,152)**	1,489,959
Grants and Contributions – Fund for IS Leadership	**-**	**-**	**-**	4,600,000
Net Assets Released – Fund for IS Leadership:				
Released for use in debt reduction	**800,000**	**(800,000)**	**-**	-
Realized and unrealized gain (loss) on investments	**5,715**	**-**	**5,715**	(69,017)
Loss on write-off of bond issuance costs	**(254,958)**	**-**	**(254,958)**	-
Change in net assets	**1,446,853**	**(2,281,248)**	**(834,395)**	6,020,942
Net assets:				
Beginning	**26,042,336**	**5,209,978**	**31,252,314**	25,231,372
Ending	**$ 27,489,189**	**$ 2,928,730**	**$ 30,417,919**	$ 31,252,314

See Notes To Consolidated Financial Statements.

Independent Sector And Subsidiary

Consolidated Statement Of Functional Expenses
Year Ended December 31, 2013
(With Comparative Totals For 2012)

	2013													
	Program Services							Supporting Services						
	National Conference	Public Policy And Government Affairs	Networks And Member Engagement	Programs And Practice	Planning And Learning	Communications And Marketing	Total Program Services	General And Administrative	Fundraising	Membership Development	Total Supporting Services	Total Building Services	Consolidated Total	2012 Consolidated Total
Employee costs	$ 611,660	$ 598,064	$ 478,062	$ 342,062	$ 420,777	$ 300,574	$ 2,751,199	$ 1,422,004	$ 459,530	$ 61,975	$ 1,943,509	$ -	$ 4,694,708	$ 4,602,121
Consultants	109,936	211,466	171,919	51,444	68,187	30,588	643,540	421,481	2,272	3,907	427,660	-	1,071,200	1,106,490
Building operations	-	-	-	-	-	-	-	-	-	-	-	1,192,572	1,192,572	1,064,330
Travel/meetings	771,303	29,975	3,891	82,874	9,349	2,197	899,589	39,717	488	-	40,205	-	939,794	647,145
Office supplies/expense	34,643	20,814	28,880	5,672	410	21,048	111,467	134,354	2,323	1,332	138,009	3,784	253,260	212,908
Interest expense	-	-	-	-	-	-	-	-	-	-	-	339,797	339,797	426,696
Printing/reproduction	24,104	7,656	-	-	2,493	3,637	37,890	11,067	-	-	11,067	-	48,957	31,155
Depreciation/amortization	-	-	-	-	-	5,768	5,768	167,720	-	-	167,720	863,633	1,037,121	1,052,559
Telephone/webinars	108	5,413	1,925	3,163	1,604	750	12,963	34,547	901	-	35,448	9,210	57,621	67,296
	1,551,754	873,388	684,677	485,215	502,820	364,562	4,462,416	2,230,890	465,514	67,214	2,763,618	2,408,996	9,635,030	9,210,700
Occupancy	132,310	141,111	98,291	116,774	89,815	65,344	643,645	359,306	82,265	14,784	456,355	(1,100,000)	-	-
	1,684,064	1,014,499	782,968	601,989	592,635	429,906	5,106,061	2,590,196	547,779	81,998	3,219,973	1,308,996	9,635,030	9,210,700
Allocated costs	473,169	285,042	219,988	169,140	166,512	120,790	1,434,641	(1,611,591)	153,909	23,041	(1,434,641)	-	-	-
Total expenses	$ 2,157,233	$ 1,299,541	$ 1,002,956	$ 771,129	$ 759,147	$ 550,696	$ 6,540,702	$ 978,605	$ 701,688	$ 105,039	$ 1,785,332	$ 1,308,996	$ 9,635,030	$ 9,210,700

See Notes To Consolidated Financial Statements.

Independent Sector And Subsidiary

Consolidated Statement Of Cash Flows
Year Ended December 31, 2013
(With Comparative Totals For 2012)

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	**$ (834,395)**	$ 6,020,942
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of property and equipment	**-**	6,675
Loss on extinguishment of note payable	**254,958**	-
Depreciation and amortization	**1,037,121**	1,052,559
Net realized and unrealized (gain) loss on investments	**(5,715)**	69,017
Deferred rent receivable	**58,294**	(27,314)
Deferred lease incentives	**203,696**	(193,671)
Deferred rent liability	**27,372**	(94,990)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts and other receivables	**24,227**	(24,191)
Grants receivable and promises to give	**2,251,951**	3,541
Other assets	**(24,499)**	5,520
Increase (decrease) in:		
Accounts payable and accrued expenses	**194,612**	(105,034)
Deferred revenue	**(139,480)**	141,120
Deferred compensation plan liability	**41,832**	(77,174)
Deposits held in escrow	**6,800**	7,848
Net cash provided by operating activities	**3,096,774**	6,784,848
Cash Flows From Investing Activities		
Proceeds from sales of investments	**15,328,947**	10,301,620
Purchases of investments	**(15,355,494)**	(10,379,108)
(Purchases) redemptions of deferred compensation plan assets	**(41,832)**	77,174
Purchases of property and equipment	**(354,228)**	(253,706)
Net cash used in investing activities	**(422,607)**	(254,020)
Cash Flows From Financing Activities		
Principal payments on notes payable	**(1,077,188)**	(7,750,000)
Payment on extinguishment of note payable	**(14,100,000)**	-
Proceeds from issuance of new notes payable	**14,100,000**	-
Debt issuance costs	**(291,245)**	-
Net cash used in financing activities	**(1,368,433)**	(7,750,000)
Net increase (decrease) in cash and cash equivalents	**1,305,734**	(1,219,172)
Cash And Cash Equivalents:		
Beginning	**3,344,503**	4,563,675
Ending	**$ 4,650,237**	$ 3,344,503
Supplemental Disclosure Of Cash Flow Information		
Cash paid for interest	**$ 339,797**	$ 446,490

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 coalition of approximately 500 national organizations, foundations, and corporate philanthropy programs, collectively representing tens of thousands of charitable groups in every state across the nation. Its mission is to advance the common good by leading, strengthening, and mobilizing the nonprofit and philanthropic community. Independent Sector works to promote effective policies and a healthy legislative environment to help not-for-profit initiatives thrive; research and analyze the scope of the nonprofit organizations; champion effective collaboration among the business, government, and nonprofit sectors; communicate the value of successes of the American tradition of giving and volunteering; and provide the “meeting ground” for the leadership of the philanthropic and nonprofit sector to address emerging trends affecting the sector.

Independent Sector established 1602 IS 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, 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 Non-Profit Entities Topic of the FASB Accounting Standard Codification, 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. The Organization had no permanently restricted net assets at December 31, 2013.

Cash and cash equivalents: The Organization considers money market funds held for operating purposes to be cash equivalents.

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

Independent Sector invests in a portfolio that contains mutual funds and money market 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. Investments are composed of mutual funds, money market funds, and cash. Money market funds and cash deemed to be held for long-term purposes are included with investments, rather than cash equivalents, in the consolidated statement of financial position.

Realized and unrealized gains and losses are recorded as a separate component in the statement of activities.

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. Management deemed no allowance for doubtful accounts was necessary as of December 31, 2013.

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 stated at the fair value at the date of donation. The building is depreciated over 40 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. Building improvements are capitalized for purchases over $10,000. Equipment purchased under capital leases is amortized over the life of the lease. 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 FASB Accounting Standards Codification topic, *Accounting for Impairment or Disposal of Long-Lived Assets*, requires that assets be reviewed 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.

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. During the year ended December 31, 2013, Independent Sector wrote off $254,958 in unamortized debt issuance costs related to the prior debt extinguished during the year.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

<u>Deferred rent and lease incentives</u>: 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.

<u>Classification of net assets</u>: The net assets of Independent Sector are classified and reported as follows:

> *Unrestricted 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 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. The long-term reserve fund is considered a quasi endowment. As such, Independent Sector follows the disclosure requirements of the FASB Codification topic related to endowments, which includes board designated quasi endowments (see Note 7).
>
> *Temporarily restricted net assets* are specifically restricted by donors for various programs or for specific periods.

<u>Revenue recognition</u>: Unrestricted grants and contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. 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.

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.

<u>Functional allocation of expenses</u>: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on the percentage of program costs over total expenses.

<u>Use of estimates</u>: 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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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, 2013, 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, 2013.

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 2010.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. 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, 2012, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2012, summarized comparative data have been reclassified to conform to the December 31, 2013, financial statement presentation. The reclassifications had no effect on the previously reported net assets or change in net assets.

Subsequent events: The Organization evaluated subsequent events through March 28, 2014, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

Investments consist of the following as of December 31, 2013:

Cash	$ 436
Mutual funds	7,196,927
	$ 7,197,363

For the year ended December 31, 2013, investment income consists of the following:

Interest and dividends	$ 36,498
Realized and unrealized gain, net	5,715
	$ 42,213

Independent Sector was invested in cash and government obligations through September 2013, when a revised investment policy was adopted.

Note 3. Grants Receivable And Promises To Give

Grants receivable and promises to give consist of amounts due from foundations and corporations. All amounts are considered fully collectible and are due as follows as of December 31, 2013:

Within one year	$ 1,191,850
One to five years	178,166
	$ 1,370,016

Note 4. Property And Equipment

Property and equipment consist of the following at December 31, 2013:

Building	$ 26,728,691
Land	5,391,820
Building improvements	2,552,213
Furniture, equipment, and software	1,843,890
	36,516,614
Less accumulated depreciation and amortization	(6,027,755)
	$ 30,488,859

Depreciation and amortization expense was $1,037,121 for the year ended December 31, 2013, which includes $29,405 of amortization expense on the debt issuance costs.

Note 5. Notes Payable

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 outstanding balance of the Bonds at December 31, 2013, was $11,435,312. The Bonds mature on June 1, 2028. Interest on the unpaid balance of the Bonds is equal to 2.77% per annum, and is due monthly, beginning on July 1, 2013. Principal payments are due monthly, calculated using a 25-year amortization schedule, with the first principal payment due July 1, 2013. The final payment for the remaining principal balance is due on June 1, 2028, and is expected to be $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 Organization obtained a $1,500,000 loan with a foundation on June 4, 2013. The principal amount is payable in 40 equal quarterly installments, commencing on September 30, 2013. Interest on the unpaid balance of the loan is equal to 1% per annum, due quarterly in arrears beginning on September 30, 2013.

The Organization also obtained a $500,000 loan with a second foundation on June 4, 2013. The principal amount is payable in 40 equal quarterly installments, commencing on September 30, 2013. Interest on the unpaid balance of the loan is equal to 1% per annum, due quarterly in arrears beginning on September 30, 2013.

Finally, the Organization obtained a $500,000 loan with a third foundation on June 4, 2013. The principal amount is payable in 40 equal quarterly installments, commencing on September 30, 2013. Interest on the unpaid balance of the loan is equal to 1% per annum, due quarterly in arrears beginning on September 30, 2013.

The outstanding balance on the foundation loans at December 31, 2013, was $2,387,500. 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 and believes the Organization is in compliance with all required covenants.

Interest expense was $339,797 for the year ended December 31, 2013, and is included in building services in the accompanying consolidated statement of activities.

Future maturities on the notes payable at December 31, 2013 are due as follows:

Years Ending December 31,	
2014	$ 593,348
2015	590,126
2016	599,126
2017	609,477
2018	619,562
2019 and thereafter	10,811,173
	$ 13,822,812

Note 6. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during 2013 consist of the following:

	Balance December 31, 2012	Contributions	Released	Balance December 31, 2013
Purpose restricted:				
National Conference	$ -	$ 550,000	$ -	$ 550,000
Tax and Fiscal Policy	49,500	105,750	90,250	65,000
NGEN Initiative	215,520	30,000	212,519	33,001
Public Policy	-	125,000	100,000	25,000
Leadership	16,700	10,256	26,956	-
Charting Impact	340,919	-	340,919	-
Public Policy Action Institute	-	37,000	37,000	-
Networks and Business Models	158,664	-	158,664	-
Financial Security and Careers in the Sector	-	30,000	30,000	-
Advocacy Study Dissemination and Outreach	50,000	-	50,000	-
Gardner Award	52,166	-	52,166	-
C-Suite Program	-	35,000	35,000	-
Total	883,469	923,006	1,133,474	673,001
Time restricted grants:				
General Operating Support	3,339,009	199,033	1,469,813	2,068,229
Fund for IS Leadership	987,500	-	800,000	187,500
	$ 5,209,978	$ 1,122,039	$ 3,403,287	$ 2,928,730

Note 7. 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, 2013, board designated net assets included $500,000 in the short-term building operating fund and $2,000,000 in the long-term reserve fund.

The following disclosures are required for endowment funds. Independent Sector does not have any donor-restricted endowment funds at December 31, 2013, 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 newly established 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 7. 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 investment time horizon is up to five years and the use of principal for operations is not anticipated. The risk posture adopted indicates a maximum loss of approximately -10% to -15% over any one-year period and no loss over the twenty-year investment horizon. Assets are to be invested in liquid securities, defined as securities with active and efficient secondary markets, with a balanced asset allocation that reflects broad segments of both the equity, alternative and fixed income asset classes.

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.

The quasi-endowment was established at the end of 2013 with a transfer of $2,000,000 from undesignated net assets.

Note 8. 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 8. 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 and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Mutual funds				
Short-term bond	$ 2,069,608	$ 2,069,608	$ -	$ -
Short-term government	2,066,574	2,066,574	-	-
Short-term bond	1,031,397	1,031,397	-	-
Small blend	234,431	234,431	-	-
Market neutral	231,339	231,339	-	-
Large blend	208,884	208,884	-	-
Foreign large blend	204,302	204,302	-	-
Mid-cap value	200,170	200,170	-	-
Long/short equity	183,948	183,948	-	-
Large value	152,389	152,389	-	-
Managed futures	149,153	149,153	-	-
World allocation	140,032	140,032	-	-
Conservative allocation	99,270	99,270	-	-
Pacific/Asia Ex-Japan stk	90,904	90,904	-	-
Diversified emerging markets	78,423	78,423	-	-
Real estate	56,103	56,103	-	-
	7,196,927	7,196,927	-	-
Deferred compensation plan assets:				
Mutual funds:				
Large blend	128,735	128,735	-	-
Target date 2016 – 2020	115,759	115,759	-	-
	244,494	244,494	-	-
	$ 7,441,421	$ 7,441,421	$ -	$ -
Financial liabilities:				
Deferred compensation plan liability	$ 244,494	$ -	$ 244,494	$ -

Note 8. Fair Value Measurements (Continued)

Cash and cash equivalents are excluded from the fair value hierarchy as cash is generally measured at cost. As such, $436 of cash held in Independent Sector's investment portfolio at December 31, 2013, has been excluded from the previous table.

Independent Sector's mutual funds are publicly traded on the New York Stock Exchange and are considered Level 1 items. The deferred compensation liability is based on the fair market value of the deferred compensation plan assets that are observable inputs, but the liability is not publicly traded and is therefore classified as a Level 2 item.

Note 9. 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, 2013. Non-cancelable leases with tenants expire between April 30, 2016 and July 31, 2022, and contain fixed escalation clauses for increases in the annual minimum rent and incentive allowances for leasehold improvements, which 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 in the accompanying consolidated statement of financial position.

Future minimum rental income is as follows:

Years Ending December 31,	
2014	$ 1,154,125
2015	1,149,943
2016	1,085,721
2017	524,636
2018	517,882
2019 – 2023	466,401
	$ 4,898,708

Employment agreement: Independent Sector has an employment contract with its President and CEO. The original agreement was for the year ended December 31, 2006, and was amended on July 1, 2012, to extend through June 30, 2018. Under the terms of the agreement, should Independent Sector terminate the executive's employment without cause, Independent Sector is obligated to pay severance in the amount equal to one year of the executive's base salary plus benefits as of the date of the notice of involuntary termination, less applicable withholding taxes.

Contracts: Independent Sector has entered into agreements with several hotels to provide conference facilities and room accommodations for its meetings through 2017. 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 10. 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 from 2% to 100% of their total pay, up to the federal tax limitation of $17,500 for 2013. 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% on the first 7.5% of the employee's contribution to the plan. Employees are always 100% vested in their own contributions. 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, 2013, employer contributions were $196,883.

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. Plan assets are invested in mutual funds. 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.