Independent Sector and Subsidiary

Consolidated Financial Report
December 31, 2019

Contents

Independent auditor's report	1-2
Financial statements	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of functional expenses	5
Consolidated statement of cash flows	6
Notes to consolidated financial statements	7-18

RSM US LLP

Independent Auditor's Report

Board of Directors
Independent Sector

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, 2019, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Washington, D.C.
April 22, 2020

Independent Sector and Subsidiary

Consolidated Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets		
Cash	**$ 3,127,379**	$ 2,598,934
Investments	**9,443,846**	8,080,118
Accounts and other receivables	**224,528**	157,871
Grants receivable and promises to give, net	**670,319**	2,214,690
Prepaid expenses and other assets	**147,974**	127,276
Deferred rent receivable	**251,820**	303,138
Deferred lease incentives	**164,431**	237,176
Leasing commission costs, net	**118,156**	154,948
Property and equipment, net	**25,353,844**	26,258,150
Deferred compensation plan assets	**92,586**	58,767
Total assets	**$ 39,594,883**	$ 40,191,068
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,307,152**	$ 1,252,447
Deferred rent liability	**2,966**	10,113
Deferred compensation plan liability	**92,586**	58,767
Notes payable	**10,088,867**	10,696,222
Deposits held in escrow	**133,348**	136,701
Total liabilities	**11,624,919**	12,154,250
Commitments (Note 8)		
Net assets:		
Without donor restrictions		
Undesignated	**18,621,260**	19,012,517
Board designated	**7,722,558**	6,639,801
	26,343,818	25,652,318
With donor restrictions	**1,626,146**	2,384,500
Total net assets	**27,969,964**	28,036,818
Total liabilities and net assets	**$ 39,594,883**	$ 40,191,068

See notes to consolidated financial statements.

Independent Sector and Subsidiary

Consolidated Statement of Activities
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2018 Total
Revenue and support:				
Grants and contributions	**$ 3,415,045**	**$ 2,597,185**	**$ 6,012,230**	$ 5,675,404
Membership contributions	**1,656,663**	**-**	**1,656,663**	2,136,856
Rental income	**1,209,782**	**-**	**1,209,782**	1,509,258
Conference fees	**519,384**	**-**	**519,384**	488,455
Investment return designated for current operations	**293,000**	**-**	**293,000**	265,000
Publication sales and other	**84,660**	**-**	**84,660**	75,553
Net assets released from restrictions:				
Satisfaction of program restrictions	**1,985,539**	**(1,985,539)**	**-**	-
Satisfaction of time restrictions	**1,370,000**	**(1,370,000)**	**-**	-
Total revenue and support	**10,534,073**	**(758,354)**	**9,775,719**	10,150,526
Expenses:				
Program services:				
Public policy and community engagement	**1,622,403**	**-**	**1,622,403**	1,496,115
Planning and learning	**190,161**	**-**	**190,161**	973,624
National conference	**2,753,185**	**-**	**2,753,185**	2,908,022
Programs and practice	**1,191,208**	**-**	**1,191,208**	837,014
Communications and marketing	**1,048,068**	**-**	**1,048,068**	940,563
Networks and member engagement	**160,373**	**-**	**160,373**	271,002
Total program services	**6,965,398**	**-**	**6,965,398**	7,426,340
Supporting services:				
Fundraising	**749,374**	**-**	**749,374**	644,061
Membership development	**99,575**	**-**	**99,575**	161,064
General and administrative	**1,387,376**	**-**	**1,387,376**	1,491,338
Strategic visioning	**173,292**	**-**	**173,292**	133,431
Total supporting services	**2,409,617**	**-**	**2,409,617**	2,429,894
Building services:				
Tenant operations	**1,030,649**	**-**	**1,030,649**	911,668
Building operations	**507,633**	**-**	**507,633**	449,030
Total building services	**1,538,282**	**-**	**1,538,282**	1,360,698
Total expenses	**10,913,297**	**-**	**10,913,297**	11,216,932
Change in net assets before investment return (loss)	**(379,224)**	**(758,354)**	**(1,137,578)**	(1,066,406)
Investment return (loss) in excess of amounts for current operations	**1,070,724**	**-**	**1,070,724**	(596,904)
Change in net assets	**691,500**	**(758,354)**	**(66,854)**	(1,663,310)
Net assets:				
Beginning	**25,652,318**	**2,384,500**	**28,036,818**	29,700,128
Ending	**$ 26,343,818**	**$ 1,626,146**	**$ 27,969,964**	$ 28,036,818

See notes to consolidated financial statements.

Independent Sector and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019														
	Program Services							Supporting Services							
	Public Policy & Government Affairs	Planning & Learning	National Conference	Programs & Practice	Communications & Marketing	Networks & Member Engagement	Total Program Services	Fundraising	Membership Development	General & Administrative	Strategic Visioning	Total Supporting Services	Total Building Services	Consolidated Total	2018 Consolidated Total
Employee costs	$ 598,203	$ 116,484	$ 917,483	$ 521,360	$ 593,861	$ 73,793	$ 2,821,184	$ 437,016	$ 55,416	$ 1,574,474	$ 123,185	$ 2,190,091	$ -	$ 5,011,275	$ 5,187,271
Consultants	521,968	-	474,011	132,546	36,757	16,000	1,181,282	61,075	-	493,406	-	554,481	-	1,735,763	1,674,078
Building operations	-	-	-	-	-	-	-	-	-		-	-	1,404,607	1,404,607	1,215,980
Travel and meetings	34,079	4,129	585,212	177,550	5,301	8,429	814,700	19,022	56	84,767	78	103,923	-	918,623	1,122,635
Office supplies	6,236	1,897	31,052	1,226	24,443	8,727	73,581	4,726	-	337,907	-	342,633	53,842	470,056	558,776
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	295,576	295,576	311,005
Printing and reproduction	-	-	3,468	749	-	-	4,217	-	-	5	-	5	-	4,222	2,774
Depreciation and amortization	-	-	-	-	-	-	-	-	-	171,026	-	171,026	879,784	1,050,810	1,103,922
Telephone and webinars	622	-	840	-	1,160	-	2,622	405	-	14,715	-	15,120	4,473	22,215	26,466
In-kind expenses	-	-	-	-	-	150	150	-	-	-	-	-	-	150	14,025
	1,161,108	122,510	2,012,066	833,431	661,522	107,099	4,897,736	522,244	55,472	2,676,300	123,263	3,377,279	2,638,282	10,913,297	11,216,932
Occupancy	150,185	31,186	217,673	129,761	185,570	22,521	736,896	83,431	25,009	237,865	16,799	363,104	(1,100,000)	-	-
Allocated expenses	311,110	36,465	523,446	228,016	200,976	30,753	1,330,766	143,699	19,094	(1,526,789)	33,230	(1,330,766)	-	-	-
Total expenses	$ 1,622,403	$ 190,161	$ 2,753,185	$ 1,191,208	$ 1,048,068	$ 160,373	$ 6,965,398	$ 749,374	$ 99,575	$ 1,387,376	$ 173,292	$ 2,409,617	$ 1,538,282	$ 10,913,297	$ 11,216,932

See notes to consolidated financial statements.

Independent Sector and Subsidiary

Consolidated Statement of Cash Flows
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (66,854)	$ (1,663,310)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,004,106	1,048,016
Amortization of debt issuance costs	22,720	25,185
Amortization of leasing commission costs	46,704	55,906
Net realized and unrealized (gain) loss on investments	(1,206,620)	456,656
Deferred rent receivable	51,318	65,350
Deferred lease incentives	72,745	107,936
Deferred rent liability	(7,147)	(44,992)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts and other receivables	(66,657)	25,144
Grants receivable and promises to give	1,544,371	218,370
Prepaid expenses and other assets	(20,698)	1,871
Increase (decrease) in:		
Accounts payable and accrued expenses	54,705	286,606
Deferred compensation	33,819	17,585
Deposits held in escrow	(3,353)	19,700
Net cash provided by operating activities	1,459,159	620,023
Cash flows from investing activities:		
Proceeds from sales of investments	31,158	35,732
Purchases of investments	(222,085)	(178,068)
Purchases of property and equipment	(99,800)	(84,078)
Payments of leasing commission costs	(9,912)	(28,300)
Net cash used in investing activities	(300,639)	(254,714)
Cash flows from financing activities:		
Principal payments on notes payable	(630,075)	(619,562)
Net cash used in financing activities	(630,075)	(619,562)
Net increase (decrease) in cash	528,445	(254,253)
Cash:		
Beginning	2,598,934	2,853,187
Ending	$ 3,127,379	$ 2,598,934
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 272,856	$ 286,672

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The consolidated financial statements (collectively, the financial statements) of 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 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 LLC are collectively referred to as the Organization.

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

Basis of accounting: The accompanying 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 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 two classes of net assets: with donor restrictions and without donor restrictions.

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.

The Organization 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 financial statements.

Investments: Investments with readily determinable fair values are reflected at fair market value. 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.

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

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 their estimated 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 due in one year, are fully collectible, and no allowance for doubtful accounts is necessary as of December 31, 2019.

Property and equipment and related depreciation and amortization: Property and equipment are stated at cost less accumulated depreciation, with depreciation determined 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 40 years. Building improvements are depreciated over 10 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 at December 31, 2019, was $266,887.

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.

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 (U.S. GAAP), 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 recognized on the straight-line basis and the required lease payments received is reflected as deferred rent receivable and deferred lease incentives in the accompanying consolidated statement of financial position.

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

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

Net assets without donor restrictions: 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 net assets without donor restrictions for designated purposes and consists of a short-term building reserve fund and a long-term quasi-endowment fund that was created to establish a corpus for which investment income will be used for general operations.

Net assets with donor restrictions are specifically restricted by donors for various programs or for specific periods of time.

Revenue recognition: Conference fees are comprised of registration fees for the annual conference. Fee prices are fixed for the type of registrant and contain no financing component or variable consideration. Registration opens in March annually for the October conference held within the same calendar year. The conference fee is recognized over the time the conference occurs which is consistent with the performance obligations satisfied by the Independent Sector. Payment is due upon registration and cancellable within 30 days of the conference.

Economic downturns can affect the level of revenues for all the revenue streams or can have a positive impact on cash flows in good economic times. In addition, sponsorships and annual conference related revenues can be affected by the location of the annual conference.

Grants and contributions are reported as support in the year in which payments are received and/or unconditional promises are communicated to Independent Sector. Grants and contributions are reported as donor 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), donor restricted net assets are reclassified to net assets without donor restrictions 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 support without donor restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recognized until the conditions are met. The Organization did not have any conditional contributions as of December 31, 2019.

Membership contributions are recognized as unconditional support 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.

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 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 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 the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) and the applicable income tax regulations of the District of Columbia, the Independent Sector is exempt from taxes on income other than unrelated business income. The Independent Sector's net operating losses (NOL) totaled $799,491 as of December 31, 2019, and will begin to expire in 2029. As of December 31, 2019, the Association did not reflect deferred tax assets on a net basis as a valuation allowance was established based on consideration of all available evidence.

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, 2019.

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 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.

Management evaluated the Organization's tax positions and concluded that the Organization has taken no uncertain tax positions that require adjustment to the 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 2016.

Prior year information: The 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 U.S. GAAP. Accordingly, such information should be read in conjunction with Independent Sector's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Subsequent events: The Organization evaluated subsequent events through April 22, 2020, which is the date the financial statements were available to be issued. Management is continually monitoring the potential impact of COVID-19. Management will review and adjust planned activities should there be a significant impact on revenues of the Organization. Management has determined no adjustment is needed at April 22, 2020. Independent Sector was approved on April 16, 2020 for a $841,995 loan through the Paycheck Protection Program.

Adopted accounting pronouncements: 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 replaces most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The ASU was adopted by the Organization in 2019. The adoption of this ASU had no impact on the Organization other than expanded disclosures of revenue recognition.

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

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*. This new standard clarifies the scope and the accounting guidance for contributions received. The amendments in this ASU should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. The ASU has different effective dates for resource recipients and resource providers. The Organization adopted the ASU for the year ended December 31, 2019, and as resource recipient and provider on a modified prospective basis. The adoption did not have a material impact on the Organization as of December 31, 2019.

Recent accounting pronouncements: 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, 2021, with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

Note 2. Investments and Deferred Compensation Plan Assets

Investments and deferred compensation plan assets consist of the following as of December 31, 2019:

Cash	$	205
Mutual funds		9,536,227
	$	9,536,432

For the year ended December 31, 2019, investment income consists of the following:

Interest and dividends	$	188,266
Realized and unrealized gain		1,206,620
Investment fees		(31,162)
		1,363,724
Investment income designated for current operations		(293,000)
Investment income in excess of amounts designated for current operations	$	1,070,724

Note 3. Property and Equipment

Property and equipment consist of the following at December 31, 2019:

Building	$ 26,729,411
Land	5,391,820
Building improvements	2,466,540
Furniture, equipment and software	2,704,447
	37,292,218
Less accumulated depreciation and amortization	(11,938,374)
	$ 25,353,844

Depreciation expense was $1,004,106 for the year ended December 31, 2019.

Note 4. Notes Payable

Notes payable as of December 31, 2019, consist of the following:

Multi-modal revenue bonds	$ 9,054,871
Foundation loans	1,125,000
	10,179,871
Less unamortized debt issuance costs	(91,004)
	$ 10,088,867

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, 2019, was $9,054,871.

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 1, 2023. The outstanding balance on the Organization loans at December 31, 2019, was $1,125,000. 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 and believes the Organization is in compliance with all required covenants.

Note 4. Notes Payable (Continued)

Interest expense was $295,576 for the year ended December 31, 2019, and is included in building services in the accompanying consolidated statement of activities.

Future maturities on the notes payable at December 31, 2019, are due as follows:

Years ending December 31:	
2020	$ 640,589
2021	651,546
2022	662,812
2023	549,393
2024	436,299
Thereafter	7,239,232
	$ 10,179,871

Note 5. Donor Restricted Net Assets

Changes in net assets with donor restrictions during 2019 consist of the following:

	Balance December 31, 2018	Contributions	Released	Balance December 31, 2019
Purpose restricted:				
Workstream	$ 49,118	$ -	$ 16,187	$ 32,931
21st Century Leadership	-	842,120	257,329	584,791
NGEN Program	200,002	-	200,002	-
Stories for Good Podcast	4,456	-	4,456	-
Upswell	225,000	1,502,565	1,292,565	435,000
Policy	155,000	60,000	215,000	-
	633,576	2,404,685	1,985,539	1,052,722
Time-restricted grants:				
General operating support	1,508,424	125,000	1,167,500	465,924
Membership	242,500	67,500	202,500	107,500
Total time restricted	1,750,924	192,500	1,370,000	573,424
	$ 2,384,500	$ 2,597,185	$ 3,355,539	$ 1,626,146

Note 6. Board-designated Net Assets

The net assets without donor restrictions 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 net assets without donor restrictions 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, 2019, board-designated net assets include the following:

Long-term quasi-endowment	$ 7,222,558
Short-term building reserve	500,000
	$ 7,722,558

The following disclosures are required for endowment funds. Independent Sector does not have any donor-restricted endowment funds at December 31, 2019, 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.

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.

Note 6. Board-designated Net Assets (Continued)

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 10-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 2019 consisted of the following:

Beginning balance	$ 6,139,801
Investment income, net	1,336,571
Appropriated for spending	(253,814)
Ending balance	$ 7,222,558

The $500,000 short-term building reserve 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.

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.

Note 7. Fair Value Measurements (Continued)

The following table summarizes the assets measured at fair value on a recurring basis as of December 31, 2019:

	Total	Level 1	Level 2
Assets:			
Mutual funds:			
Conservative Allocation	$ 202,771	$ 202,771	$ -
Diversified Emerging Markets	718,778	718,778	-
Foreign Large Blend	250,294	250,294	-
Intermediate – Term Bond	1,343,677	1,343,677	-
Large Blend	947,789	947,789	-
Large Value	402,503	402,503	-
Long-Short Equity	275,744	275,744	-
Managed Futures	152,283	152,283	-
Market Neutral	232,175	232,175	-
Mid-Cap Value	676,340	676,340	-
Pacific/Asia Ex-Japan Stk	399,974	399,974	-
Real Estate	631,336	631,336	-
Short Government	497,043	497,043	-
Short-Term Bond	1,871,683	1,871,683	-
Small Growth	853,047	853,047	-
World Allocation	80,790	80,790	-
Total assets held at fair value	$ 9,536,227	$ 9,536,227	$ -
Investments	$ 9,443,641	$ 9,443,641	$ -
Deferred compensation plan assets	92,586	92,586	-
	9,536,227	9,536,227	-
Investments at cost – cash	205	-	-
	$ 9,536,432	$ 9,536,227	$ -
Liabilities:			
Deferred compensation plan liability	$ 92,586	$ -	$ 92,586
Total liabilities held at fair value	$ 92,586	$ -	$ 92,586

Cash is excluded from the fair value hierarchy as cash is generally measured at cost.

Mutual funds are classified as Level 1 investments, as they are actively traded on public exchanges and valued based on quoted market prices.

The fair value of the deferred compensation plan liability is based on observable market data as underlying assets are investments; however, the liability is not actively traded and, as a result, is classified as a Level 2 investment.

Note 8. Commitments and Contingency

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 partially rented as of December 31, 2019. Non-cancelable leases with tenants expire between April 30, 2020 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 rental income recognized on the straight-line basis and the required lease payments received is reflected as deferred rent receivable and deferred lease incentives in the accompanying consolidated statement of financial position.

Future minimum rental payments to be received are as follows:

Years ending December 31:	
2020	$ 642,425
2021	508,892
2022	415,881
2023	366,634
2024	375,820
	$ 2,309,652

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, 2019, employer contributions were $194,930.

Deferred compensation plan: Independent Sector offers its executives or highly compensated employees an opportunity to defer compensation pursuant to Section 457(b) of the IRC, 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 10 years. For the year ended December 31, 2019, employer contributions were $18,875.

Note 10. Liquidity

Independent Sector strives to maintain liquid financial assets sufficient to cover six months of general expenditures, estimated by the Organization to be approximately $5 million. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects the Organization's financial assets as of December 31, 2019, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include net assets with donor restrictions, a board-designated long-term reserve fund that is intended to establish a corpus for which investment income will be used for general operations, and a board-designated short-term building reserve fund. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

Financial assets at year-end:	
Cash	$ 3,127,379
Accounts and other receivables	224,528
Grants receivable and promises to give, net	670,319
Investments	9,443,846
Total financial assets	13,466,072
Less amounts not available to be used within one year:	
Net assets with donor restrictions	1,626,146
Less net assets with time restrictions to be met in less than a year	(983,333)
Board designated reserve fund	7,722,558
	8,365,371
Financial assets available to meet general expenditures over the next 12 months	$ 5,100,701