Independent Sector and Subsidiary

Consolidated Financial Report
December 31, 2014

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, 2014, 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 from 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, 2014, 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 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 28, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

McGladrey LLP

Gaithersburg, Maryland
April 1, 2015

Independent Sector and Subsidiary

Consolidated Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)

Assets	**2014**	2013
Cash	**$ 3,156,968**	$ 4,650,237
Investments	**9,373,758**	7,197,363
Accounts and Other Receivables	**40,526**	61,784
Grants Receivable and Promises to Give, Net	**1,379,365**	1,370,016
Prepaid Expenses and Other Assets	**185,582**	65,997
Deferred Rent Receivable	**225,212**	254,245
Deferred Lease Incentives	**645,681**	849,378
Property and Equipment, Net	**29,774,387**	30,488,859
Debt Issuance Costs, Net	**229,965**	265,583
Deferred Compensation Plan Assets	**275,234**	244,494
Total assets	**$ 45,286,678**	$ 45,447,956

Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 1,127,044**	$ 756,889
Deferred revenue	**88,920**	1,640
Deferred rent liability	**65,343**	27,372
Deferred compensation plan liability	**275,234**	244,494
Notes payable	**13,229,490**	13,822,812
Deposits held in escrow	**176,830**	176,830
Total liabilities	**14,962,861**	15,030,037
Net Assets		
Unrestricted		
Undesignated	**23,415,891**	24,989,189
Board designated	**4,521,437**	2,500,000
	27,937,328	27,489,189
Temporarily restricted	**2,386,489**	2,928,730
Total net assets	**30,323,817**	30,417,919
Total liabilities and net assets	**$ 45,286,678**	$ 45,447,956

See Notes to Consolidated Financial Statements.

Independent Sector and Subsidiary

Consolidated Statement of Activities
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			
	Unrestricted	**Temporarily Restricted**	**Total**	2013 Total
Revenue and Support				
Grants and contributions	**$ 3,141,538**	**$ 1,720,395**	**$ 4,861,933**	$ 3,732,356
Membership contributions	**2,620,553**	**-**	**2,620,553**	2,802,850
Rental income	**1,653,455**	**-**	**1,653,455**	1,654,341
Conference fees	**851,783**	**-**	**851,783**	821,420
Investment return designated for current operations	**180,000**	**-**	**180,000**	36,498
Publication sales and other	**23,452**	**-**	**23,452**	2,413
Net assets released from restrictions:				
Satisfaction of program restrictions	**673,001**	**(673,001)**	**-**	-
Satisfaction of time restrictions	**1,402,135**	**(1,402,135)**	**-**	-
Total revenue and support	**10,545,917**	**(354,741)**	**10,191,176**	9,049,878
Expenses				
Program services:				
National conference	**1,478,599**	**-**	**1,478,599**	2,157,233
Public policy and government affairs	**1,342,247**	**-**	**1,342,247**	1,299,541
Networks and member engagement	**961,450**	**-**	**961,450**	1,002,956
Programs and practice	**880,372**	**-**	**880,372**	771,129
Planning and learning	**452,361**	**-**	**452,361**	626,985
Communications and marketing	**599,896**	**-**	**599,896**	550,696
Total program services	**5,714,925**	**-**	**5,714,925**	6,408,540
Supporting services:				
General and administrative	**810,868**	**-**	**810,868**	978,605
Fundraising	**744,789**	**-**	**744,789**	701,688
Membership development	**98,352**	**-**	**98,352**	105,039
Strategic visioning	**1,681,990**	**-**	**1,681,990**	132,162
Total supporting services	**3,335,999**	**-**	**3,335,999**	1,917,494
Building services:				
Tenant operations	**844,556**	**-**	**844,556**	877,027
Building operations	**415,976**	**-**	**415,976**	431,969
Total building services	**1,260,532**	**-**	**1,260,532**	1,308,996
Total expenses	**10,311,456**	**-**	**10,311,456**	9,635,030
Change in net assets from operations	**234,461**	**(354,741)**	**(120,280)**	(585,152)
Investment return in excess of amounts designated for current operations	**26,178**	**-**	**26,178**	5,715
Net assets released – Fund for IS Leadership Released for use in debt reduction	**187,500**	**(187,500)**	**-**	-
(Loss) on write-off of bond issuance costs	**-**	**-**	**-**	(254,958)
Change in net assets	**448,139**	**(542,241)**	**(94,102)**	(834,395)
Net Assets				
Beginning	**27,489,189**	**2,928,730**	**30,417,919**	31,252,314
Ending	**$ 27,937,328**	**$ 2,386,489**	**$ 30,323,817**	$ 30,417,919

See Notes to Consolidated Financial Statements.

Independent Sector and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014														
	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	Strategic Visioning	Total Supporting Services	Total Building Services	Consolidated Total	2013 Consolidated Total
Employee Costs	$ 498,828	$ 625,136	$ 523,136	$ 470,553	$ 284,184	$ 367,717	$ 2,769,554	$ 1,347,215	$ 489,667	$ 65,219	$ 479,931	$ 2,382,032	$ -	$ 5,151,586	$ 4,694,708
Consultants	118,921	215,882	88,767	31,927	3,098	24,201	482,796	426,105	16,421	-	795,517	1,238,043	-	1,720,839	1,071,200
Building Operations	-	-	-	-	-	-	-	-	-	-	-	-	1,099,287	1,099,287	1,192,572
Travel/Meetings	404,924	40,115	8,467	92,958	9,834	4,722	561,020	33,334	1,831	-	8,863	44,028	-	605,048	939,794
Office Supplies/Expense	56,128	29,681	35,773	2,630	2,953	13,459	140,624	149,406	1,540	-	451	151,397	48,835	340,856	253,260
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	334,647	334,647	339,797
Printing/Reproduction	1,418	6	2,723	292	-	2,952	7,391	12,139	-	-	-	12,139	-	19,530	48,957
Depreciation/Amortization	-	-	-	-	-	-	-	108,896	-	-	-	108,896	868,528	977,424	1,037,121
Telephone/Webinars	729	8,519	540	5,697	1,378	450	17,313	34,655	906	-	130	35,691	9,235	62,239	57,621
	1,080,948	919,339	659,406	604,057	301,447	413,501	3,978,698	2,111,750	510,365	65,219	1,284,892	3,972,226	2,360,532	10,311,456	9,635,030
Occupancy	109,233	161,087	114,502	104,588	62,676	69,378	621,464	306,438	89,144	13,948	69,006	478,536	(1,100,000)	-	-
Total before allocation of general and administrative costs	1,190,181	1,080,426	773,908	708,645	364,123	482,879	4,600,162	2,418,188	599,509	79,167	1,353,898	4,450,762	1,260,532	10,311,456	9,635,030
Allocated General and Administrative Costs	288,418	261,821	187,542	171,727	88,238	117,017	1,114,763	(1,607,320)	145,280	19,185	328,092	(1,114,763)	-	-	-
Total expenses	$ 1,478,599	$ 1,342,247	$ 961,450	$ 880,372	$ 452,361	$ 599,896	$ 5,714,925	$ 810,868	$ 744,789	$ 98,352	$ 1,681,990	$ 3,335,999	$ 1,260,532	$ 10,311,456	$ 9,635,030

See Notes to Consolidated Financial Statements.

Independent Sector and Subsidiary

Consolidated Statement of Cash Flows
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	**$ (94,102)**	$ (834,395)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on extinguishment of note payable	**-**	254,958
Depreciation and amortization	**977,424**	1,037,121
Net realized and unrealized gain on investments	**(87,552)**	(5,715)
Deferred rent receivable	**29,033**	58,294
Deferred lease incentives	**203,697**	203,696
Deferred rent liability	**37,971**	27,372
Changes in assets and liabilities:		
Increase (decrease) in:		
Accounts and other receivables	**21,258**	24,227
Grants receivable and promises to give	**(9,349)**	2,251,951
Prepaid expense and other assets	**(119,585)**	(24,499)
Increase (decrease) in:		
Accounts payable and accrued expenses	**304,951**	194,612
Deferred revenue	**87,280**	(139,480)
Deferred compensation plan liability	**13,125**	41,832
Deposits held in escrow	**-**	6,800
Net cash provided by operating activities	**1,364,151**	3,096,774
Cash Flows From Investing Activities		
Proceeds from sales of investments	**5,210,478**	15,328,947
Purchases of investments	**(7,299,321)**	(15,355,494)
Purchases of deferred compensation plan assets	**(13,125)**	(41,832)
Purchases of property and equipment	**(162,130)**	(354,228)
Net cash used in investing activities	**(2,264,098)**	(422,607)
Cash Flows From Financing Activities		
Principal payments on notes payable	**(593,322)**	(1,077,188)
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	**(593,322)**	(1,368,433)
Net (decrease) increase in cash	**(1,493,269)**	1,305,734
Cash		
Beginning	**4,650,237**	3,344,503
Ending	**$ 3,156,968**	$ 4,650,237
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 336,631**	$ 339,797
Supplemental Disclosure of Non-cash Investing Activities		
Equipment acquired through accounts payable	**$ 65,204**	$ -

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. Independent Sector had no permanently restricted net assets at December 31, 2014.

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 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. Management deemed no allowance for doubtful accounts was necessary as of December 31, 2014.

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 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. 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.

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.

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

Deferred rent 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 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.

Revenue recognition: Unrestricted 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.

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

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.

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, 2014, 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, 2014.

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 2011.

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, 2013, 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 1, 2015, 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, 2014:

Cash	$ 8,507
Mutual funds	9,365,251
	$ 9,373,758

For the year ended December 31, 2014, investment income consists of the following:

Interest and dividends	$ 118,626
Realized gains	110,697
Unrealized losses	(23,145)
	206,178
Investment return designated for current operations	(180,000)
Investment return in excess of amounts designated for current operations	$ 26,178

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, 2014.

Within one year	$ 1,004,365
One to five years	375,000
	$ 1,379,365

Note 4. Property and Equipment

Property and equipment consist of the following at December 31, 2014:

Building	$ 26,728,691
Land	5,391,820
Building improvements	2,552,213
Furniture, equipment, and software	2,071,225
	36,743,949
Less accumulated depreciation and amortization	(6,969,562)
	$ 29,774,387

Depreciation and amortization expense was $977,424 for the year ended December 31, 2014, which includes $35,618 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 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, 2014, was $11,104,490.

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 September 30, 2023. The outstanding balance on the foundation loans at December 31, 2014, was $2,125,000. 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.

Interest expense was $334,647 for the year ended December 31, 2014, and is included in building services in the accompanying consolidated statement of activities.

Future maturities on the notes payable at December 31, 2014, are due as follows:

Year Ending December 31,	
2015	$ 590,126
2016	599,668
2017	609,477
2018	619,562
2019	629,930
Thereafter	10,180,727
	$ 13,229,490

Note 6. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during 2014 consist of the following:

	Balance December 31, 2013	Contributions	Released	Balance December 31, 2014
Purpose restricted				
NGEN Initiative	$ 33,001	$ 410,259	$ 33,001	$ 410,259
Networks and Business Models	-	250,000	-	250,000
C-Suite Program	-	125,173	-	125,173
Gardner Award	-	111,140	-	111,140
Ethics & Accountability	-	100,000	-	100,000
Regional Meetings	-	50,000	-	50,000
Tax and Fiscal Policy	65,000	34,823	65,000	34,823
National Conference	550,000	-	550,000	-
Public Policy	25,000	-	25,000	-
Total	673,001	1,081,395	673,001	1,081,395
Time restricted grants				
General Operating Support	2,068,229	639,000	1,402,135	1,305,094
Fund for IS Leadership	187,500	-	187,500	-
	$ 2,928,730	$ 1,720,395	$ 2,262,636	$ 2,386,489

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, 2014, board designated net assets include the following:

Long-term quasi-endowment	$ 4,021,437
Short-term building reserve	500,000
	$ 4,521,437

The following disclosures are required for endowment funds. Independent Sector does not have any donor-restricted endowment funds at December 31, 2014, 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 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.

Changes in long term reserve fund board designated net assets during 2014 consisted of the following:

Beginning balance	$ 2,000,000
Contributions	2,000,000
Investment income	168,829
Appropriated for spending	(147,392)
Ending balance	$ 4,021,437

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 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, 2014:

	Total	Level 1	Level 2	Level 3
Financial assets				
Mutual funds				
Short-term bond	$ 3,127,174	$ 3,127,174	$ -	$ -
Short-term government	2,090,823	2,090,823	-	-
Small blend	495,774	495,774	-	-
Market neutral	508,280	508,280	-	-
Large blend	440,473	440,473	-	-
Foreign large blend	366,415	366,415	-	-
Mid-cap value	426,379	426,379	-	-
Long/short equity	333,707	333,707	-	-
Large value	309,130	309,130	-	-
Managed futures	329,071	329,071	-	-
World allocation	272,281	272,281	-	-
Conservative allocation	194,844	194,844	-	-
Pacific/Asia Ex-Japan stk	180,638	180,638	-	-
Diversified emerging markets	151,004	151,004	-	-
Real estate	139,258	139,258	-	-
	9,365,251	9,365,251	-	-
Deferred compensation plan assets:				
Mutual funds:				
Large blend	146,737	146,737	-	-
Target date 2016 – 2020	128,497	128,497	-	-
	275,234	275,234	-	-
	$ 9,640,485	$ 9,640,485	$ -	$ -
Financial liabilities				
Deferred compensation plan liability	$ 275,234	$ -	$ 275,234	$ -

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, $8,507 of cash held in Independent Sector's investment portfolio at December 31, 2014, has been excluded from the previous table.

Independent Sector's mutual funds are publicly traded 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, 2014. 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 payments to be received are as follows:

Year Ending December 31,	
2015	$ 1,185,823
2016	1,092,897
2017	524,636
2018	517,882
2019	213,924
2020 – 2022	252,477
	$ 3,787,639

Employment agreement: Independent Sector has an employment contract with its President and CEO 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 2016. 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 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% 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, 2014, employer contributions were $126,774.

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.