FINANCIAL STATEMENTS

SisterCities
INTERNATIONAL

FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

SISTER CITIES INTERNATIONAL

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GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Sister Cities International (Sister Cities), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sister Cities as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gelman Rozenberg & Freedman

June 24, 2014

SISTER CITIES INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 1,082,115	$ 1,918,184
Investments (Notes 2 and 8)	69,228	35,937
Grants receivable	64,946	6,953
Other receivables and advances	74,882	38,881
Prepaid expenses	76,944	76,826
Total current assets	1,368,115	2,076,781
FURNITURE AND EQUIPMENT		
Furniture and equipment, net of accumulated depreciation of $229,499 and $216,335 for 2013 and 2012, respectively	30,140	43,304
NONCURRENT ASSETS		
Investments (Notes 2 and 8)	93,599	100,181
Security deposits	81,555	41,747
Total noncurrent assets	175,154	141,928
TOTAL ASSETS	**$ 1,573,409**	**$ 2,262,013**

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Lines of credit (Note 3)	$ -	$ 59,956
Accounts payable and accrued expenses	33,837	234,639
Refundable advances	13,649	2,428
Deferred membership dues	53,530	42,380
Deferred event revenue	17,825	79,041
Total current liabilities	118,841	418,444
NONCURRENT LIABILITIES		
Deferred rent (Note 7)	73,828	55,178
Total liabilities	192,669	473,622
NET ASSETS		
Unrestricted:		
Undesignated	1,209,240	1,625,554
Board-designated (Note 4)	171,500	162,837
Total unrestricted net assets	1,380,740	1,788,391
TOTAL LIABILITIES AND NET ASSETS	**$ 1,573,409**	**$ 2,262,013**

See accompanying notes to financial statements.

SISTER CITIES INTERNATIONAL

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
SUPPORT AND REVENUE		
U.S. Government awards	$ 373,777	$ 594,382
Contributions and grants	1,016,023	5,276,323
In-kind contributions	65,266	213,694
Conferences and events	318,521	244,784
Membership dues	308,637	291,340
Awards and visa fees	1,700	2,000
Interest and investment income (Note 2)	6,447	24,174
Other	5,849	16,247
Total support and revenue	2,096,220	6,662,944
EXPENSES (Note 5)		
Salaries, taxes and related benefits (Note 6)	771,550	858,379
Professional fees	94,279	47,160
Office supplies and expense	20,857	18,154
Telecommunications	22,883	12,639
Postage and shipping	8,924	10,142
Occupancy (Note 7)	154,926	169,493
Equipment expense	7,957	6,201
Printing and publications	23,594	38,738
Travel	334,522	337,074
Conferences, conventions and meetings	194,121	121,845
Depreciation	13,164	45,807
Grants and contracts	627,125	2,573,022
Other program services	40,644	52,180
Insurance	9,055	8,371
Consultants	51,367	374,546
Interns	10,308	8,286
Computer and website	89,931	103,544
Bank fees	17,122	21,115
Interest expense	3,103	6,303
Other	8,439	(4,322)
Total expenses	2,503,871	4,808,677
Changes in net assets	(407,651)	1,854,267
Net assets (deficit) at beginning of year	1,788,391	(65,876)
NET ASSETS AT END OF YEAR	**$ 1,380,740**	**$ 1,788,391**

See accompanying notes to financial statements.

SISTER CITIES INTERNATIONAL

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (407,651)	$ 1,854,267
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	13,164	45,807
Donated investments	-	(272)
Unrealized loss (gain) on investments	2,080	(42,524)
Realized (gain) loss on sales of investments	(4,098)	48,797
Deferred rent	18,650	10,453
(Increase) decrease in:		
Grants receivable	(57,993)	(6,953)
Other receivables and advances	(36,001)	46,187
Prepaid expenses	(118)	805
Security deposits	(39,808)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(200,802)	160,907
Refundable advances	11,221	(4,540,348)
Deferred membership dues	11,150	(6,130)
Deferred event revenue	(61,216)	63,851
Net cash used by operating activities	(751,422)	(2,365,153)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(56,380)	(24,604)
Proceeds from sales of investments	31,689	2,001,293
Net cash (used) provided by investing activities	(24,691)	1,976,689
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on lines of credit	(59,956)	(28,106)
Principal payments on capital lease obligation	-	(30,943)
Net cash used by financing activities	(59,956)	(59,049)
Net decrease in cash and cash equivalents	(836,069)	(447,513)
Cash and cash equivalents at beginning of year	1,918,184	2,365,697
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,082,115**	**$ 1,918,184**
SUPPLEMENTAL INFORMATION:		
Interest Paid	**$ 3,103**	**$ 6,303**

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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

Basis of presentation -

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

Classification of net assets -

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

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Sister Cities and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Sister Cities and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions. At December 31, 2013 and 2012, Sister Cities had no temporarily restricted net assets.

Contributions and grants -

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

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

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

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

Cash and cash equivalents -

For financial statement presentation, cash and money market accounts, with maturities of three months or less, are considered to be cash equivalents. Included in cash and cash equivalents as of December 31, 2013 and 2012 are $8,673 and $27,298, respectively, which have been internally designated by the Board of Directors (see Note 4).

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

Other receivables and advances -

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

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in interest and investment income in the accompanying Statements of Activities and Changes in Net Assets.

Furniture and equipment -

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

Income taxes -

Sister Cities is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for Federal income taxes in the accompanying financial statements. Sister Cities is not a private foundation.

Uncertain tax positions -

For the years ended December 31, 2013 and 2012, Sister Cities has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

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

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

In-kind contributions -

In-kind contributions consist primarily of time donated by consultants and attorneys. These services are reported at their fair value, based on estimates of the number of donated hours and market rates for the services provided. In-kind contributions of $65,266 and $213,694, representing the fair value of these services, have been recorded as revenue and expenses in the accompanying financial statements for the years ended December 31, 2013 and 2012, respectively.

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

Membership dues -

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

Use of estimates -

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

Investment risks and uncertainties -

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

Fair value measurement -

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

2. INVESTMENTS

Investments at December 31, 2013 and 2012 are comprised of the following:

	2013		2012	
	Fair Value	Cost Basis	Fair Value	Cost Basis
Current:				
Common stock	$ -	$ -	$ 580	$ 526
Mutual funds	60,049	39,336	35,357	22,839
Government Securities	9,179	10,007	-	-
Subtotal - current investments	69,228	49,343	35,937	23,365
Noncurrent:				
Corporate bonds	83,038	81,228	79,141	68,417
Certificates of deposit	10,561	10,000	21,040	20,000
Subtotal - noncurrent investments	93,599	91,228	100,181	88,417
TOTAL INVESTMENTS	**$ 162,827**	**$ 140,571**	**$ 136,118**	**$ 111,782**

The following are included in interest and investment income for the years ended December 31, 2013 and 2012:

	2013	2012
Interest and dividends	$ 4,429	$ 30,447
Unrealized (loss) gain on investments	(2,080)	42,524
Realized gain (loss) on sales of investments	4,098	(48,797)
TOTAL INTEREST AND INVESTMENT INCOME	**$ 6,447**	**$ 24,174**

3. LINES OF CREDIT

Sister Cities established a line of credit with a local financial institution in the amount of $80,000. The line of credit is secured by Sister Cities' receivables. Borrowings on the line bear interest of 8.25% at December 31, 2013 and 2012. Outstanding borrowings aggregated $0 and $5,467 as of December 31, 2013 and 2012, respectively.

During 2009, Sister Cities established a second line of credit with a local financial institution in the amount of $60,000. The line of credit is secured by Sister Cities' receivables. Borrowings on the line bear interest of 5.25% at December 31, 2013 and 2012. Outstanding borrowings (including accrued interest) aggregated $0 and $54,489 as of December 31, 2013 and 2012, respectively.

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

4. UNRESTRICTED BOARD-DESIGNATED NET ASSETS

The Board of Directors designated a portion of Sister Cities' unrestricted net assets in the name of Lou Wozar. As of December 31, 2013 and 2012, the amounts designated by the Board of Directors totaled $171,500 and $162,837, respectively (Note 1).

5. FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses of Sister Cities, on a functional basis, are estimated as follows at December 31, 2013 and 2012:

	2013	2012
Program Services	$ 1,881,451	$ 3,939,328
Development	10,138	36,092
Management and General	612,282	833,257
TOTAL EXPENSES	**$ 2,503,871**	**$ 4,808,677**

6. RETIREMENT PLAN

Sister Cities offers its employees retirement benefits through a 403(b) plan. The plan covers all employees who have attained the age of 18 and have been employed for a minimum of six months. Sister Cities currently contributes 5% of each eligible employee's gross salary to the plan. Retirement expense for the years ended December 31, 2013 and 2012 totaled $15,238 and $8,998, respectively.

7. COMMITMENT

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

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability. As of December 31, 2013 and 2012, the liability totaled $73,828 and $55,178, respectively.

7. COMMITMENT (Continued)

The following is a schedule of future minimum payments required under the lease agreement as of December 31, 2013:

Year Ending December 31,	
2014	$ 143,867
2015	147,464
2016	153,949
2017	158,357
2018	162,316
Thereafter	365,446
	$ 1,131,399

Occupancy expense for the office lease and storage fees totaled $154,926 and $169,493 for the years ended December 31, 2013 and 2012, respectively.

8. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, Sister Cities has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

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

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

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.

- *U.S. Government securities* - Valued at the closing price reported on the active market in which the individual securities are traded.

8. FAIR VALUE MEASUREMENT (Continued)

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

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

	Level 1	Level 2	Level 3	Total
Current:				
Mutual funds	$ 60,049	$ -	$ -	$ 60,049
Government Securities	9,179	-	-	9,179
Subtotal - current investments	69,228	-	-	69,228
Noncurrent:				
Corporate bonds	-	83,038	-	83,038
Certificates of deposit	-	10,561	-	10,561
Subtotal - noncurrent investments	-	93,599	-	93,599
TOTAL	**$ 69,228**	**$ 93,599**	**$ -**	**$ 162,827**

The table below summarizes, by level within the fair value hierarchy, Sister Cities' investments as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Current:				
Common stock	$ 580	$ -	$ -	$ 580
Mutual funds	35,357	-	-	35,357
Subtotal - current investments	35,937	-	-	35,937
Noncurrent:				
Corporate bonds	-	79,141	-	79,141
Certificates of deposit	-	21,040	-	21,040
Subtotal - noncurrent investments	-	100,181	-	100,181
TOTAL	**$ 35,937**	**$ 100,181**	**$ -**	**$ 136,118**

9. SUBSEQUENT EVENTS

In preparing these financial statements, Sister Cities has evaluated events and transactions for potential recognition or disclosure through June 24, 2014, the date the financial statements were issued.