FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

SISTER CITIES INTERNATIONAL

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Sister Cities International (Sister Cities), as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Sister Cities. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sister Cities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

November 4, 2011

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

EXHIBIT A

SISTER CITIES INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	$ 306,280	$ 1,394,099
Investments, current portion (Notes 2 and 8)	3,814,065	48,270
Grants receivable	8,950	4,157
Other receivables and advances	89,402	16,547
Prepaid expenses	52,033	51,871
Total current assets	4,270,730	1,514,944
FURNITURE AND EQUIPMENT		
Furniture and equipment, net of accumulated depreciation of $124,100 and $93,052 for 2010 and 2009, respectively	88,264	124,925
NONCURRENT ASSETS		
Investments, noncurrent portion (Notes 2 and 8)	85,200	82,945
Security deposits	50,497	16,962
Total noncurrent assets	135,697	99,907
TOTAL ASSETS	**$ 4,494,691**	**$ 1,739,776**

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES		
Lines of credit (Note 4)	$ 111,843	$ 130,158
Capital lease obligation, current portion (Note 3)	26,700	29,772
Refundable advances, current portion	3,582,218	1,536,326
Accounts payable and accrued expenses	162,405	222,769
Deferred membership dues	48,235	52,790
Deferred conference registrations	28,005	36,800
Total current liabilities	3,959,406	2,008,615
NONCURRENT LIABILITIES		
Capital lease obligation, net of current portion (Note 3)	28,658	50,461
Refundable advances, net of current portion	889,463	-
Total noncurrent liabilities	918,121	50,461
Total liabilities	4,877,527	2,059,076
NET ASSETS (DEFICIT)		
Unrestricted:		
Undesignated	(529,763)	(453,565)
Board-designated (Note 5)	146,927	134,265
Total unrestricted net assets (deficit)	(382,836)	(319,300)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	**$ 4,494,691**	**$ 1,739,776**

See accompanying notes to financial statements.

SISTER CITIES INTERNATIONAL

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
U.S. Government awards	$ 479,594	$ -	$ 479,594
Contributions and grants	1,803,514	-	1,803,514
Annual fund contributions	254	-	254
In-kind contributions	82,122	-	82,122
Conferences and events	304,878	-	304,878
Membership dues	331,050	-	331,050
Awards and visa fees	4,180	-	4,180
Interest and investment income (loss) (Note 2)	(2,825)	-	(2,825)
Other	28,567	-	28,567
Net assets released from donor restrictions - satisfaction of donor restrictions	-	-	-
Total support and revenue	3,031,334	-	3,031,334
EXPENSES			
Salaries, taxes and related benefits (Note 6)	873,355	-	873,355
Professional fees	114,982	-	114,982
Office supplies and expense	55,628	-	55,628
Telecommunications	30,875	-	30,875
Postage and shipping	13,876	-	13,876
Occupancy (Note 7)	206,948	-	206,948
Equipment expense	14,530	-	14,530
Printing and publications	72,095	-	72,095
Travel	357,914	-	357,914
Conferences, conventions and meetings	206,045	-	206,045
Depreciation	40,340	-	40,340
Grants to affiliates	493,632	-	493,632
Insurance	7,634	-	7,634
Consultants	236,581	-	236,581
Bad debt	23,923	-	23,923
Interns	12,372	-	12,372
Computer and website	61,282	-	61,282
Bank fees	18,318	-	18,318
Interest expense	13,593	-	13,593
Other program services	201,455	-	201,455
Other	39,492	-	39,492
Total expenses	3,094,870	-	3,094,870
Changes in net assets (deficit)	(63,536)	-	(63,536)
Net assets (deficit) at beginning of year	(319,300)	-	(319,300)
NET ASSETS (DEFICIT) AT END OF YEAR	**$ (382,836)**	**$ -**	**$ (382,836)**

See accompanying notes to financial statements.

2009		
Unrestricted	Temporarily Restricted	Total
$ 493,022	$ -	$ 493,022
531,768	-	531,768
68,709	-	68,709
69,575	-	69,575
289,386	-	289,386
369,850	-	369,850
8,875	-	8,875
20,243	-	20,243
13,440	-	13,440
42,386	(42,386)	-
1,907,254	(42,386)	1,864,868
764,344	-	764,344
69,677	-	69,677
43,260	-	43,260
34,450	-	34,450
16,352	-	16,352
167,526	-	167,526
16,153	-	16,153
35,853	-	35,853
140,326	-	140,326
206,918	-	206,918
39,425	-	39,425
148,642	-	148,642
10,014	-	10,014
138,952	-	138,952
4,779	-	4,779
10,920	-	10,920
65,331	-	65,331
13,388	-	13,388
16,943	-	16,943
124,392	-	124,392
30,223	-	30,223
2,097,868	-	2,097,868
(190,614)	(42,386)	(233,000)
(128,686)	42,386	(86,300)
$ (319,300)	**$ -**	**$ (319,300)**

See accompanying notes to financial statements.

SISTER CITIES INTERNATIONAL

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets (deficit)	$ (63,536)	$ (233,000)
Adjustments to reconcile changes in net assets (deficit) to net cash provided by operating activities:		
Depreciation	40,340	39,425
Donated investments	(254)	-
Unrealized loss (gain) on investments	51,715	(12,781)
Realized loss on sales of investments	1,033	4,614
Bad debt	23,923	4,779
(Increase) decrease in:		
Grants receivable	(4,793)	22,541
Other receivables and advances	(96,778)	(17,493)
Prepaid expenses	(162)	(4,471)
Security deposits	(33,535)	(3,250)
Increase (decrease) in:		
Refundable advances	2,935,355	1,536,326
Accounts payable and accrued expenses	(60,364)	44,415
Deferred membership dues	(4,555)	(8,465)
Deferred conference registrations	(8,795)	(22,225)
Net cash provided by operating activities	2,779,594	1,350,415
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(3,679)	(10,475)
Purchase of investments	(3,950,544)	(22,375)
Proceeds from sales of investments	130,000	13,991
Net cash used by investing activities	(3,824,223)	(18,859)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from lines of credit	2,885	54,158
Repayments on lines of credit	(21,200)	(4,000)
Principal payments on capital lease obligation	(24,875)	(23,175)
Net cash (used) provided by financing activities	(43,190)	26,983
Net (decrease) increase in cash and cash equivalents	(1,087,819)	1,358,539
Cash and cash equivalents at beginning of year	1,394,099	35,560
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 306,280**	**$ 1,394,099**

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.

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.

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

Contributions and grants (continued) -

Funding received in advance of incurring the related expenses is recorded as a refundable advance.

Refundable advances -

Included in refundable advances are funds received from a donor under a conditional award whereby the program restrictions have not been met (unrestricted revenue has not been earned). Upon satisfaction of the donors restrictions Sister Cities will recognize unrestricted income (by reducing the refundable advances balance), as the criteria of an exchange transaction have been met. At December 31, 2010 and 2009, total refundable advances under this award aggregated $4,471,681 and $1,536,326, respectively.

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 as of December 31, 2010 and 2009 is unspent funds in the amount of $279,770 and $1,233,187, respectively, received from the Bill and Melinda Gates Foundation. Also included in cash as of December 31, 2010 and 2009 are $146,927 and $134,265, respectively, which have been designated for the Lou Wozar endowment (Note 5).

Investments -

Investments are recorded at readily determinable fair value. Realized and unrealized gains and losses are included in 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 60 months. 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 -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2010 and 2009, Sister Cities has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

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 fair value based on estimates of the number of donated hours and market rates of services. In-kind contributions of $82,122 and $69,575, representing the fair value of the use of these services, have been recorded as revenue and expenses in the accompanying financial statements for the years ended December 31, 2010 and 2009, respectively.

Sister Cities also receives additional contributed services for which an estimate of the fair value is not determinable.

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 for 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.

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 measurements -

Sister Cities adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosure*s. 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, 2010 and 2009 include funds received from the Bill and Melinda Gates Foundation, and are comprised of the following:

	2010		2009	
	Market Value	Cost Basis	Market Value	Cost Basis
Current:				
Common stock	$ 281	$ 254	$ -	$ -
Preferred stock	19,558	15,580	16,427	14,498
Mutual funds	3,784,101	3,836,169	21,727	17,442
Certificates of deposit	10,125	10,000	10,116	10,000
Subtotal - current investments	3,814,065	3,862,003	48,270	41,940
Noncurrent:				
Corporate bonds	53,472	50,652	41,288	40,950
Certificates of deposit	31,728	30,000	41,657	40,000
Subtotal - noncurrent investments	85,200	80,652	82,945	80,950
TOTAL INVESTMENTS	**$3,899,265**	**$3,942,655**	**$ 131,215**	**$ 122,890**

Included in interest and investment income (loss), during the years ended December 31, 2010 and 2009, are the following:

	2010	2009
Interest and dividends	$ 49,923	$ 12,076
Unrealized (loss) gain on investments	(51,715)	12,781
Realized loss on sales of investments	(1,033)	(4,614)
TOTAL INTEREST AND INVESTMENT INCOME (LOSS)	**$ (2,825)**	**$ 20,243**

3. CAPITAL LEASE OBLIGATION

During 2008, Sister Cities acquired a membership database software system that qualified as a capital lease transaction. The total value of the software ($125,000) has been recorded as an asset (equipment) and as a liability (capital lease obligation) in the accompanying Statements of Financial Position. As of December 31, 2010 and 2009, the total liability aggregated $55,358 and $80,233, respectively.

3. CAPITAL LEASE OBLIGATION (Continued)

Future minimum lease payments at December 31, 2010 and 2008 are as follows:

Year Ended December 31,	2010	2009
2010	$ -	$ 29,772
2011	29,772	29,772
2012	29,772	29,772
	59,544	89,316
Less: Interest (7.10%)	(4,186)	(9,083)
	55,358	80,233
Less: Current portion	(26,700)	(29,772)
LONG-TERM PORTION	**$ 28,658**	**$ 50,461**

4. LINES OF CREDIT

Sister Cities maintains 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% and 6.25% at December 31, 2010 and 2009, respectively. Outstanding borrowings aggregated $58,800 and $80,000 as of December 31, 2010 and 2009, 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% and 6.50% at December 31, 2010 and 2009, respectively. Outstanding borrowings (including accrued interest) aggregated $53,043 and $50,158 as of December 31, 2010 and 2009, respectively.

5. UNRESTRICTED BOARD-DESIGNATED NET ASSETS

Sister Cities previously received a $550,000 endowment from The Jesse Phillips Foundation. Under the original terms of the award, the funds were to be invested in-perpetuity and the investment income to be used for general operating purposes.

On May 22, 2001, The Jesse Phillips Foundation agreed to retroactively release the permanent restriction as of December 31, 2000. As a result, the net asset balance previously reported as permanently restricted was transferred to unrestricted net assets and designated by the Board of Directors as an endowment in the name of Lou Wozar. As of December 31, 2010 and 2009, the amounts designated for the Lou Wozar Endowment totaled $146,927 and $134,265, respectively (Note 1).

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, 2010 and 2009 totaled $22,275 and $19,777, respectively.

7. COMMITMENT

On July 17, 2006, Sister Cities entered into a lease agreement for office space. The lease agreement terminated on December 31, 2010. 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.

The following is a schedule of future minimum payments required under the lease agreement as of December 31, 2010:

Year Ended December 31,	
2011	$ 134,140
2012	137,494
2013	140,931
2014	144,454
2015	148,065
Thereafter	815,390
	$1,520,474

Occupancy expense (including operating costs and related utilities) totaled $206,948 and $167,526 for the years ended December 31, 2010 and 2009, respectively.

8. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, 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.

8. FAIR VALUE MEASUREMENTS (Continued)

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

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded in the Statements of Financial Position are categorized based on the inputs to the valuation technique as follows for the years ended December 31, 2010 and 2009:

	2010			
	Level 1	Level 2	Level 3	Total
Asset Category:				
Investments - Current	$ 3,803,940	$ 10,125	$ -	$ 3,814,065
Investments - Noncurrent	53,472	31,728	-	85,200
TOTAL	**$ 3,857,412**	**$ 41,853**	**$ -**	**$ 3,899,265**

	2009			
	Level 1	Level 2	Level 3	Total
Asset Category:				
Investments - Current	$ 38,154	$ 10,116	$ -	$ 48,270
Investments - Noncurrent	41,288	41,657	-	82,945
TOTAL	**$ 79,442**	**$ 51,773**	**$ -**	**$ 131,215**

9. SUBSEQUENT EVENTS

In preparing these financial statements, Sister Cities has evaluated events and transactions for potential recognition or disclosure through November 4, 2011, the date the financial statements were issued.