# SISTER CITIES INTERNATIONAL

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<td>7 - 14</td>
</tr>
</tbody>
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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, 2009 and 2008, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2009 and 2008, 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.

July 29, 2010
SISTER CITIES INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009 AND 2008

ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,394,099</td>
<td>$35,560</td>
</tr>
<tr>
<td>Investments - current (Notes 2 and 10)</td>
<td>48,270</td>
<td>24,338</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>4,157</td>
<td>26,698</td>
</tr>
<tr>
<td>Other receivables and advances</td>
<td>16,547</td>
<td>3,833</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>51,871</td>
<td>47,400</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>1,514,944</strong></td>
<td><strong>137,829</strong></td>
</tr>
</tbody>
</table>

| **FURNITURE AND EQUIPMENT** |             |             |
| Furniture and equipment, net of accumulated depreciation of $93,052 and $53,627 for 2009 and 2008, respectively | 124,925 | 153,875 |

| **NONCURRENT ASSETS** |             |             |
| Investments - noncurrent (Notes 2 and 10) | 82,945 | 90,326 |
| Security deposits       | 16,962      | 13,712      |
| **Total noncurrent assets** | **99,907** | **104,038** |

| **TOTAL ASSETS** | $1,739,776 | $395,742 |

LIABILITIES AND NET ASSETS (DEFICIT)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lines of credit (Note 4)</td>
<td>$130,158</td>
<td>$80,000</td>
</tr>
<tr>
<td>Capital lease obligation, current portion (Note 3)</td>
<td>29,772</td>
<td>23,175</td>
</tr>
<tr>
<td>Refundable advances (Note 11)</td>
<td>1,536,326</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>222,769</td>
<td>178,354</td>
</tr>
<tr>
<td>Deferred membership dues</td>
<td>52,790</td>
<td>61,255</td>
</tr>
<tr>
<td>Deferred conference registrations</td>
<td>36,800</td>
<td>59,025</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>2,008,615</strong></td>
<td><strong>401,809</strong></td>
</tr>
</tbody>
</table>

| **NONCURRENT LIABILITIES** |             |             |
| Capital lease obligation, net of current portion (Note 3) | 50,461 | 80,233 |
| **Total liabilities** | **2,059,076** | **482,042** |

| **NET ASSETS (DEFICIT)** |             |             |
| Unrestricted: |             |             |
| Undesignated | (453,565) | (248,288) |
| Board-designated (Note 5) | 134,265 | 119,602 |
| **Total unrestricted net assets (deficit)** | (319,300) | (128,686) |
| Temporarily restricted (Note 6) | - | 42,386 |
| **Total net assets (deficit)** | (319,300) | (86,300) |

| **TOTAL LIABILITIES AND NET ASSETS (DEFICIT)** | $1,739,776 | $395,742 |

See accompanying notes to financial statements.
SISTER CITIES INTERNATIONAL

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

<table>
<thead>
<tr>
<th></th>
<th>2009 Unrestricted</th>
<th>2009 Temporarily Restricted</th>
<th>2009 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE AND SUPPORT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government grants</td>
<td>$493,022</td>
<td>$-</td>
<td>$493,022</td>
</tr>
<tr>
<td>Corporate/foundation grants and contributions</td>
<td>531,768</td>
<td>-</td>
<td>531,768</td>
</tr>
<tr>
<td>Annual fund contributions</td>
<td>68,709</td>
<td>-</td>
<td>68,709</td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>69,575</td>
<td>-</td>
<td>69,575</td>
</tr>
<tr>
<td>Conferences and events</td>
<td>289,386</td>
<td>-</td>
<td>289,386</td>
</tr>
<tr>
<td>Membership dues</td>
<td>369,850</td>
<td>-</td>
<td>369,850</td>
</tr>
<tr>
<td>Awards</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Visa fees</td>
<td>8,875</td>
<td>-</td>
<td>8,875</td>
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<tr>
<td>Interest and investment income (Note 2)</td>
<td>20,243</td>
<td>-</td>
<td>20,243</td>
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<tr>
<td>Other</td>
<td>13,440</td>
<td>-</td>
<td>13,440</td>
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<tr>
<td>Net assets released from donor restrictions - satisfaction of donor restrictions (Note 7)</td>
<td>$42,386</td>
<td>$(42,386)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenue and support</strong></td>
<td><strong>1,907,254</strong></td>
<td><strong>(42,386)</strong></td>
<td><strong>1,864,868</strong></td>
</tr>
<tr>
<td>EXPENSES</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Salaries, taxes and related benefits (Note 8)</td>
<td>764,344</td>
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<td>764,344</td>
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<td>Accounting and legal</td>
<td>69,677</td>
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<tr>
<td>Office supplies and expense</td>
<td>43,260</td>
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<td>Telecommunications</td>
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<td>34,450</td>
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<td>Postage and shipping</td>
<td>16,352</td>
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<td>16,352</td>
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<td>Occupancy (Note 9)</td>
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<tr>
<td>Equipment expense</td>
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<td>16,153</td>
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<tr>
<td>Printing and publications</td>
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<td>Travel</td>
<td>140,326</td>
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<tr>
<td>Conferences, conventions and meetings</td>
<td>206,918</td>
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<td>206,918</td>
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<tr>
<td>Depreciation</td>
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<td>39,425</td>
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<td>Grants to affiliates</td>
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<td>148,642</td>
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<tr>
<td>Insurance</td>
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<td>Consultants</td>
<td>138,952</td>
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<td>Bad debt</td>
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<td>Interest</td>
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<td>Interns</td>
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<td>Computer and website</td>
<td>65,331</td>
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<td>Other program services</td>
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<td>Cost share</td>
<td>115</td>
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<td>Other</td>
<td>47,828</td>
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<tr>
<td><strong>Total expenses</strong></td>
<td><strong>2,097,868</strong></td>
<td>-</td>
<td><strong>2,097,868</strong></td>
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<td>Changes in net assets (deficit)</td>
<td>(190,614)</td>
<td>(42,386)</td>
<td>(233,000)</td>
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<td>Net assets (deficit) at beginning of year</td>
<td>(128,686)</td>
<td>42,386</td>
<td>(86,300)</td>
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<tr>
<td><strong>NET ASSETS (DEFICIT) AT END OF YEAR</strong></td>
<td><strong>$ (319,300)</strong></td>
<td>$ -</td>
<td><strong>$ (319,300)</strong></td>
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See accompanying notes to financial statements.
### 2008

<table>
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<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
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<td>48,995</td>
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<td>5,189</td>
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<td>13,668</td>
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<td>13,668</td>
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<td></td>
<td>140,530</td>
<td>(140,530)</td>
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<td>1,825,435</td>
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<td>1,742,905</td>
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<td>95,691</td>
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<td>22,790</td>
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<td>13,479</td>
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<td>41,219</td>
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<td>272,472</td>
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<td>219,852</td>
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<td>36,141</td>
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<td>144,706</td>
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<td>9,127</td>
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<td>112,699</td>
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<tr>
<td>6,143</td>
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<td></td>
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<tr>
<td>14,573</td>
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<tr>
<td>11,540</td>
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<td>51,842</td>
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<td>47,235</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>39,349</td>
<td></td>
<td>39,349</td>
</tr>
<tr>
<td></td>
<td>2,125,399</td>
<td></td>
<td>2,125,399</td>
</tr>
<tr>
<td>(299,964)</td>
<td>(82,530)</td>
<td>(382,494)</td>
<td></td>
</tr>
<tr>
<td>171,278</td>
<td>124,916</td>
<td>296,194</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(128,686)</td>
<td>$ 42,386</td>
<td>(86,300)</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
EXHIBIT C

SISTER CITIES INTERNATIONAL

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in net assets (deficit)</td>
<td>$ (233,000)</td>
<td>$ (382,494)</td>
</tr>
<tr>
<td>Adjustments to reconcile changes in net assets (deficit) to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>39,425</td>
<td>36,141</td>
</tr>
<tr>
<td>Unrealized (gain) loss on investments</td>
<td>(12,781)</td>
<td>4,456</td>
</tr>
<tr>
<td>Realized loss on sales of investments</td>
<td>4,614</td>
<td>-</td>
</tr>
<tr>
<td>Bad debt</td>
<td>4,779</td>
<td>6,143</td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants receivable</td>
<td>22,541</td>
<td>221,426</td>
</tr>
<tr>
<td>Other receivables and advances</td>
<td>(17,493)</td>
<td>(6,526)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(4,471)</td>
<td>17,145</td>
</tr>
<tr>
<td>Security deposits</td>
<td>(3,250)</td>
<td>(4,962)</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refundable advances</td>
<td>1,536,326</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>44,415</td>
<td>90,517</td>
</tr>
<tr>
<td>Deferred membership dues</td>
<td>(8,465)</td>
<td>59,892</td>
</tr>
<tr>
<td>Deferred conference registrations</td>
<td>(22,225)</td>
<td>59,025</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>1,350,415</td>
<td>100,763</td>
</tr>
</tbody>
</table>

| CASH FLOWS FROM INVESTING ACTIVITIES |         |         |
| Purchase of equipment               | (10,475) | (33,496) |
| Purchase of investments             | (22,375) | (119,120) |
| Proceeds from sales of investments  | 13,991   | -        |
| Net cash used by investing activities | (18,859) | (152,616) |

| CASH FLOWS FROM FINANCING ACTIVITIES |         |         |
| Borrowings from lines of credit     | 54,158   | 35,000   |
| Repayments on lines of credit       | (4,000)  | (35,000) |
| Principal payments on capital lease obligation | (23,175) | (21,592) |
| Net cash provided (used) by financing activities | 26,983   | (21,592) |
| Net increase (decrease) in cash and cash equivalents | 1,358,539 | (73,445) |
| Cash and cash equivalents at beginning of year | 35,560   | 109,005  |

<table>
<thead>
<tr>
<th>CASH AND CASH EQUIVALENTS AT END OF YEAR</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 1,394,099</td>
<td>$ 35,560</td>
</tr>
</tbody>
</table>

| SUPPLEMENTAL INFORMATION:              |         |         |
| Equipment Acquired Under Capital Lease | $ -     | $ 125,000|
| Interest Paid                          | $ 16,943 | $ 14,573 |

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.

Recently issued accounting standards -

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, Sister Cities has updated references to GAAP in its financial statements issued for the year ended December 31, 2009. The adoption of FASB ASC 105 did not impact Sister Cities’s financial position or results of operations.

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

Contributions and grants (continued) -

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. 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.

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, 2009 is unspent funds in the amount of $1,233,187 received from the Bill and Melinda Gates Foundation. Also included in cash as of December 31, 2009 and 2008 are $134,265 and $119,602, 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 year ended December 31, 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)

Uncertain tax positions (continued) -

Since the provisions of FASB ASC 740-10 were not effective for 2008, Sister Cities utilized its prior policy of accounting for these positions, following the guidance in FASB ASC 450, Contingencies. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of December 31, 2008, Sister Cities had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements.

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 $69,575 and $48,995, 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, 2009 and 2008, 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.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Fair value measurements -

Sister Cities adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. 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, 2009 and 2008 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Value</td>
<td>Cost Basis</td>
</tr>
<tr>
<td>Current:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock</td>
<td>$ 16,427</td>
<td>$ 14,498</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>21,727</td>
<td>17,442</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>10,116</td>
<td>10,000</td>
</tr>
<tr>
<td>Subtotal current investments</td>
<td>48,270</td>
<td>41,940</td>
</tr>
<tr>
<td>Noncurrent:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>41,288</td>
<td>40,950</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>41,657</td>
<td>40,000</td>
</tr>
<tr>
<td>Subtotal noncurrent investments</td>
<td>82,945</td>
<td>80,950</td>
</tr>
<tr>
<td>TOTAL INVESTMENTS</td>
<td>$ 131,215</td>
<td>$ 122,890</td>
</tr>
</tbody>
</table>

Included in interest and investment income is the following at December 31, 2009 and 2008:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$ 12,076</td>
<td>$ 9,645</td>
</tr>
<tr>
<td>Unrealized gain (loss) on investments</td>
<td>12,781</td>
<td>(4,456)</td>
</tr>
<tr>
<td>Realized loss on sales of investments</td>
<td>(4,614)</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL INTEREST AND INVESTMENT INCOME</td>
<td>$ 20,243</td>
<td>$ 5,189</td>
</tr>
</tbody>
</table>
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, 2009 and 2008, the total liability aggregated $80,233 and $103,408, respectively.

Future minimum lease payments at December 31, 2009 and 2008 are as follows:

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$ -</td>
<td>$ 29,772</td>
</tr>
<tr>
<td>2010</td>
<td>29,772</td>
<td>29,772</td>
</tr>
<tr>
<td>2011</td>
<td>29,772</td>
<td>29,772</td>
</tr>
<tr>
<td>2012</td>
<td>29,772</td>
<td>29,772</td>
</tr>
<tr>
<td></td>
<td>89,316</td>
<td>119,088</td>
</tr>
<tr>
<td>Less: Interest (7.10%)</td>
<td>(9,083)</td>
<td>(15,680)</td>
</tr>
<tr>
<td></td>
<td>80,233</td>
<td>103,408</td>
</tr>
<tr>
<td>Less: Current portion</td>
<td>(29,772)</td>
<td>(23,175)</td>
</tr>
<tr>
<td><strong>LONG-TERM PORTION</strong></td>
<td><strong>50,461</strong></td>
<td><strong>80,233</strong></td>
</tr>
</tbody>
</table>

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 at the Federal prime rate plus two percent (5.25% and 6.00% at December 31, 2009 and 2008, respectively). Outstanding borrowings aggregated $80,000 and $80,000 as of December 31, 2009 and 2008, 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, 2009. Outstanding borrowings (including accrued interest) aggregated $50,158 at December 31, 2009.

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, 2009 and 2008, the total amount designated for the Lou Wozar endowment was $134,265 and $119,602, respectively (Note 1).
6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2009 and 2008:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean Water Initiative</td>
<td>$</td>
<td>$42,386</td>
</tr>
</tbody>
</table>

7. NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets which were released from donor restrictions by incurring expenses which satisfied the donor-specified restrictions during the years ended December 31, 2009 and 2008:

<table>
<thead>
<tr>
<th>Net Assets Released</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnerships for Learning Youth Exchange and Study Program (YES)</td>
<td>$</td>
<td>$124,429</td>
</tr>
<tr>
<td>Youth and Education Network</td>
<td>-</td>
<td>487</td>
</tr>
<tr>
<td>Legislative</td>
<td>-</td>
<td>2,500</td>
</tr>
<tr>
<td>Clean Water Initiative</td>
<td>-</td>
<td>13,114</td>
</tr>
</tbody>
</table>

Total released: $42,386 $140,530

8. 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, 2009 and 2008 totaled $19,777 and $15,354, respectively.

9. COMMITMENT

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

In accordance with the terms of the lease agreement, Sister Cities is also responsible for its proportionate share of the building's operating costs and real estate taxes. As of December 31, 2009, future minimum lease payments required under the lease agreement totaled $140,000.

Occupancy expense (including operating costs and related utilities) totaled $163,194 and $155,102 for the years ended December 31, 2009 and 2008, respectively.

10. 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).
10. FAIR VALUE MEASUREMENTS (Continued)

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 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, 2009 and 2008:

<table>
<thead>
<tr>
<th>Asset Category:</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments - Current</td>
<td>$38,154</td>
<td>$10,116</td>
<td>-</td>
<td>$48,270</td>
</tr>
<tr>
<td>Investments - Noncurrent</td>
<td>$41,288</td>
<td>$41,657</td>
<td>-</td>
<td>$82,945</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$79,442</td>
<td>$51,773</td>
<td>-</td>
<td>$131,215</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset Category:</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments - Current</td>
<td>$24,338</td>
<td>-</td>
<td>-</td>
<td>$24,338</td>
</tr>
<tr>
<td>Investments - Noncurrent</td>
<td>$40,191</td>
<td>$50,135</td>
<td>-</td>
<td>$90,326</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$64,529</td>
<td>$50,135</td>
<td>-</td>
<td>$114,664</td>
</tr>
</tbody>
</table>

11. SIGNIFICANT DONOR AWARD

On March 19, 2009, Sister Cities received notification of a $7,503,926 grant award from the Bill and Melinda Gates Foundation for conditional project support covering the period April 1, 2009 through March 31, 2012. The purpose of the grant is to provide sustainable and collaborative cross-sector solution models to address pressing causes of urban poverty. During 2009, Sister Cities received an advance of $2,061,028, of which $1,536,326 remained unspent (unearned) as of December 31, 2009. Sister Cities has subsequently collected $4,305,035 during 2010 and expects to collect the final installment of $1,140,863 during 2011.
12.  SUBSEQUENT EVENTS

In preparing these financial statements, Sister Cities has evaluated events and transactions for potential recognition or disclosure through July 29, 2010, the date the financial statements were issued.