

EASTERSEALS WASHINGTON

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2017 AND 2016



INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Board of Directors
Easterseals Washington
Seattle, Washington

We have audited the accompanying financial statements of Easterseals Washington (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses 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.

Auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Easterseals Washington as of December 31, 2017 and 2016, 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.

A handwritten signature in cursive script that reads "Jones & Associates PLLC, CPAs".

Jones & Associates PLLC, CPAs
March 16, 2018

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EASTERSEALS WASHINGTON
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 616,601	\$ 1,129,381
Accounts receivable	737,340	595,932
Pledges receivable	25,393	11,371
Prepaid expenses and other	81,269	97,028
Total current assets	1,460,603	1,833,712
PROPERTY		
Land	42,000	42,000
Building, equipment and improvements	2,756,477	2,729,214
(Less accumulated depreciation)	(1,329,408)	(1,257,298)
INVESTMENTS	627,038	565,390
	\$ 3,556,710	\$ 3,913,018
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 148,912	\$ 114,074
Accrued expenses	207,496	246,948
Deferred revenue	31,521	37,346
Note payable, current	47,626	44,498
Total current liabilities	435,555	442,866
Note payable, noncurrent	33,293	77,616
	468,848	520,482
 NET ASSETS		
Unrestricted	877,352	1,030,348
Unrestricted - Board designated	1,708,458	1,902,089
Temporarily restricted	34,483	36,747
Permanently restricted	467,569	423,352
	3,087,862	3,392,536
	\$ 3,556,710	\$ 3,913,018

**EASTERSEALS WASHINGTON
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

	Total	Unrestricted Undesignated	Board Designated	Temporarily Restricted	Permanently Restricted
PUBLIC SUPPORT AND REVENUE					
Public support					
Individual contributions	\$ 169,041	\$ 169,041	\$ -	\$ -	\$ -
Organization contributions	111,989	86,189	-	25,800	-
Donated facilities, goods and equipment	235,770	235,770	-	-	-
Total public support	<u>516,800</u>	<u>491,000</u>	<u>-</u>	<u>25,800</u>	<u>-</u>
Revenue					
Public program service fees	2,455,309	2,455,309	-	-	-
Government program service fees	3,616,628	3,616,628	-	-	-
Investment return and other	37,567	25,733	-	11,834	-
Change in fair value of beneficial interest in trust held by others	44,217	-	-	-	44,217
Total revenue	<u>6,153,721</u>	<u>6,097,670</u>	<u>-</u>	<u>11,834</u>	<u>44,217</u>
Net assets released from restrictions	-	39,898	-	(39,898)	-
Transfers of board designated funds	-	193,631	(193,631)	-	-
Total public support and revenue	<u>6,670,521</u>	<u>6,822,199</u>	<u>(193,631)</u>	<u>(2,264)</u>	<u>44,217</u>
EXPENSES					
Program services					
Public health education	14,348	14,348	-	-	-
Direct services	6,123,522	6,123,522	-	-	-
Total program services	<u>6,137,870</u>	<u>6,137,870</u>	<u>-</u>	<u>-</u>	<u>-</u>
Supporting services					
Management and general	509,616	509,616	-	-	-
Fundraising	262,991	262,991	-	-	-
Total supporting services	<u>772,607</u>	<u>772,607</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total functional expenses	<u>6,910,477</u>	<u>6,910,477</u>	<u>-</u>	<u>-</u>	<u>-</u>
National membership dues	64,718	64,718	-	-	-
Total expenses	<u>6,975,195</u>	<u>6,975,195</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(304,674)	(152,996)	(193,631)	(2,264)	44,217
NET ASSETS					
Beginning of year	<u>3,392,536</u>	<u>1,030,348</u>	<u>1,902,089</u>	<u>36,747</u>	<u>423,352</u>
End of year	<u>\$3,087,862</u>	<u>\$ 877,352</u>	<u>\$1,708,458</u>	<u>\$ 34,483</u>	<u>\$ 467,569</u>

See accompanying notes to financial statements.

**EASTERSEALS WASHINGTON
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	Total	Unrestricted Undesignated	Board Designated	Temporarily Restricted	Permanently Restricted
PUBLIC SUPPORT AND REVENUE					
Public support					
Individual contributions	\$ 80,040	\$ 74,760	\$ -	\$ 5,280	\$ -
Organization contributions	1,371,374	1,345,202	-	26,172	-
Donated facilities, goods and equipment	320,526	320,526	-	-	-
Total public support	<u>1,771,940</u>	<u>1,740,488</u>	<u>-</u>	<u>31,452</u>	<u>-</u>
Revenue					
Public program service fees	2,881,207	2,881,207	-	-	-
Government program service fees	2,363,085	2,363,085	-	-	-
Investment return	30,074	23,236	-	6,838	-
Change in fair value of beneficial interest in trust held by others	1,104	-	-	-	1,104
Total revenue	<u>5,275,470</u>	<u>5,267,528</u>	<u>-</u>	<u>6,838</u>	<u>1,104</u>
Net assets released from restrictions	-	139,303	-	(139,303)	-
Transfers of board designated funds	-	(876,965)	876,965	-	-
Total public support and revenue	<u>7,047,410</u>	<u>6,270,354</u>	<u>876,965</u>	<u>(101,013)</u>	<u>1,104</u>
EXPENSES					
Program services					
Public health education	13,886	13,886	-	-	-
Direct services	5,278,573	5,278,573	-	-	-
Total program services	<u>5,292,459</u>	<u>5,292,459</u>	<u>-</u>	<u>-</u>	<u>-</u>
Supporting services					
Management and general	460,917	460,917	-	-	-
Fundraising	228,053	228,053	-	-	-
Total supporting services	<u>688,970</u>	<u>688,970</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total functional expenses	5,981,429	5,981,429	-	-	-
National membership dues	63,179	63,179	-	-	-
Total expenses	<u>6,044,608</u>	<u>6,044,608</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	1,002,802	225,746	876,965	(101,013)	1,104
NET ASSETS					
Beginning of year	<u>2,389,734</u>	<u>804,602</u>	<u>1,025,124</u>	<u>137,760</u>	<u>422,248</u>
End of year	<u>\$3,392,536</u>	<u>\$ 1,030,348</u>	<u>\$1,902,089</u>	<u>\$ 36,747</u>	<u>\$ 423,352</u>

See accompanying notes to financial statements.

**EASTERSEALS WASHINGTON
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	Program Services			Support Services		
	Public Health Education	Direct Services	Total Program	Management and General	Fund Raising	Total
Salaries and related expenses	\$ 14,348	\$ 4,158,981	\$ 4,173,329	\$ 344,469	\$ 224,935	\$ 4,742,733
Operating supplies and cost of resale goods	-	624,039	624,039	3,016	10,286	637,341
Occupancy	-	536,726	536,726	70,066	-	606,792
Contract services and professional fees	-	280,779	280,779	54,314	9,960	345,053
Contributed facilities, goods and services	-	227,984	227,984	-	7,786	235,770
Travel and education	-	114,680	114,680	2,808	377	117,865
Depreciation	-	52,640	52,640	19,470	-	72,110
Insurance	-	64,430	64,430	2,710	2,710	69,850
Telephone	-	24,547	24,547	5,260	5,260	35,067
Minor equipment purchases and maintenance	-	21,471	21,471	730	729	22,930
Bad debt expense	-	16,297	16,297	-	-	16,297
Interest expense	-	-	-	5,769	-	5,769
Postage and shipping	-	948	948	475	948	2,371
Taxes	-	-	-	529	-	529
	<u>\$ 14,348</u>	<u>\$ 6,123,522</u>	<u>\$ 6,137,870</u>	<u>\$ 509,616</u>	<u>\$ 262,991</u>	<u>\$ 6,910,477</u>

**EASTERSEALS WASHINGTON
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016**

	Program Services			Support Services		Total
	Public Health Education	Direct Services	Total Program	Management and General	Fund Raising	
Salaries and related expenses	\$ 13,886	\$ 4,018,091	\$ 4,031,977	\$ 298,182	\$ 188,732	\$ 4,518,891
Operating supplies and cost of resale goods	-	417,598	417,598	828	10,103	428,529
Occupancy	-	298,958	298,958	69,012	-	367,970
Contract services and professional fees	-	48,388	48,388	53,630	10,357	112,375
Contributed facilities, goods and services	-	310,227	310,227	-	10,299	320,526
Travel and education	-	42,111	42,111	6,132	599	48,842
Depreciation	-	47,584	47,584	17,599	-	65,183
Insurance	-	44,979	44,979	2,806	2,806	50,591
Telephone	-	17,497	17,497	3,749	3,749	24,995
Minor equipment purchases and maintenance	-	3,512	3,512	592	592	4,696
Bad debt expense	-	28,812	28,812	-	-	28,812
Interest expense	-	-	-	7,979	-	7,979
Postage and shipping	-	816	816	408	816	2,040
	<u>\$ 13,886</u>	<u>\$5,278,573</u>	<u>\$5,292,459</u>	<u>\$ 460,917</u>	<u>\$ 228,053</u>	<u>\$5,981,429</u>

See accompanying notes to financial statements.

**EASTERSEALS WASHINGTON
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (304,674)	\$ 1,002,802
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	72,110	65,183
Change in fair value of trust held by others	(44,217)	(1,104)
Net unrealized loss (gain) on investments	(16,098)	21,616
Net changes in operating assets and liabilities		
Accounts receivable	(141,408)	(371,293)
Pledges receivable	(14,022)	23,943
Prepaid expenses and other	15,759	(23,683)
Accounts payable and accrued expenses	(4,614)	123,670
Deferred revenue	(5,825)	8,732
	(442,989)	849,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(17,688)	(50,326)
Proceeds from sale of investments	-	100,000
Purchase of property	(27,263)	(71,674)
	(44,951)	(22,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions from beneficial interest in assets held by others	16,355	50,978
Payments on note payable	(41,195)	(42,617)
	(24,840)	8,361
NET CHANGE IN CASH AND CASH EQUIVALENTS	(512,780)	836,227
CASH AND CASH EQUIVALENTS		
Beginning of the period	1,129,381	293,154
End of the period	\$ 616,601	\$ 1,129,381
SUPPLEMENTAL DISCLOSURE		
Cash paid during the period for interest	\$ 5,769	\$ 7,979

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – Easter Seals Washington, doing business as Easterseals Washington (the Organization), is a not-for-profit corporation organized in 1947. It is affiliated with Easter Seals National Headquarters, the national governing organization. The Organization provides direct services to children and adults with disabilities. Program services include community access assistance, supported employment, resident camping, adult day health care and behavior therapy and inclusive child care services, among other services. Operations are headquartered in Seattle, Washington with outlying facilities and camps located throughout the State of Washington.

Basis of Accounting and Presentation – The financial statements have been prepared on the accrual basis of accounting and report information regarding the Organization’s financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Board has designated certain otherwise unrestricted net assets as a general reserve fund. These funds are approved by the Board to be held for specific purposes (capital improvements, program expansion, specialized training, etc.) and require Board approval to designate for any other purpose. The designated funds are tracked with the monthly financial reports.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all bank accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Deposits with a single financial institution occasionally exceed federally insured limits, which subject the Organization to a concentration of deposit risk. The Organization has not experienced losses due to this concentration.

Accounts Receivable – Accounts receivable includes credit extended to various governmental agencies and individuals for program service fees. All account balances are due in less than one year. Collateral is generally not required. No allowance for uncollectible balances has been established by management based upon the Organization’s historical experience in the collection of balances due.

Pledges Receivable – Pledges receivable from donors are recognized as revenue or gains in the period to which they are committed and as assets, decreases of liabilities, or expenses depending on the form of benefits received. All pledges receivable are due within one year. No allowance for uncollectible balances has been established by management based on the Organization’s historical experience in the collection of balances due.

Property – Purchased property and equipment are stated at cost. Donated property is recognized as revenue and capitalized at its estimated fair value at the date of receipt. The Organization capitalizes assets that have a useful life greater than one year and a value greater than \$1,000. Depreciation is computed using the straight-line method based on estimated useful lives of 7 to 40 years for buildings and improvements and 3 to 15 years for equipment and furniture.

Investments – The Organization carries investments at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets in the statement of activities.

Deferred Revenue – Income received in advance from public and government program service fees is deferred and recognized over the periods to which the fees relate.

EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Revenue Recognition – Contributions are recorded as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. When a restriction expires, that is when a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Government program service fees are recognized based on billings submitted for reimbursement and are subject to audit and retroactive adjustment made by the funding agencies. The adjustments would be recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. There were no adjustments resulting from government audits during the years ended December 31, 2017 and 2016.

Donated Facilities, Goods and Equipment – Donated facilities, goods and equipment are recorded as donations at their estimated fair values at the date of the donation. The estimated value of facilities donated is \$204,944 and \$287,186 for the years ended December 31, 2017 and 2016, respectively. The estimated value of goods and use of equipment received is \$30,826 and \$33,340 for the years ended December 31, 2017 and 2016, respectively.

The Organization recognizes donated services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individual possessing those skills, and would typically need to be purchased if not donated. No amounts have been recorded for such services during the years ended December 31, 2017 and 2016.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Subsequent Events – Subsequent events were evaluated through March 16, 2018, which is the date the financial statements were available to be issued.

EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 2 – Fair Value Measurements

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards establish a hierarchy for measuring fair value that gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or other inputs that can be corroborated by observable market data.
- Level 3 Inputs that are not observable that reflect management’s assumptions and estimates.

The following table summarizes the valuation of the Organization’s financial investments and interests under the fair value hierarchy at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,689	\$ -	\$ -	\$ 1,689
Common stock	30,515	-	-	30,515
Bond mutual funds	100,772	-	-	100,772
The Seattle Foundation pool	-	-	76,743	76,743
Trust held by others	-	-	417,319	417,319
	<u>\$ 132,976</u>	<u>\$ -</u>	<u>\$ 494,062</u>	<u>\$ 627,038</u>

The following table summarizes the valuation of the Organization’s financial investments and interests under the fair value hierarchy at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,510	\$ -	\$ -	\$ 2,510
Common stock	27,200	-	-	27,200
Bond mutual funds	96,420	-	-	96,420
The Seattle Foundation pool	-	-	66,158	66,158
Trust held by others	-	-	373,102	373,102
	<u>\$ 126,130</u>	<u>\$ -</u>	<u>\$ 439,260</u>	<u>\$ 565,390</u>

EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 2 – Fair Value Measurements (continued)

The changes in financial investments and interests measured at fair value using level 3 inputs are reflected below for the years ended December 31:

	2017	2016
Balance, beginning of year	\$ 439,260	\$ 466,574
Contributions	-	-
Net gain (loss) on trusts held by third parties	71,157	23,664
Distributions received	(16,355)	(50,978)
Balance, end of year	<u>\$ 494,062</u>	<u>\$ 439,260</u>

Note 3 – Trust Held by Others

The Organization is a named, designated beneficiary of a perpetual trust (the Trust) that is held and administered by a bank. The Organization does not exercise control over the investment of the fund or the timing or amount of distributions. Distributions from the fund are available for general operating purposes.

The Organization's beneficial interest in the Trust is reported in the accompanying statement of financial position as a permanently restricted net asset carried at fair value reported by the trustee at year end. Fair value is measured as the underlying value of the assets held in perpetuity for the Organization's benefit (Level 3 inputs as described in Note 2). The Organization's interest in gains or losses in the fund's value is recognized in the statement of activities and is included in the change in permanently restricted net assets. The Organization records receipts of distributions from the trust as unrestricted investment return.

Note 4 – Investment Return

The following schedule summarizes the investment return in the statement of activities for the years ended December 31:

	2017	2016
Interest and dividends	\$ 4,764	\$ 4,782
Realized gain	3,396	-
Unrealized gain (loss)	16,098	(21,616)
Distributions from trust held by others	16,355	50,978
Less investment management fees	(3,046)	(4,021)
	<u>\$ 37,567</u>	<u>\$ 30,123</u>

EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 5 – Note Payable

The Organization has a note payable to a bank secured by land and buildings. The note was obtained to pay out the termination shortfall on the Organization’s pension plan. The note carries an interest rate of 5.40% and matures in July 2019. Interest expense associated with the note is \$5,769 and \$7,979 for the years ended December 31, 2017 and 2016, respectively.

Future scheduled maturities of the note payable are as follows for the years ending December 31:

2018	47,626
2019	33,293
	<u>\$ 80,919</u>

Note 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets are included in cash, investments and pledges receivable and consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Unappropriated endowment investment return	\$ 26,493	\$ 15,907
Mobile technology	5,658	-
Building and upgrading camp facilities	1,500	4,500
Other programs	832	500
For use in subsequent year	-	10,871
Camp pool project	-	4,969
	<u>\$ 34,483</u>	<u>\$ 36,747</u>

Note 7 – Permanently Restricted Net Assets

Nature of Permanently Restricted Net Assets and Applicable Laws - Permanently restricted net assets consist of two parts:

- A donor restricted endowment (the Endowment) in which the investment return is to be used for building and upgrading camp facilities (the corpus valued at \$50,250 at December 31, 2017 and 2016); and
- A beneficial interest in a perpetual trust (the Trust, described in Note 3, and the corpus valued at \$417,319 and \$373,102 at December 31, 2017 and 2016, respectively).

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 7 – Permanently Restricted Net Assets (continued)

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the Endowment as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the Endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies - The Organization has adopted investment and spending policies for the Endowment asset that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

The Endowment investments are managed by The Seattle Foundation (the Foundation). The Foundation was established in 1946 and since its formation has managed funds for many not-for-profit organizations in the Puget Sound area. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution based growth of the funds, while allowing growth if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 4.5% annually. Currently, the expected nominal rate of return is approximately 8%. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. Realized and unrealized gains/losses from securities in the investment pool are allocated to the individual accounts based on the relationship of the fair value of each account to the total fair value of the pooled investment accounts, as adjusted for additions to and deductions from those accounts.

EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 7 – Permanently Restricted Net Assets (continued)

Spending Policy – For the Endowment, the Organization has a policy of appropriating for distribution each year based on the growth of the funds. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation’s assets are principally in trusts from which income is distributed to the participating organizations. The Foundation’s spending policy provides that up to 4.5% of the market value of the invested assets (calculated using a 12 quarter rolling average) on invested assets can be expended annually. The Organization expects the current spending policy to allow its endowment funds to grow at a rate equal to inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in permanently restricted net assets for the years ended December 31, 2017 and 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at January 1, 2016	\$ -	\$ 44,326	\$ 422,248	\$ 466,574
Contributions	-	-	-	-
Investment income	-	3,121	-	3,121
Net appreciation of Endowment	-	3,717	-	3,717
Change in fair value of Trust	-	-	1,104	1,104
Amounts appropriated for expenditure	-	(35,257)	-	(35,257)
Balance at December 31, 2016	-	15,907	423,352	439,259
Contributions	-	-	-	-
Investment income	-	3,613	-	3,613
Net appreciation of Endowment	-	8,221	-	8,221
Change in fair value of Trust	-	-	44,217	44,217
Amounts appropriated for expenditure	-	(1,248)	-	(1,248)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 26,493</u>	<u>\$ 467,569</u>	<u>\$ 494,062</u>

EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 8 – Commitments

The Organization leases its facilities and certain equipment under non-cancellable operating agreements. Total rent expense under these leases totaled \$424,697 and \$214,730 for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments for the years ending December 31 are as follows:

2018	\$ 331,577
2019	326,088
2020	193,171
2021	6,000
	<u>\$ 856,836</u>