EASTERSEALS WASHINGTON

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2018 AND 2017

Jones & Associates PLLC
Certified Public Accountants

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, 2018 and 2017, 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, 2018 and 2017, 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.

Jones & Associates PLLC, CPAs

Jones & Associates PLLC, CPAs
April 12, 2019

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EASTERSEALS WASHINGTON
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 311,247	$ 616,601
Accounts receivable	544,949	737,340
Pledges receivable	-	25,393
Prepaid expenses and other	94,476	81,269
Total current assets	950,672	1,460,603
PROPERTY		
Land	42,000	42,000
Building, equipment and improvements	2,759,844	2,756,477
(Less accumulated depreciation)	(1,402,486)	(1,329,408)
INVESTMENTS	729,307	627,038
	$ 3,079,337	$ 3,556,710
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 141,259	$ 148,912
Accrued expenses	218,246	207,496
Deferred revenue	31,855	31,521
Note payable, current	33,576	47,626
Total current liabilities	424,936	435,555
Note payable, noncurrent	-	33,293
	424,936	468,848
NET ASSETS		
Without donor restrictions - undesignated	1,707,411	877,352
Without donor restrictions - Board designated	481,577	1,708,458
With donor restrictions - purpose and time	32,768	7,990
With donor restrictions - perpetual in nature	432,645	494,062
	2,654,401	3,087,862
	$ 3,079,337	$ 3,556,710

EASTERSEALS WASHINGTON
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

		Without Donor Restrictions		With Donor Restrictions	
	Total	Undesignated	Board Designated	Purpose and Time	Perpetual in Nature
PUBLIC SUPPORT AND REVENUE					
Public support					
Individual contributions	$ 191,326	$ 191,326	$ -	$ -	$ -
Organization contributions	172,315	136,315	-	36,000	-
Donated facilities, goods and equipment	224,358	224,358	-	-	-
Total public support	587,999	551,999	-	36,000	-
Revenue					
Public program service fees	2,032,426	2,032,426	-	-	-
Government program service fees	3,606,420	3,606,420	-	-	-
Investment return and other	13,898	19,896	-	-	(5,998)
Change in fair value of beneficial interest in trust held by others	(55,419)	-	-	-	(55,419)
Total revenue	5,597,325	5,658,742	-	-	(61,417)
Net assets released from restrictions	-	11,222	-	(11,222)	-
Transfers of board designated funds	-	1,226,881	(1,226,881)	-	-
Total public support and revenue	6,185,324	7,448,844	(1,226,881)	24,778	(61,417)
EXPENSES					
Program services					
Public health education	14,300	14,300	-	-	-
Direct services	5,695,430	5,695,430	-	-	-
Total program services	5,709,730	5,709,730	-	-	-
Supporting services					
Management and general	595,371	595,371	-	-	-
Fundraising	251,988	251,988	-	-	-
Total supporting services	847,359	847,359	-	-	-
Total functional expenses	6,557,089	6,557,089	-	-	-
National membership dues	61,696	61,696	-	-	-
Total expenses	6,618,785	6,618,785	-	-	-
CHANGE IN NET ASSETS	(433,461)	830,059	(1,226,881)	24,778	(61,417)
NET ASSETS					
Beginning of year	3,087,862	877,352	1,708,458	7,990	494,062
End of year	$2,654,401	$1,707,411	$ 481,577	$32,768	$432,645

EASTERSEALS WASHINGTON
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

		Without Donor Restrictions		With Donor Restrictions	
	Total	Undesignated	Board Designated	Purpose and Time	Perpetual in Nature
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	516,800	491,000	-	25,800	-
Revenue					
Public program service fees	2,455,309	2,455,309	-	-	-
Government program service fees	3,616,628	3,616,628	-	-	-
Investment return	37,567	25,733	-	-	11,834
Change in fair value of beneficial interest in trust held by others	44,217	-	-	-	44,217
Total revenue	6,153,721	6,097,670	-	-	56,051
Net assets released from restrictions	-	39,898	-	(38,650)	(1,248)
Transfers of board designated funds	-	193,631	(193,631)	-	-
Total public support and revenue	6,670,521	6,822,199	(193,631)	(12,850)	54,803
EXPENSES					
Program services					
Public health education	14,348	14,348	-	-	-
Direct services	6,123,522	6,123,522	-	-	-
Total program services	6,137,870	6,137,870	-	-	-
Supporting services					
Management and general	509,616	509,616	-	-	-
Fundraising	262,991	262,991	-	-	-
Total supporting services	772,607	772,607	-	-	-
Total functional expenses	6,910,477	6,910,477	-	-	-
National membership dues	64,718	64,718	-	-	-
Total expenses	6,975,195	6,975,195	-	-	-
CHANGE IN NET ASSETS	(304,674)	(152,996)	(193,631)	(12,850)	54,803
NET ASSETS					
Beginning of year	3,392,536	1,030,348	1,902,089	20,840	439,259
End of year	$3,087,862	$ 877,352	$1,708,458	$ 7,990	$494,062

EASTERSEALS WASHINGTON
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services			Support Services		
	Public Health Education	Direct Services	Total Program	Management and General	Fund Raising	Total
Salaries and related expenses	$ 14,300	$ 3,769,758	$ 3,784,058	$ 447,481	$ 222,762	$ 4,454,301
Occupancy	-	583,970	583,970	65,544	-	649,514
Operating supplies and cost of resale goods	-	582,712	582,712	908	9,654	593,274
Contract services and professional fees	-	223,328	223,328	52,408	8,673	284,409
Contributed facilities, goods and services	-	222,812	222,812	-	1,546	224,358
Travel and education	-	95,940	95,940	4,136	601	100,677
Depreciation	-	59,924	59,924	13,154	-	73,078
Bad debt expense	-	69,680	69,680	-	-	69,680
Insurance	-	60,865	60,865	2,560	2,560	65,985
Telephone	-	22,162	22,162	4,749	4,749	31,660
Minor equipment purchases and maintenance	-	3,609	3,609	773	773	5,155
Interest expense	-	-	-	3,252	-	3,252
Postage and shipping	-	670	670	335	670	1,675
Taxes	-	-	-	71	-	71
Total functional expenses	14,300	5,695,430	5,709,730	595,371	251,988	6,557,089
Plus: national membership dues	-	-	-	-	-	61,696
Total expenses	$ 14,300	$5,695,430	$5,709,730	$ 595,371	$ 251,988	$6,618,785

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
Occupancy	-	536,726	536,726	70,066	-	606,792
Operating supplies and cost of resale goods	-	624,039	624,039	3,016	10,286	637,341
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
Bad debt expense	-	16,297	16,297	-	-	16,297
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
Interest expense	-	-	-	5,769	-	5,769
Postage and shipping	-	948	948	475	948	2,371
Taxes	-	-	-	529	-	529
Total functional expenses	14,348	6,123,522	6,137,870	509,616	262,991	6,910,477
Plus: national membership dues	-	-	-	-	-	64,718
Total expenses	$ 14,348	$6,123,522	$6,137,870	$ 509,616	$ 262,991	$6,975,195

EASTERSEALS WASHINGTON
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (433,461)	$ (304,674)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	73,078	72,110
Change in fair value of trust held by others	55,419	(44,217)
Net unrealized loss (gain) on investments	18,363	(16,098)
Net changes in operating assets and liabilities		
Accounts receivable	192,391	(141,408)
Pledges receivable	25,393	(14,022)
Prepaid expenses and other	(13,207)	15,759
Accounts payable and accrued expenses	3,097	(4,614)
Deferred revenue	334	(5,825)
	(78,593)	(442,989)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(194,562)	(17,688)
Purchase of property	(3,367)	(27,263)
	(197,929)	(44,951)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions from beneficial interest in assets held by others	18,511	16,355
Payments on note payable	(47,343)	(41,195)
	(28,832)	(24,840)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(305,354)	(512,780)
CASH AND CASH EQUIVALENTS		
Beginning of the period	616,601	1,129,381
End of the period	$ 311,247	$ 616,601
SUPPLEMENTAL DISCLOSURE		
Cash paid during the period for interest	$ 3,252	$ 5,769

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. 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

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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

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 statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the statements 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.

Revenue Recognition – Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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, 2018 and 2017.

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 $199,772 and $204,944 for the years ended December 31, 2018 and 2017, respectively. The estimated value of goods and use of equipment received is $24,586 and $30,826 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

Functional Allocation of Expenses – The statements of functional expenses present expenses by function and natural classification. Certain categories of expenses are attributed to more than one program or supporting function and have been allocated among the programs and supporting services benefited. The expenses that are allocated include telephone, postage, minor equipment, office supplies, bookkeeping, insurance, depreciation, and President/CEO and COO payroll expense.

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

Functional Allocation of Expenses (continued) – All expenses, except insurance, depreciation and payroll, are allocated based on percentages that are reviewed annually during the budgeting process. Insurance is based on information provided to the Organization by the insurance carrier. Depreciation is based on the assets associated with that department. The President/CEO and COO payroll is based on the average time spent performing that activity.

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).

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

New Accounting Pronouncement – On August 18, 2016, the FASB issued Accounting Standards update ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances the required disclosures. Significant changes include presenting only two classes of net assets; adding disclosures around liquidity and the availability or resources; and providing additional information about expenses. The Organization has adopted the ASU for the year ended December 31, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events – Subsequent events were evaluated through April 12, 2019, which is the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of the statements of financial position date are as follows at December 31:

	2018	2017
Financial Assets		
Cash and cash equivalents	$ 311,247	$ 616,601
Accounts receivables	544,949	737,340
Pledges receivables	-	25,393
Investments	729,307	627,038
Total financial assets	1,585,503	2,006,372
Less those unavailable for general expenditures within one year:		
Restricted by donors in perpetuity	(432,645)	(467,569)
Financial assets available within one year	$ 1,152,858	$ 1,538,803

The Organization's financial assets have seasonal variations attributed largely to the receipt of Camp Stand By Me fees (summer) and fundraising events (spring and winter). The Organization has an operating reserve that the governing board has dedicated with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need. In the event of an unanticipated liquidity need, the Organization could also draw upon funds that are held in cash equivalents with Waddell & Reed.

Note 3 – 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.

Note 3 – Fair Value Measurements (continued)

The following table summarizes the valuation of the Organization's financial investments and interests under the fair value hierarchy at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 60,553	$ -	$ -	$ 60,553
Common stock	29,756	-	-	29,756
Bond mutual funds	206,353	-	-	206,353
The Seattle Foundation pool	-	-	70,746	70,746
Trust held by others	-	-	361,899	361,899
	$ 296,662	$ -	$ 432,645	$ 729,307

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
	$ 132,976	$ -	$ 494,062	$ 627,038

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

	2018	2017
Balance, beginning of year	$ 494,062	$ 439,260
Contributions	1,199	-
Net gain (loss) on trusts held by third parties	(44,105)	71,157
Distributions received	(18,511)	(16,355)
Balance, end of year	$ 432,645	$ 494,062

Note 4 – 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 statements of financial position as a net asset with donor restrictions of a perpetual nature 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 3). The Organization's interest in gains or losses in the fund's value is recognized in the statements of activities and is included in the change in net assets with donor restrictions of a perpetual nature. The Organization records receipts of distributions from the trust as investment return without donor restrictions.

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 $3,252 and $5,769 for the years ended December 31, 2018 and 2017, respectively. Future scheduled maturities of the note payable are $33,576 for the year ending December 31, 2019.

Note 6 – Net Assets Without Donor Restrictions - Board Designated

The Organization's Board of Directors has designated a portion of net assets without donor restrictions, composed of cash and cash equivalents and investments, for the following purposes at December 31:

	2018	2017
Operating subsidy - Bellevue facility	$ 267,986	$ 395,078
Operating reserve	118,924	1,079,611
Camp capital projects	73,570	69,578
Information technology equipment	17,755	33,209
Medical equipment	2,007	4,197
Marketing	1,335	43,670
Other	-	83,115
	$ 481,577	$ 1,708,458

Note 7 – Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted as follows at December 31:

	2018	2017
Restricted for a specified purpose or passage of time:		
Mobile technology	$ 19,268	$ 5,658
Building and upgrading camp facilities	13,000	1,500
Other programs	500	832
	32,768	7,990
Perpetual in nature:		
Endowment - corpus	50,250	50,250
Endowment - unappropriated investment return	20,495	26,493
Beneficial interest in perpetual trust	361,900	417,319
	432,645	494,062
Total net assets with donor restrictions	$ 465,413	$ 502,052

Note 8 – Endowment

Nature of Endowment and Applicable Laws – The Endowment consists of one donor restricted endowment in which the investment return is to be used for building and upgrading camp facilities. Additionally, the Organization is a designated beneficiary of a perpetual trust, as described in Note 4.

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 retains in perpetuity (a) the original value of initial and subsequent gifts donated to the endowment, and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts that are not retained in perpetuity are subject to appropriation 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.

Note 8 – Endowment (continued)

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.

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.

Note 8 – Endowment (continued)

Changes in Endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at January 1, 2017	$ -	$ 439,259	$ 439,259
Contributions	-	-	-
Investment return, net	-	2,364	2,364
Net appreciation of Endowment	-	68,794	68,794
Amounts appropriated for expenditure	-	(16,355)	(16,355)
Balance at December 31, 2017	-	494,062	494,062
Contributions	-	1,199	1,199
Investment return, net	-	1,517	1,517
Net appreciation of Endowment	-	(45,622)	(45,622)
Amounts appropriated for expenditure	-	(18,511)	(18,511)
Balance at December 31, 2018	$ -	$ 432,645	$ 432,645

Note 9 – Commitments

The Organization leases its facilities and certain equipment under non-cancellable operating agreements. Total rent expense under these leases totaled $422,038 and $424,697 for the years ended December 31, 2018 and 2017, respectively. Future minimum lease payments for the years ending December 31 are as follows:

2019	$ 443,527
2020	301,108
2021	106,843
2022	90,200
2023	97,850
Thereafter	16,530
	$ 1,056,058