

EASTERSEALS WASHINGTON
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

**EASTERSEALS WASHINGTON
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YEARS ENDED DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Easterseals Washington
Seattle, Washington

We have audited the accompanying financial statements of Easterseals Washington (a nonprofit organization), which comprises the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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.

Board of Directors
Easterseals Washington

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, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2018 financial statements were audited by other auditors, whose report dated April 12, 2019, expressed an unmodified opinion on those statements.

CliftonLarsonAllen LLP

Bellevue, Washington
REPORT DATE

**EASTERSEALS WASHINGTON
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 319,230	\$ 311,247
Accounts and Grants Receivable	635,778	544,949
Prepaid Expenses and Other	88,319	94,476
Total Current Assets	1,043,327	950,672
PROPERTY AND EQUIPMENT		
Land	42,000	42,000
Building, Equipment, and Improvements	2,873,201	2,759,844
Less: Accumulated Depreciation	(1,461,496)	(1,402,486)
Total Property and Equipment	1,453,705	1,399,358
INVESTMENTS		
	538,565	729,307
Total Assets	\$ 3,035,597	\$ 3,079,337
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 146,171	\$ 141,259
Accrued Expenses	280,079	218,246
Deferred Revenue	12,444	31,855
Note Payable	-	33,576
Total Current Liabilities	438,694	424,936
Total Liabilities	438,694	424,936
NET ASSETS		
Without Donor Restrictions:		
Undesignated	1,750,994	1,707,411
Board Designated	294,940	481,577
Total Without Donor Restrictions	2,045,934	2,188,988
With Donor Restrictions:		
Purpose and Time	76,191	53,263
Perpetual in Nature	474,778	412,150
Total With Donor Restrictions	550,969	465,413
Total Net Assets	2,596,903	2,654,401
Total Liabilities and Net Assets	\$ 3,035,597	\$ 3,079,337

See accompanying Notes to Financial Statements.

**EASTERSEALS WASHINGTON
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions		With Donor Restrictions		Total
	Undesignated	Board Designated	Purpose and Time	Perpetual in Nature	
PUBLIC SUPPORT AND REVENUE					
Public Support:					
Individual Contributions	\$ 351,990	\$ -	\$ -	\$ -	\$ 351,990
Organization Contributions	164,589	-	104,836	-	269,425
Donated Facilities, Goods and Equipment	218,285	-	-	-	218,285
Total Public Support	734,864	-	104,836	-	839,700
Revenue:					
Program Service Fees	2,348,982	-	-	-	2,348,982
Government Program Service Fees	3,456,373	-	-	-	3,456,373
Investment Return and Other	35,185	-	12,097	-	47,282
Change in Fair Value of Beneficial Interest in Trust Held by Others	-	-	-	62,628	62,628
Total Revenue	5,840,540	-	12,097	62,628	5,915,265
Net Assets Released from Restrictions	94,005	-	(94,005)	-	-
Transfers of Board Designated Funds	186,637	(186,637)	-	-	-
Total Public Support and Revenue	6,856,046	(186,637)	22,928	62,628	6,754,965
EXPENSES					
Program Services:					
Public Health Education	15,620	-	-	-	15,620
Direct Services	5,808,379	-	-	-	5,808,379
Total Program Services	5,823,999	-	-	-	5,823,999
Supporting Services:					
Management and General	673,749	-	-	-	673,749
Fundraising	251,702	-	-	-	251,702
Total Supporting Services	925,451	-	-	-	925,451
Total Functional Expenses	6,749,450	-	-	-	6,749,450
National Membership Dues	63,013	-	-	-	63,013
Total Expenses	6,812,463	-	-	-	6,812,463
CHANGE IN NET ASSETS	43,583	(186,637)	22,928	62,628	(57,498)
Net Assets - Beginning of Year	1,707,411	481,577	53,263	412,150	2,654,401
NET ASSETS - END OF YEAR	<u>\$ 1,750,994</u>	<u>\$ 294,940</u>	<u>\$ 76,191</u>	<u>\$ 474,778</u>	<u>\$ 2,596,903</u>

See accompanying Notes to Financial Statements.

**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	136,315	-	36,000	-	172,315
Donated Facilities, Goods and Equipment	224,358	-	-	-	224,358
Total Public Support	551,999	-	36,000	-	587,999
Revenue:					
Program Service Fees	2,032,426	-	-	-	2,032,426
Government Program Service Fees	3,606,420	-	-	-	3,606,420
Investment Return and Other	19,896	-	-	(5,998)	13,898
Change in Fair Value of Beneficial Interest in Trust Held by Others	-	-	-	(55,419)	(55,419)
Total Revenue	5,658,742	-	-	(61,417)	5,597,325
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	7,448,844	(1,226,881)	24,778	(61,417)	6,185,324
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	830,059	(1,226,881)	24,778	(61,417)	(433,461)
Net Assets - Beginning of Year	877,352	1,708,458	28,485	473,567	3,087,862
NET ASSETS - END OF YEAR	<u>\$ 1,707,411</u>	<u>\$ 481,577</u>	<u>\$ 53,263</u>	<u>\$ 412,150</u>	<u>\$ 2,654,401</u>

See accompanying Notes to Financial Statements.

**EASTERSEALS WASHINGTON
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	Program Services			Supporting Services			Total
	Public Health Education	Direct Services	Total Program	Management and General	Fundraising	Total Supporting	
Salaries and Related Expenses	\$ 15,620	\$ 3,916,452	\$ 3,932,072	\$ 486,074	\$ 195,613	\$ 681,687	\$ 4,613,759
Occupancy	-	583,688	583,688	84,289	-	84,289	667,977
Operating Supplies and Cost of Resale Goods	-	580,466	580,466	13,684	21,284	34,968	615,434
Contract Services and Professional Fees	-	256,066	256,066	58,085	19,106	77,191	333,257
Contributed Facilities, Goods, and Services	-	210,164	210,164	-	8,120	8,120	218,284
Travel and Education	-	80,824	80,824	6,670	336	7,006	87,830
Depreciation	-	62,098	62,098	13,154	-	13,154	75,252
Bad Debt Expense	-	19,960	19,960	-	-	-	19,960
Insurance	-	67,911	67,911	4,966	-	4,966	72,877
Telephone	-	23,691	23,691	5,077	5,077	10,154	33,845
Minor Equipment Purchases and Maintenance	-	6,227	6,227	1,334	1,334	2,668	8,895
Postage and Shipping	-	832	832	416	832	1,248	2,080
Taxes	-	-	-	-	-	-	-
Total Functional Expenses	15,620	5,808,379	5,823,999	673,749	251,702	925,451	6,749,450
Add: National Membership Dues	-	-	-	-	-	-	63,013
Total Expenses	\$ 15,620	\$ 5,808,379	\$ 5,823,999	\$ 673,749	\$ 251,702	\$ 925,451	\$ 6,812,463

See accompanying Notes to Financial Statements.

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

	Program Services			Supporting Services			Total
	Public Health Education	Direct Services	Total Program	Management and General	Fundraising	Total Supporting	
Salaries and Related Expenses	\$ 14,300	\$ 3,769,758	\$ 3,784,058	\$ 447,481	\$ 222,762	\$ 670,243	\$ 4,454,301
Occupancy	-	583,970	583,970	65,544	-	65,544	649,514
Operating Supplies and Cost of Resale Goods	-	582,712	582,712	908	9,654	10,562	593,274
Contract Services and Professional Fees	-	223,328	223,328	52,408	8,673	61,081	284,409
Contributed Facilities, Goods, and Services	-	222,812	222,812	-	1,546	1,546	224,358
Travel and Education	-	95,940	95,940	4,136	601	4,737	100,677
Depreciation	-	59,924	59,924	13,154	-	13,154	73,078
Bad Debt Expense	-	69,680	69,680	-	-	-	69,680
Insurance	-	60,865	60,865	2,560	2,560	5,120	65,985
Telephone	-	22,162	22,162	4,749	4,749	9,498	31,660
Minor Equipment Purchases and Maintenance	-	3,609	3,609	773	773	1,546	5,155
Interest Expense	-	-	-	3,252	-	3,252	3,252
Postage and Shipping	-	670	670	335	670	1,005	1,675
Taxes	-	-	-	71	-	71	71
Total Functional Expenses	14,300	5,695,430	5,709,730	595,371	251,988	847,359	6,557,089
Add: National Membership Dues	-	-	-	-	-	-	61,696
Total Expenses	<u>\$ 14,300</u>	<u>\$ 5,695,430</u>	<u>\$ 5,709,730</u>	<u>\$ 595,371</u>	<u>\$ 251,988</u>	<u>\$ 847,359</u>	<u>\$ 6,618,785</u>

See accompanying Notes to Financial Statements.

**EASTERSEALS WASHINGTON
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (57,498)	\$ (433,461)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	75,252	73,078
Change in Fair Value of Trust Held by Others	(62,628)	55,419
Net Unrealized Loss (Gain) on Investments	(14,943)	18,363
Net Changes in Operating Assets and Liabilities		
Accounts and Grants Receivable	(90,829)	192,391
Pledges Receivable	-	25,393
Prepaid Expenses and Other	6,157	(13,207)
Accounts Payable and Accrued Expenses	66,745	3,097
Deferred Revenue	(19,411)	334
Net Cash Used by Operating Activities	(97,155)	(78,593)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(92,003)	(194,562)
Sale of Investments	345,372	-
Purchase of Property	(129,598)	(3,367)
Net Cash Provided (Used) by Investing Activities	123,771	(197,929)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions from Beneficial Interest in Assets Held by Others	14,943	18,511
Payments on Note Payable	(33,576)	(47,343)
Net Cash Used by Financing Activities	(18,633)	(28,832)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,983	(305,354)
Cash and Cash Equivalents - Beginning of Year	311,247	616,601
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 319,230	\$ 311,247
SUPPLEMENTAL DISCLOSURE		
Cash Paid During the Year for Interest	\$ 678	\$ 3,252

See accompanying Notes to Financial Statements.

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 PRINCIPLE ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Easter Seals Washington, dba: 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, 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.

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and Equipment

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.

Changes in Accounting Principle

In 2019, the Organization adopted Financial Accounting Standards Board's Accounting Standards Codification Topic 606, *Revenues from Contracts with Customers*, which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. There was no material impact on the Organization's financial position and results of operations upon adoption of the new standard.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. Management has applied the modified retrospective approach as allowed under the standard. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Additionally in June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2019 and 2018.

Program Service Fees

Program Service Fees are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services to their program participants. These amounts are due from patients, third-party payors (including government programs). Generally, the Organization bills the participants and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied at a point in time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue is recognized as the service is rendered.

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 \$198,430 and \$199,772 for the years ended December 31, 2019 and 2018, respectively. The estimated value of goods and use of equipment received is \$19,855 and \$24,586 for the years ended December 31, 2019 and 2018, respectively.

The Organization recognizes donated services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by an 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, 2019 and 2018.

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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).

Subsequent Events

Subsequent events were evaluated through REPORT DATE, which is the date the financial statements were available to be issued.

Subsequent to year end, a pandemic of the Corona Virus (COVID-19) was declared by the World Health Organization. Future events, revenues and expenses of the Organization are uncertain due to the potential impact on travel and stay at home orders. This could also impact transactions relating to customers and vendors. In addition, both domestic and international equity markets have experienced significant declines since December 31, 2019. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and Cash Equivalents	\$ 319,230	\$ 311,247
Accounts and Grants Receivable	635,778	544,949
Investments	<u>538,565</u>	<u>729,307</u>
Total Financial Assets	1,493,573	1,585,503
 Less Those Unavailable for General Expenditures Within One Year:		
Restricted by Donors in Perpetuity	<u>(474,778)</u>	<u>(432,645)</u>
 Financial Assets Available Within One Year	<u><u>\$ 1,018,795</u></u>	<u><u>\$ 1,152,858</u></u>

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.

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

The following tables summarize the valuation of the Organization’s financial investments and interests under the fair value hierarchy at December 31:

	2019			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 9,386	\$ -	\$ -	\$ 9,386
Common Stock	10,970	-	-	10,970
Bond Mutual Funds	10,839	-	-	10,839
The Seattle Foundation Pool	-	-	82,842	82,842
Trust Held by Others	-	-	424,528	424,528
Total Investments at Fair Value	<u>\$ 31,195</u>	<u>\$ -</u>	<u>\$ 507,370</u>	<u>\$ 538,565</u>

	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
Total Investments at Fair Value	<u>\$ 296,662</u>	<u>\$ -</u>	<u>\$ 432,645</u>	<u>\$ 729,307</u>

**EASTERSEALS WASHINGTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 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:

	<u>2019</u>	<u>2018</u>
Balance - Beginning of Year	\$ 432,645	\$ 494,062
Contributions to Trust Held by Third Parties	1,265	1,199
Net Gain (Loss) on Trusts Held by Third Parties	76,306	(44,105)
Investment Return, Net	12,097	
Distributions from Trust Held by Third Parties	(14,943)	(18,511)
Balance - End of Year	<u>\$ 507,370</u>	<u>\$ 432,645</u>

NOTE 4 TRUSTS 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 report 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 for the trust as investment return without donor restrictions.

NOTE 5 NOTE PAYABLE

The Organization had 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 carried an interest rate of 5.40% and matured in July 2019. Interest expense associated with the note was \$678 and \$3,252 for the years ended December 31, 2019 and 2018, respectively.

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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.

	<u>2019</u>	<u>2018</u>
Operating Subsidy - Bellevue Facility	\$ 140,894	\$ 267,986
Operating Reserve	118,924	118,924
Camp Capital Projects	18,859	73,570
Information Technology Equipment	14,256	17,755
Medical Equipment	2,007	2,007
Marketing	-	1,335
Total Net Assets Without Donor Restrictions	<u>\$ 294,940</u>	<u>\$ 481,577</u>

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Restricted for a Specified Purpose or Passage of Time:		
Mobile Technology	\$ 15,120	\$ 19,268
Building and Upgrading Camp Facilities	22,479	13,000
Endowment - Unappropriated Investment Return	32,592	20,495
Other Programs	6,000	500
Total	<u>76,191</u>	<u>53,263</u>
Perpetual in Nature:		
Endowment - Corpus	50,250	50,250
Beneficial Interest in Perpetual Trust	424,528	361,900
Total	<u>474,778</u>	<u>412,150</u>
Total Net Assets With Donor Restrictions	<u>\$ 550,969</u>	<u>\$ 465,413</u>

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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.

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 nonprofit 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.

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NOTE 8 ENDOWMENT (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 Endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance - January 1, 2018	\$ -	\$ 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 - December 31, 2018	-	432,645	432,645
Contributions	-	1,265	1,265
Investment Return, Net	-	12,097	12,097
Net Appreciation of Endowment	-	61,363	61,363
Amounts Appropriated for Expenditure	-	-	-
Balance - December 31, 2019	<u>\$ -</u>	<u>\$ 507,370</u>	<u>\$ 507,370</u>

NOTE 9 COMMITMENTS

The Organization leases its facilities and certain equipment under noncancellable operating agreements. Total rent expense under these leases totaled \$451,967 and \$422,038 for the years ended December 31, 2019 and 2018, respectively. Future minimum lease payments for the years ending December 31 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 222,268
2021	16,842
Total	<u>\$ 239,110</u>