



Financial Statements

For the Year Ended December 31, 2015

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Independent Auditor's Report

**To the Board of Directors
Alliance for Education
Seattle, Washington**

We have audited the accompanying financial statements of the Alliance for Education (the Alliance) which comprise the statement of financial position as of December 31, 2015, and the related statements of activities 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.

Auditor's 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 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance as of December 31, 2015, and the changes 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Alliance's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2015. As part of our audit of the 2015 financial statements, we also audited adjustments described in Note 14 that were applied to restate the 2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber P.S.

Certified Public Accountants
August 9, 2016

ALLIANCE FOR EDUCATION

Statement of Financial Position

December 31, 2015

(With Comparative Totals for December 31, 2014)

Assets	2015	2014 (As Restated, Note 14)
Current Assets:		
Cash and cash equivalents	\$ 1,972,186	\$ 2,187,720
School affiliated cash accounts	2,102,757	2,099,139
Accounts receivable and prepaid expenses	152,706	222,711
Promises to give, net - current (Note 2)	254,849	460,884
Total Current Assets	4,482,498	4,970,454
Noncurrent Assets:		
Promises to give - long-term (Note 2)	55,000	105,000
Furniture, equipment and leasehold improvements, net (Note 3)	87,611	43,769
Investments (Note 4)	7,115,754	7,605,764
Other assets	18,949	18,949
Total Assets	\$ 11,759,812	\$ 12,743,936
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 179,158	\$ 215,382
Grants payable	178,755	269,051
Funds held for others	147,591	164,786
Current portion of capital lease obligations (Note 5)	7,888	9,181
Total Current Liabilities	513,392	658,400
Long-term portion of capital lease obligations (Note 5)	1,905	9,794
Deferred rent	64,328	44,911
Total Liabilities	579,625	713,105
Net Assets:		
Unrestricted net assets	718,445	672,160
Temporarily restricted net assets (Notes 11, 12 and 14)	10,304,915	11,201,844
Permanently restricted net assets (Notes 11 and 13)	156,827	156,827
Total Net Assets	11,180,187	12,030,831
Total Liabilities and Net Assets	\$ 11,759,812	\$ 12,743,936

See accompanying notes.

ALLIANCE FOR EDUCATION

**Statement of Activities
Year Ended December 31, 2015
(With Comparative Totals for 2014)**

	2015			Total	2014 (As Restated, Note 14)
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating					
Public Support and Revenue:					
Contributions	\$ 219,115	\$ 2,813,472	\$ -	\$ 3,032,587	\$ 3,279,198
Special events, net (Note 9)	441,265			441,265	366,257
Operating investment returns (Note 4)	75,783	2,660		78,443	79,761
Other income	496,290			496,290	424,244
Total Public Support and Revenue	1,232,453	2,816,132		4,048,585	4,149,460
Net assets released from restrictions	3,553,919	(3,553,919)			
Endowment appropriations (Note 11)		372,392		372,392	320,410
Total Public Support and Revenue	4,786,372	(365,395)		4,420,977	4,469,870
Expenses:					
Program services	3,657,830			3,657,830	3,701,835
Management and general	694,259			694,259	684,026
Fundraising	387,998			387,998	355,657
Total Expenses	4,740,087			4,740,087	4,741,518
Change in Net Assets - Operating	46,285	(365,395)		(319,110)	(271,648)
Nonoperating					
Endowment contributions		10,850		10,850	16,155
Endowment investment returns (Note 4)		(169,992)		(169,992)	417,433
Endowment appropriations (Note 11)		(372,392)		(372,392)	(320,410)
Change in Net Assets - Nonoperating		(531,534)		(531,534)	113,178
Total Change in Net Assets	46,285	(896,929)		(850,644)	(158,470)
Net assets, beginning of year	672,160	11,201,844	156,827	12,030,831	12,189,301
Net Assets, End of Year	\$ 718,445	\$ 10,304,915	\$ 156,827	\$ 11,180,187	\$ 12,030,831

See accompanying notes.

ALLIANCE FOR EDUCATION

**Statement of Cash Flows
Year Ended December 31, 2015
(With Comparative Totals for 2014)**

	2015	2014 (As Restated, Note 14)
Operating Activities:		
Change in net assets	\$ (850,644)	\$ (158,470)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities-		
Noncash items included in change in net assets:		
Depreciation	30,490	20,829
Net losses (gains) on investments	184,826	(369,330)
Loss from uncollectible pledges	169,569	
Loss on disposal of fixed assets		292
Nonoperating items included in change in net assets:		
Appropriations from endowment for operations	372,392	320,410
Change in operating accounts:		
Promises to give	86,466	364,298
Accounts receivable and prepaid expenses	70,005	(91,775)
Accounts payable and accrued expenses	(36,224)	45,994
Grants payable	(90,296)	(152,470)
Funds held for others	(17,195)	57,076
Deferred rent	19,417	44,911
Other assets		(2,217)
Net Cash (Used in) Provided by Operating Activities	(61,194)	79,548
Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(74,332)	(25,856)
Appropriations from endowment for operations	(372,392)	(320,410)
Purchases of investments	(155,570)	(193,591)
Proceeds from sale of investments	460,754	1,024,899
Net Cash (Used in) Provided by Investing Activities	(141,540)	485,042
Financing Activities:		
Payments on capital lease obligations	(9,182)	(8,627)
Net Cash Used in Financing Activities	(9,182)	(8,627)
Net Change	(211,916)	555,963
Cash and cash equivalents and school affiliated cash, beginning of year	4,286,859	3,730,896
Cash and Cash Equivalents and School Affiliated Cash, End of Year	\$ 4,074,943	\$ 4,286,859

See accompanying notes.

ALLIANCE FOR EDUCATION

Notes to Financial Statements Year Ended December 31, 2015

Note 1 - Organization and Significant Accounting Policies

Organization - The Alliance for Education (the Alliance) is a nonprofit organization founded in 1995 and located in Seattle, Washington. The Alliance's mission is to ensure that all students in Seattle Public Schools (SPS) are prepared for college, career, and life. Eliminating achievement gaps, which exist primarily along the lines of race, income, and ethnicity, is foundational to this mission. Alliance activities are designed to improve educational equity so that all students, including low income and students of color, have opportunities to achieve academic success and economic and social mobility for the rest of their lives.

Description of Program Services - The Alliance supports public education through Strategic, Service and Spirit work:

Strategic Work - The Alliance's strategic focus is on human capital and talent development, e.g., leadership of the Seattle Teacher Residency (STR), support of the SPS' Human Resources Department work with the Urban Schools Human Capital Academy, and other activities undertaken in collaboration with SPS and other partners. The Seattle Teacher Residency is a collaborative project involving four partners, each of whom commits financial and human resources: the Alliance, Seattle Public Schools, the University of Washington College of Education, and the Seattle Education Association.

Service Work - The Alliance provides superior fiscal services to schools, including fiscal sponsorship and consultative services to school groups (PTAs, booster clubs, etc.) and school programs.

Spirit Work - The Alliance sponsors or co-sponsors celebratory events each year that showcase achievements of schools, students, teachers and school leaders (e.g., the annual \$50,000 Thomas B. Foster Award for Principal Excellence).

Basis of Presentation - Net assets of the Alliance and changes therein are classified and reported as follows:

Unrestricted Net Assets - Include all net assets on which there are no donor-imposed restrictions for use, or on which donor-imposed restrictions were temporary and have expired.

Temporarily Restricted Net Assets - Include all net assets received by donations under which the donors imposed some restriction on use. Such restrictions are time or purpose dependent and will expire when the Alliance makes use of the net assets sometime in the future for the restricted purpose. The Alliance also administers temporarily restricted fund agreements with donors that are long-term in nature and provide for earnings to be distributed yearly for operations.

Permanently Restricted Net Assets - Include all net assets received by donations wherein the donors imposed a permanent restriction on the use of the gift. The donors require the gift to be invested and only the income from such investments be used to support the intended cause. By agreement with the donor, the Alliance does not invade the principal of these gifts. The Alliance's permanently restricted net assets consist of two endowments, the earnings of which are restricted for the support of Seattle Public Schools' programs.

Cash and Cash Equivalents - For reporting purposes, the Alliance considers all highly liquid investments with an original maturity of three months or less, other than those held in the investment portfolio, to be cash equivalents.

The Alliance holds a majority of its cash and cash equivalents with one financial institution. The balances usually exceed federally insured deposit limits.

ALLIANCE FOR EDUCATION

Notes to Financial Statements Year Ended December 31, 2015

Note 1 - Continued

Promises to Give and Accounts Receivable - Unconditional promises to give and accounts receivable are stated at net realizable value. In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), unconditional promises to give are recognized as support in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. It is the Alliance's policy to evaluate the collectability of promises to give and reserve for uncollectible amounts.

Promises to give at December 31, 2015, included three pledges from three organizations totaling \$205,000 or 59% of total gross promises to give. Promises to give at December 31, 2014, included three pledges from three organizations totaling \$315,000 or 53% of gross total promises to give. Management is aware of this concentration and believes there is minimal risk associated with these promises to give.

Investments - Investments in debt and equity securities with readily determinable fair values are carried at fair value. Investments in securities with no readily determinable fair value are carried at the lower of cost or market. Realized and unrealized gains and losses are reflected in the statement of activities.

Furniture, Equipment and Leasehold Improvements - Furniture, equipment and leasehold improvements are stated at cost for purchased assets or estimated fair value at date of receipt for donated assets. The Alliance capitalizes purchases of property and equipment whose acquisition costs are over \$1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets of three to ten years.

Grants Payable - Grants payable represent restricted gifts to various programs and schools in the Seattle Public Schools and other community partners. The amounts are recognized as grant expense and grants payable when the commitment is made.

Funds Held for Others - The Alliance acts as a fiscal agent for the operation of certain programs of other organizations. At December 31, 2015 and 2014, the Alliance recognized cash and a corresponding liability for funds held for others of \$193,589 and \$208,670, respectively.

In-Kind Donations - Donated assets are recorded as contributions at their estimated fair values at the date of donation. Similarly, contributed professional services are recorded at rates that would have been paid for similar services if purchased.

Restricted Support - All donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or 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. Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

For the year ended December 31, 2015, contributions from one donor totaling \$503,500 represented 14% of total contributions and net special event revenues. For the year ended December 31, 2014, contributions from one donor totaling \$489,000 represented 13% of total contributions and net special revenues.

ALLIANCE FOR EDUCATION

Notes to Financial Statements Year Ended December 31, 2015

Note 1 - Continued

Salaries, Taxes and Benefits - The Alliance is an affiliate of the Greater Seattle Chamber of Commerce (the Chamber). As such, personnel are paid by the Chamber and participate in the Chamber's benefit package. This relationship is evidenced by a contract that provides for the Alliance to reimburse the Chamber for employees' wages, benefits, employer taxes and business and occupation taxes on the transactions, and also includes an additional administrative fee.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Taxes - The IRS has determined that the Alliance is exempt from federal income taxes under provisions of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and is not a private foundation. Accordingly, no provision for federal income tax has been made in these financial statements.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating vs. Nonoperating - Investment return from permanently restricted endowment accounts and temporarily restricted fund agreements is considered nonoperating investment return. Investment return from other accounts is considered operating investment return. Contributions to permanently restricted accounts and temporarily restricted fund agreements are also considered nonoperating.

Subsequent Events - The Alliance has evaluated subsequent events through August 9, 2016, the date on which the financial statements were available to be issued.

Note 2 - Promises to Give

Unconditional promises to give at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Unconditional promises to give due in less than one year	\$ 294,849	\$ 488,884
Unconditional promises to give due in one or more years-		
Two years	55,000	75,000
Three years		<u>30,000</u>
Total long-term pledges receivable	<u>55,000</u>	<u>105,000</u>
Total Gross Unconditional Promises to Give	349,849	593,884
Less allowance for doubtful promises to give	<u>(40,000)</u>	<u>(28,000)</u>
Net Unconditional Promises to Give	<u>\$ 309,849</u>	<u>\$ 565,884</u>

The present value discount on unconditional promises to give due in future years is not considered material.

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
Year Ended December 31, 2015**

Note 3 - Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 127,823	\$ 144,868
Leasehold improvements	22,931	11,676
Furniture	<u>49,880</u>	
Total	200,634	156,544
Less accumulated depreciation	<u>(113,023)</u>	<u>(112,775)</u>
Total Furniture, Equipment and Leasehold Improvements, Net	<u>\$ 87,611</u>	<u>\$ 43,769</u>

Note 4 - Investments

The fair value of investment accounts established for the Alliance's endowments and other funds at December 31 are summarized below:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 289,737	\$ 118,994
Fixed income securities	1,888,461	1,715,374
Equity securities	4,569,434	5,378,713
Real assets fund	<u>368,122</u>	<u>392,683</u>
Total Investments	<u>\$ 7,115,754</u>	<u>\$ 7,605,764</u>

Investment return for the years ended December 31 is as follows:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 156,473	\$ 194,920
Realized and unrealized gains and losses, net	(184,826)	370,033
Investment fees	<u>(63,196)</u>	<u>(67,759)</u>
Total Investment Returns	<u>\$ (91,549)</u>	<u>\$ 497,194</u>

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
Year Ended December 31, 2015**

Note 4 - Continued

The Alliance considers investment return from permanently restricted endowment accounts and temporarily restricted fund agreements to be nonoperating investment return. Investment return from other accounts is considered operating investment return. Total investment return is as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Operating investment return	\$ 78,443	\$ 79,761
Nonoperating investment return	<u>(169,992)</u>	<u>417,433</u>
Total Investment Returns	<u>\$ (91,549)</u>	<u>\$ 497,194</u>

Fair Value Measurements - U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, accounting standards use a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Equity Securities, Equity Mutual Funds, and Real Assets Funds - Valued at quoted market prices in active markets.

Fixed Income Securities - Valued using bid valuations from similar instruments in actively quoted markets.

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
Year Ended December 31, 2015**

Note 4 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets and liabilities measured on a recurring basis at December 31, 2015 and 2014, were as follows:

	Fair Value Measurements as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 289,737	\$ -	\$ -	\$ 289,737
Equity securities-				
Information technology	610,038			610,038
Healthcare	365,842			365,842
Industrials	251,975			251,975
Energy	109,643			109,643
Financial	303,889			303,889
Consumer staples	197,302			197,302
Consumer discretionary	397,285			397,285
Materials	90,510			90,510
Utilities	31,451			31,451
Telecommunications	38,363			38,363
Total equity securities	2,396,298			2,396,298
Equity mutual funds-				
International large cap	743,862			743,862
Domestic large cap	398,616			398,616
International mutual funds	331,269			331,269
Domestic small cap	127,333			127,333
Mid cap blend	222,179			222,179
Other	349,880			349,877
Total equity mutual funds	2,173,139			2,173,136
Fixed income securities-				
Corporate bonds		1,461,907		1,461,907
Government bonds		57,095		57,095
Domestic mutual funds		323,910		323,910
International mutual funds		45,549		45,549
Total fixed income securities		1,888,461		1,888,461
Other-				
Real assets funds	368,122			368,122
Total other	368,122			368,122
	\$ 5,227,296	\$ 1,888,461	\$ -	\$ 7,115,754

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
Year Ended December 31, 2015**

Note 4 - Continued

	Fair Value Measurements as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 118,994	\$ -	\$ -	\$ 118,994
Equity securities-				
Information technology	693,934			693,934
Healthcare	324,935			324,935
Industrials	351,664			351,664
Energy	141,371			141,371
Financial	380,203			380,203
Consumer staples	303,555			303,555
Consumer discretionary	348,631			348,631
Materials	113,306			113,306
Utilities	52,825			52,825
Total equity securities	2,710,424			2,710,424
Equity mutual funds-				
International large cap	1,023,023			1,023,023
Domestic large cap	558,997			558,997
International mutual funds	313,973			313,973
Domestic small cap	258,281			258,281
Mid cap blend	180,961			180,961
Other	333,054			333,054
Total equity mutual funds	2,668,289			2,668,289
Fixed income securities-				
Corporate bonds		1,275,686		1,275,686
Government bonds		57,668		57,668
Domestic mutual funds		331,410		331,410
International mutual funds		50,610		50,610
Total fixed income securities		1,715,374		1,715,374
Other-				
Real assets funds	392,683			392,683
Total other	392,683			392,683
	<u>\$ 5,890,390</u>	<u>\$ 1,715,374</u>	<u>\$ -</u>	<u>\$ 7,605,764</u>

ALLIANCE FOR EDUCATION

Notes to Financial Statements Year Ended December 31, 2015

Note 5 - Capital Leases

Capital Leases - The Alliance entered into a lease agreement in September 2011 for a copier under a five-year capital lease agreement with a capitalized cost of \$32,135. In October 2012, the Alliance entered into a lease agreement for a phone system with a capitalized cost of \$11,172. Depreciation and capitalized leased assets are included with furniture, equipment and leasehold improvements.

Future minimum capital lease payments are as follows:

For the Year Ending December 31,

2016	\$	8,233
2017		<u>1,955</u>
Total required lease payments		10,188
Less amount representing interest		<u>(395)</u>
		9,793
Less current portion of capital lease obligations		<u>(7,888)</u>
Long-Term Portion of Capital Lease Obligations	\$	<u>1,905</u>

Note 6 - Operating Lease Commitments

The Alliance is obligated under an operating lease for office space used for program, administrative and fundraising activities which expires February 28, 2022. The lease requires monthly payments of \$7,323 escalating annually in March. Lease expense is recorded on a straight-line basis over the life of the lease. Accordingly, for a portion of the lease the actual payments under the agreements are less than the expense recognized. The Alliance also has an operating lease for a mail machine which expires in 2016. Rent expense incurred under these leases during the years ended December 31, 2015 and 2014, was \$110,324 and \$113,173, respectively, and is included in occupancy expense. Future payments under these leases are as follows:

For the Year Ending December 31,

2016	\$	114,503
2017		113,625
2018		117,043
2019		120,654
2020		124,161
Thereafter		<u>149,784</u>
	\$	<u>739,770</u>

ALLIANCE FOR EDUCATION

Notes to Financial Statements Year Ended December 31, 2015

Note 7 - Grant and Award Commitments

The Alliance has co-developed a 14-month preparation program for future teachers called the Seattle Teacher Residency (STR). The program is training its third cohort of residents in the 2015-16 school year. The mission of STR is to accelerate student achievement through the preparation, support, and retention of a group of exceptional teachers who reflect the rich diversity in Seattle Public Schools. The selected individuals prepare to become teachers while earning their Master's in Teaching (MIT) degree from the University of Washington. Residents spend a full year working alongside mentors. These mentors are experienced teachers who open their classroom to provide a rich educational setting for residents. Residents are prepared for employment as teachers of record in Seattle Public Schools following the successful completion of the rigorous 14-month program and passing Washington state teacher certification requirements.

The Alliance has entered into conditional agreements with teachers, mentors and the University of Washington to support this program. Recognition of liabilities for support is dependent on acceptance into the program, continuing in the program and performing at a successful level of proficiency. At December 31, 2015 the Alliance recorded a liability of \$54,211 for stipends and tuition reimbursements in which conditions have been met. Estimated future remaining stipends due to the mentors and residents that are conditional and are not included in liabilities at December 31, 2015 are \$198,000. The Alliance made a commitment to graduates of Cohort One (2013-14) to reimburse the tuition they paid to UW for their MIT enrollment. The Alliance's commitment is to reimburse the former residents in equal installments over five years subject to the condition that the resident completes each year as a teacher of record in a Seattle Title I school. Expected tuition reimbursements due for the first cohort for the school year ending June 30, 2016 are approximately \$79,300, and for the years ended June 30, 2017 through 2019 are approximately \$79,300 per year, conditional upon participation and eligibility for the program.

The Alliance has also made conditional grant commitments to Seattle Public Schools to support its strategic plan and certain programs. These grants are contingent upon Seattle Public Schools meeting certain conditions and are not recorded as grants payable until those conditions are met. The Alliance is committed to \$757 as of December 31, 2015, which will be recognized and released when conditions are met.

Note 8 - In-Kind Donations

The Alliance received in-kind donations for the years ended December 31 as follows:

	<u>2015</u>	<u>2014</u>
Contracted services	\$ 160	\$ -
Supplies	<u>250</u>	<u>8,058</u>
Total In-Kind Donations	<u>\$ 410</u>	<u>\$ 8,058</u>

Amounts are included in contributions in the statement of activities.

ALLIANCE FOR EDUCATION

Notes to Financial Statements Year Ended December 31, 2015

Note 9 - Special Events

Revenues and expenses for special events for the years ended December 31 were as follows:

	<u>2015</u>	<u>2014</u>
Event revenues	\$ 582,987	\$ 544,056
Event expenses	<u>(141,722)</u>	<u>(177,799)</u>
Net Special Event Income	<u>\$ 441,265</u>	<u>\$ 366,257</u>

During both 2015 and 2014, the Alliance hosted the Annual Community Breakfast and the Annual Black and Orange Ball, a gala dinner and an auction.

Note 10 - Retirement Plan

The Alliance participates in a defined contribution retirement savings and investment plan (the 401(k) Plan). The 401(k) Plan is open to all employees 21 years and older, who can contribute up to 50% of their regular earnings, not to exceed the statutory limit. The Alliance matches up to 6% of each employee's compensation. In addition, after one year of service the Alliance contributes a discretionary percentage of each participant's annual compensation to the 401(k) Plan. For the years ended December 31, 2015 and 2014, the contribution percentage was 1%. Employer contributions vest incrementally based on years of service up to five years.

The Alliance's contributions to the 401(k) Plan for the years ended December 31, 2015 and 2014, were \$60,674 and \$58,457, respectively.

Note 11 - Endowments

The Alliance's endowments consist of a number of funds established for a variety of purposes. Its endowments include both donor-restricted permanent endowment funds and temporarily restricted funds set up to function as endowments but allowing for the possibility of spending of corpus, if necessary. As required by U.S. GAAP and as disclosed below, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Alliance's Board of Directors has interpreted the Washington Prudent Management of Institutional Funds Act (PMIFA) and having considered its rights and obligations thereunder, has determined that it is desirable to preserve on a long-term basis the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Alliance classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (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 donor-restricted endowment fund 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 Alliance in a manner consistent with the standard of prudence prescribed by PMIFA.

ALLIANCE FOR EDUCATION

Notes to Financial Statements Year Ended December 31, 2015

Note 11 - Continued

In accordance with PMIFA, the Alliance considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Alliance and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Alliance; and
- The investment policies of the Alliance.

As of December 31, 2015 and 2014, endowment net assets consisted entirely of donor-restricted endowment funds. Changes to endowment net assets for the years ended December 31, 2015 and 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2014	\$ -	\$ 7,416,603	\$ 156,827	\$ 7,573,430
Endowment investment return-				
Endowment administration fees		(73,413)		(73,413)
Investment fees		(63,196)		(63,196)
Interest and dividends		151,443		151,443
Realized and unrealized losses		(184,826)		(184,826)
Total endowment investment return		(169,992)		(169,992)
Contributions		10,850		10,850
Appropriation of endowment for expenditure		(372,392)		(372,392)
Endowment Net Assets, December 31, 2015	\$ -	\$ 6,885,069	\$ 156,827	\$ 7,041,896

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
Year Ended December 31, 2015**

Note 11 - Continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2013	\$ -	\$ 7,303,425	\$ 156,827	\$ 7,460,252
Endowment investment return-				
Endowment administration fees		(75,716)		(75,716)
Investment fees		(67,759)		(67,759)
Interest and dividends		190,875		190,875
Realized and unrealized gains		370,033		370,033
Total endowment investment return		417,433		417,433
Contributions		16,155		16,155
Appropriation of endowment for expenditure		(320,410)		(320,410)
Endowment Net Assets, December 31, 2014	<u>\$ -</u>	<u>\$ 7,416,603</u>	<u>\$ 156,827</u>	<u>\$ 7,573,430</u>

Return Objectives and Risk Parameters - The Alliance has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to support various programs of the Alliance and/or Seattle Public Schools, thereby maximizing the benefits intended by donors, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets of the endowments, thereby protecting those assets against inflation. This policy, as approved by the Board of Directors, endeavors to conform to the prudent investor standard, which requires the exercise of reasonable care, skill and caution, and is applied to investments, not in isolation, but in the context of the endowment portfolio and as part of an overall investment strategy, which incorporates risk and return objectives suitable to the endowment.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Alliance relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Alliance targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Alliance has a policy of appropriating for distribution each year an amount appropriate to the various endowments. The distribution rate, expressed as a percentage of market value of the endowment investments, is determined on a year-to-year basis by the Executive Committee upon recommendation of the Finance and Audit Committee of the Board.

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
Year Ended December 31, 2015**

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following program purposes at December 31:

	<u>2015</u>	<u>2014</u>
Breakfast sponsorships	\$ 15,000	\$ 25,000
Auction sponsorships		15,000
Educational investments	768,428	1,261,235
Affiliated school activities	2,636,418	2,484,006
Endowment supported grants and awards	<u>6,885,069</u>	<u>7,416,603</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,304,915</u>	<u>\$ 11,201,844</u>

Note 13 - Permanently Restricted Net Assets

Permanently restricted net assets of \$156,827 are held for the support of SPS programs at December 31, 2015 and 2014.

Note 14 - Prior Period Restatement

The Alliance has determined that an agreement that had previously been classified as contribution revenue and program expenses to the Alliance was instead an agency transaction. Therefore, the amounts should be reported as assets and liabilities to the Alliance rather than contribution revenue and program expenses. This prior period restatement decreased contribution revenue and program expenses for the year ended December 31, 2014 by \$160,325 and \$85,305, respectively, and increased other revenue by \$17,944. Additionally, the prior period restatement decreased temporarily net assets and reported a liability for funds held for others at December 31, 2014 of \$164,786. These amounts have been restated and the cumulative effect of these adjustments is reflected in the balances at December 31, 2014 as follows:

	<u>Temporarily Restricted Net Assets, at December 31, 2013</u>	<u>Temporarily Restricted Net Assets, at December 31, 2014</u>	<u>Contribution Revenue</u>	<u>Other Revenue</u>	<u>Program Services</u>	<u>Funds Held for Others</u>
Balances as previously stated, December 31, 2014	\$ 11,458,337	\$ 11,366,630	\$ 3,439,523	\$ 406,300	\$ 3,787,140	\$ -
Restatement	<u>(107,710)</u>	<u>(164,786)</u>	<u>(160,325)</u>	<u>17,944</u>	<u>(85,305)</u>	<u>164,786</u>
Balances as Restated, December 31, 2014	<u>\$ 11,350,627</u>	<u>\$ 11,201,844</u>	<u>\$ 3,279,198</u>	<u>\$ 424,244</u>	<u>\$ 3,701,835</u>	<u>\$ 164,786</u>

SUPPLEMENTARY INFORMATION

ALLIANCE FOR EDUCATION

**Schedule of Functional Expenses
Year Ended December 31, 2015
(With Comparative Totals for 2014)**

	Program Services			Supporting Services			2015 Total	2014 (As Restated, Note 14)
	Educational Investments	Affiliated School Activities	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Grants, scholarships, and awards	\$ 1,067,475	\$ 903,778	\$ 1,971,253	\$ -	\$ -	\$ -	\$ 1,971,253	\$ 2,197,849
Contract services	136,902	152,345	289,247	72,114	30,160	102,274	391,521	359,513
Salaries and wages	465,324		465,324	369,336	213,760	583,096	1,048,420	1,017,616
Payroll taxes	37,372		37,372	29,190	17,404	46,594	83,966	84,289
Benefits	99,182		99,182	74,683	43,105	117,788	216,970	200,446
In-kind		285	285	100	25	125	410	8,058
Special events					141,722	141,722	141,722	177,799
Postage and printing	8,719	5,374	14,093	13,799	10,909	24,708	38,801	34,378
Travel, meetings and meals	41,663	195,641	237,304	9,275	6,750	16,025	253,329	346,251
Occupancy	45,923		45,923	42,959	21,442	64,401	110,324	112,263
Payroll administrative fees				21,339		21,339	21,339	21,491
Supplies and maintenance	4,481	293,226	297,707	11,503	5,991	17,494	315,201	258,430
Telephone	3,724		3,724	3,073	1,386	4,459	8,183	6,746
Uncollectible pledges	139,663	8,665	148,328		21,241	21,241	169,569	
Investment fees				63,196		63,196	63,196	67,759
Miscellaneous	17,092	22,300	39,392	29,398	11,521	40,919	80,311	73,359
Depreciation	8,696		8,696	17,490	4,304	21,794	30,490	20,829
Total expenses	2,076,216	1,581,614	3,657,830	757,455	529,720	1,287,175	4,945,005	4,987,076
Less special events					(141,722)	(141,722)	(141,722)	(177,799)
Less investment fees				(63,196)		(63,196)	(63,196)	(67,759)
Total Operating Expenses	\$ 2,076,216	\$ 1,581,614	\$ 3,657,830	\$ 694,259	\$ 387,998	\$ 1,082,257	\$ 4,740,087	\$ 4,741,518

See independent auditor's report.