



Financial Statements

For the Year Ended December 31, 2017

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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, 2017, 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, 2017, 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 on page 16 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 22, 2017. 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
June 18, 2018

ALLIANCE FOR EDUCATION

Statement of Financial Position

December 31, 2017

(With Comparative Totals for December 31, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,533,177	\$ 1,594,680
School affiliated cash accounts	1,198,655	2,111,885
Accounts receivable and prepaid expenses	4,258	86,036
Promises to give, net (Note 2)	145,440	75,883
Total Current Assets	2,881,530	3,868,484
Noncurrent Assets:		
Furniture, equipment and leasehold improvements, net (Note 3)	60,676	87,363
Investments (Note 4)	7,140,070	7,133,091
Other assets	18,949	18,949
Total Assets	\$ 10,101,225	\$ 11,107,887
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 94,627	\$ 146,298
Grants payable	67,079	170,929
Funds held for others	259,636	206,559
Current portion of capital lease obligations (Note 5)	2,820	4,606
Total Current Liabilities	424,162	528,392
Long-term portion of capital lease obligations (Note 5)	5,499	8,320
Deferred rent	58,123	62,554
Total Liabilities	487,784	599,266
Net Assets:		
Unrestricted net assets	532,610	364,720
Temporarily restricted net assets (Notes 10 and 11)	8,924,004	9,987,074
Permanently restricted net assets (Notes 10 and 12)	156,827	156,827
Total Net Assets	9,613,441	10,508,621
Total Liabilities and Net Assets	\$ 10,101,225	\$ 11,107,887

See accompanying notes.

ALLIANCE FOR EDUCATION

**Statement of Activities
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating					
Public Support and Revenue:					
Contributions	\$ 93,941	\$ 2,151,626	\$ -	\$ 2,245,567	\$ 2,632,629
Special events, net (Note 8)	277,144			277,144	308,480
Operating investment returns (Note 4)	97,037	562		97,599	81,814
Other income	101,601			101,601	400,211
	569,723	2,152,188		2,721,911	3,423,134
Net assets released from restrictions	4,140,860	(4,140,860)			
Endowment appropriations (Note 10)		806,200		806,200	334,500
Total Public Support and Revenue	4,710,583	(1,182,472)		3,528,111	3,757,634
Expenses:					
Program services	3,539,231			3,539,231	3,249,981
Management and general	623,376			623,376	779,885
Fundraising	380,086			380,086	355,971
Total Expenses	4,542,693			4,542,693	4,385,837
Change in Net Assets - Operating	167,890	(1,182,472)		(1,014,582)	(628,203)
Nonoperating					
Endowment contributions		500		500	600
Endowment investment returns (Note 4)		925,102		925,102	290,537
Endowment appropriations (Note 10)		(806,200)		(806,200)	(334,500)
Change in Net Assets - Nonoperating		119,402		119,402	(43,363)
Total Change in Net Assets	167,890	(1,063,070)		(895,180)	(671,566)
Net assets, beginning of year	364,720	9,987,074	156,827	10,508,621	11,180,187
Net Assets, End of Year	\$ 532,610	\$ 8,924,004	\$ 156,827	\$ 9,613,441	\$ 10,508,621

See accompanying notes.

ALLIANCE FOR EDUCATION

**Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	<u>2017</u>	<u>2016</u>
Operating Activities:		
Change in net assets	\$ (895,180)	\$ (671,566)
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Noncash items included in change in net assets:		
Depreciation	27,856	35,301
Net gains on investments	(914,210)	(253,730)
Loss from uncollectible pledges	11,908	
Provision for allowance for doubtful accounts	7,000	
Nonoperating items included in change in net assets:		
Appropriations from endowment for operations	806,200	334,500
Change in operating accounts:		
Promises to give	(88,465)	233,966
Accounts receivable and prepaid expenses	81,778	66,670
Accounts payable and accrued expenses	(51,671)	(32,860)
Grants payable	(103,850)	(7,826)
Funds held for others	53,077	58,968
Deferred rent	(4,431)	(1,774)
Net Cash Used in Operating Activities	(1,069,988)	(238,351)
Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(1,169)	(23,594)
Appropriations from endowment for operations	(806,200)	(334,500)
Purchases of investments	(149,553)	(264,457)
Proceeds from sale of investments	1,056,784	500,850
Net Cash Provided by (Used in) Investing Activities	99,862	(121,701)
Financing Activities:		
Payments on capital lease obligations	(4,607)	(8,326)
Net Cash Used in Financing Activities	(4,607)	(8,326)
Net Change	(974,733)	(368,378)
Cash and cash equivalents and school affiliated cash, beginning of year	3,706,565	4,074,943
Cash and Cash Equivalents and School Affiliated Cash, End of Year	\$ 2,731,832	\$ 3,706,565

See accompanying notes.

ALLIANCE FOR EDUCATION

Notes to Financial Statements For the Year Ended December 31, 2017

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 STR is a collaborative project involving four partners, each of whom commits financial and human resources: the Alliance, SPS, 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 For the Year Ended December 31, 2017

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, 2017, included four pledges from four organizations totaling \$140,000 or 85% of total gross promises to give. Promises to give at December 31, 2016, included two pledges from two organizations totaling \$50,000 or 56% 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 SPS 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, 2017 and 2016, the Alliance recognized cash and a corresponding liability for funds held for others of \$259,636 and \$206,559, 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, 2017, contributions from one donors totaling \$501,500 represented 20% of total contributions and net special event revenues. For the year ended December 31, 2016, contributions from one donor totaling \$600,000 represented 20% of total contributions and net special event revenues.

ALLIANCE FOR EDUCATION

Notes to Financial Statements For the Year Ended December 31, 2017

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 donor restricted endowments is considered nonoperating investment return. Investment return from other accounts is considered operating investment return. Contributions to donor restricted endowments are also considered nonoperating.

Subsequent Events - The Alliance has evaluated subsequent events through June 18, 2018, 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>2017</u>	<u>2016</u>
Unconditional promises to give	\$ 165,440	\$ 88,883
Less allowance for doubtful promises to give	<u>(20,000)</u>	<u>(13,000)</u>
Net Unconditional Promises to Give	<u>\$ 145,440</u>	<u>\$ 75,883</u>

ALLIANCE FOR EDUCATION

Notes to Financial Statements
For the Year Ended December 31, 2017

Note 3 - Furniture, Equipment and Leasehold Improvements

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

	<u>2017</u>	<u>2016</u>
Equipment	\$ 95,127	\$ 93,958
Leasehold improvements	22,931	22,931
Furniture	<u>49,880</u>	<u>49,880</u>
Total	167,938	166,769
Less accumulated depreciation	<u>(107,262)</u>	<u>(79,406)</u>
Total Furniture, Equipment and Leasehold Improvements, Net	<u>\$ 60,676</u>	<u>\$ 87,363</u>

Note 4 - Investments and Fair Value Measurements

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

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 91,968	\$ 168,664
Fixed income securities	1,787,451	2,058,552
Equity securities	2,283,514	2,243,086
Equity mutual funds	2,622,574	2,303,241
Real assets	<u>354,563</u>	<u>359,548</u>
Total Investments	<u>\$ 7,140,070</u>	<u>\$ 7,133,091</u>

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

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 167,318	\$ 177,519
Realized and unrealized gains, net	914,210	253,730
Investment fees	<u>(58,827)</u>	<u>(58,898)</u>
Total Investment Returns	<u>\$ 1,022,701</u>	<u>\$ 372,351</u>

The Alliance considers investment return from donor-restricted endowment accounts 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>2017</u>	<u>2016</u>
Operating investment return	\$ 97,599	\$ 81,814
Nonoperating investment return	<u>925,102</u>	<u>290,537</u>
Total Investment Return	<u>\$ 1,022,701</u>	<u>\$ 372,351</u>

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 4 - Continued

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, 2017 and 2016.

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.

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

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 91,968	\$ -	\$ -	\$ 91,968
Fixed income securities		1,787,451		1,787,451
Equity securities	2,283,514			2,283,514
Equity mutual funds	2,622,574			2,622,574
Real assets	354,563			354,563
	\$ 5,352,619	\$ 1,787,451	\$ -	\$ 7,140,070

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 168,664	\$ -	\$ -	\$ 168,664
Fixed income securities		2,058,552		2,058,552
Equity securities	2,243,086			2,243,086
Equity mutual funds	2,303,241			2,303,241
Real assets	359,548			359,548
	\$ 5,074,539	\$ 2,058,552	\$ -	\$ 7,133,091

ALLIANCE FOR EDUCATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 5 - Capital Leases

Capital Leases - In October 2016, the Alliance entered into a lease agreement for a copier under a four-year capital lease agreement with a capitalized cost of \$11,459. Depreciation and capitalized leased assets are included with equipment in fixed assets.

Future minimum capital lease payments are as follows:

For the Year Ending December 31,

2018	\$	3,126
2019		3,126
2020		<u>2,605</u>
Total required lease payments		8,857
Less amount representing interest		<u>(538)</u>
		8,319
Less current portion of capital lease obligations		<u>(2,820)</u>
Long-Term Portion of Capital Lease Obligations	\$	<u>5,499</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 \$8,903 escalating annually in December. 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. Rent expense incurred under these leases during the years ended December 31, 2017 and 2016, was \$113,625 and \$113,532, respectively, and is included in occupancy expense. Future payments under these leases are as follows:

For the Year Ending December 31,

2018	\$	117,033
2019		120,554
2020		124,161
2021		127,886
2022		<u>21,899</u>
	\$	<u>511,533</u>

ALLIANCE FOR EDUCATION

Notes to Financial Statements For the Year Ended December 31, 2017

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 fifth cohort of residents in the 2017-18 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 (UW). 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 SPS 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, 2017 the Alliance recorded a liability of \$67,079 for stipends and tuition reimbursements in which conditions have been met. Estimated future remaining stipends due to the mentors and residents of Cohort 5 that are conditional and are not included in liabilities at December 31, 2017 total \$112,768. 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 years ending June 30, 2018 through 2019 are approximately \$75,600 per year, conditional upon participation and eligibility for the program.

The Alliance has made conditional grant commitments to SPS 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 \$2,412 as of December 31, 2017, which will be recognized and released when conditions are met.

The Alliance has made a commitment to SPS to support some of the costs of the International Baccalaureate (IB) program at Rainier Beach High School. The Alliance has committed to \$50,000 per year for the years ending December 31, 2018 and 2019. This commitment is subject to the condition of SPS continuing the program, as well as the conditional that SPS confirms the IB program continuation by August 31 of each year.

Note 8 - Special Events

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

	<u>2017</u>	<u>2016</u>
Event revenues	\$ 405,921	\$ 457,012
Event expenses	<u>(128,777)</u>	<u>(148,532)</u>
Net Special Event Income	<u>\$ 277,144</u>	<u>\$ 308,480</u>

During both 2017 and 2016, the Alliance hosted the Annual Community Breakfast and the Annual Black and Orange Ball, a gala dinner and an auction.

ALLIANCE FOR EDUCATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 9 - 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, 2017 and 2016, 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, 2017 and 2016, were \$57,521 and \$70,534, respectively.

Note 10 - 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.

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.

ALLIANCE FOR EDUCATION

**Notes to Financial Statements
For the Year Ended December 31, 2017**

Note 10 - Continued

As of December 31, 2017 and 2016, endowment net assets consisted entirely of donor-restricted endowment funds. Changes to endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2016	\$ -	\$ 6,841,706	\$ 156,827	\$ 6,998,533
Endowment investment return-				
Endowment administration fees		(71,023)		(71,023)
Investment fees		(58,518)		(58,518)
Interest and dividends		148,577		148,577
Realized and unrealized gains		906,066		906,066
Total endowment investment return		925,102		925,102
Contributions		500		500
Appropriation of endowment for expenditure		(806,200)		(806,200)
Endowment Net Assets, December 31, 2017	<u>\$ -</u>	<u>\$ 6,961,108</u>	<u>\$ 156,827</u>	<u>\$ 7,117,935</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ -	\$ 6,885,069	\$ 156,827	\$ 7,041,896
Endowment investment loss-				
Endowment administration fees		(69,577)		(69,577)
Investment fees		(58,644)		(58,644)
Interest and dividends		159,739		159,739
Realized and unrealized losses		259,019		259,019
Total endowment investment loss		290,537		290,537
Contributions		600		600
Appropriation of endowment for expenditure		(334,500)		(334,500)
Endowment Net Assets, December 31, 2016	<u>\$ -</u>	<u>\$ 6,841,706</u>	<u>\$ 156,827</u>	<u>\$ 6,998,533</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.

ALLIANCE FOR EDUCATION

Notes to Financial Statements For the Year Ended December 31, 2017

Note 10 - Continued

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.

Note 11 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Breakfast sponsorships	\$ 20,000	\$ 35,000
Auction sponsorships		15,000
Educational investments	564,103	506,316
Affiliated school activities	1,378,793	2,589,052
Endowment supported grants and awards	<u>6,961,108</u>	<u>6,841,706</u>
Total Temporarily Restricted Net Assets	<u>\$ 8,924,004</u>	<u>\$ 9,987,074</u>

Note 12 - Permanently Restricted Net Assets

Permanently restricted net assets of \$156,827 are held for the support of SPS programs at December 31, 2017 and 2016.

SUPPLEMENTARY INFORMATION

ALLIANCE FOR EDUCATION

**Schedule of Functional Expenses
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	Program Services			Supporting Services			2017 Total	2016 Total
	Educational Investments	Affiliated School Activities	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Grants, scholarships and awards	\$ 906,058	\$ 1,282,534	\$ 2,188,592	\$ -	\$ -	\$ -	\$ 2,188,592	\$ 1,818,710
Contract services	76,864	190,721	267,585	68,492	55,710	124,202	391,787	387,328
Salaries and wages	385,278		385,278	349,549	186,592	536,141	921,419	1,028,262
Payroll taxes	30,745		30,745	27,544	15,494	43,038	73,783	87,474
Benefits	83,874		83,874	61,278	26,842	88,120	171,994	222,757
Special events					128,777	128,777	128,777	148,532
Postage and printing	2,183	4,425	6,608	1,375	9,894	11,269	17,877	27,399
Travel, meetings and meals	20,315	264,640	284,955	9,398	9,469	18,867	303,822	274,156
Occupancy	42,649		42,649	43,985	30,400	74,385	117,034	113,532
Payroll administrative fees				17,977		17,977	17,977	21,496
Supplies and maintenance	8,846	190,650	199,496	10,281	7,325	17,606	217,102	269,726
Telephone	3,026		3,026	1,270	2,202	3,472	6,498	6,957
Bad debt		2,823	2,823		16,085	16,085	18,908	
Miscellaneous	10,477	22,819	33,296	22,045	12,703	34,748	68,044	92,739
Depreciation	10,304		10,304	10,182	7,370	17,552	27,856	35,301
Total expenses	1,580,619	1,958,612	3,539,231	623,376	508,863	1,132,239	4,671,470	4,534,369
Less special events					(128,777)	(128,777)	(128,777)	(148,532)
Total Operating Expenses	\$ 1,580,619	\$ 1,958,612	\$ 3,539,231	\$ 623,376	\$ 380,086	\$ 1,003,462	\$ 4,542,693	\$ 4,385,837

See independent auditor's report.