



Financial Statements

For the Year Ended December 31, 2018

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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, 2018, 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.

### **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, 2018, 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.

## **Effect of Adopting New Accounting Standard**

As discussed in Note 1, the Alliance adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Alliance's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2018. 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 10, 2019

**ALLIANCE FOR EDUCATION**

**Statement of Financial Position**

**December 31, 2018**

**(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,591,884	\$ 1,533,177
School affiliated cash accounts	1,218,935	1,198,655
Accounts receivable and prepaid expenses	26,176	4,258
Promises to give, net (Note 2)	263,181	145,440
<b>Total Current Assets</b>	<b>5,100,176</b>	<b>2,881,530</b>
<b>Noncurrent Assets:</b>		
Furniture, equipment and leasehold improvements, net (Note 3)	42,291	60,676
Investments (Note 4)	7,111,177	7,140,070
Other assets	18,949	18,949
<b>Total Assets</b>	<b>\$ 12,272,593</b>	<b>\$ 10,101,225</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 181,096	\$ 94,627
Grants payable	555,403	67,079
Funds held for others	134,116	259,636
Current portion of capital lease obligations (Note 5)	2,945	2,820
<b>Total Current Liabilities</b>	<b>873,560</b>	<b>424,162</b>
Long-term portion of capital lease obligations (Note 5)	2,554	5,499
Deferred rent	48,953	58,123
<b>Total Liabilities</b>	<b>925,067</b>	<b>487,784</b>
<b>Net Assets:</b>		
Without donor restrictions	629,456	532,610
With donor restrictions (Notes 10 and 12)	10,718,070	9,080,831
<b>Total Net Assets</b>	<b>11,347,526</b>	<b>9,613,441</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 12,272,593</b>	<b>\$ 10,101,225</b>

See accompanying notes.

**ALLIANCE FOR EDUCATION**

**Statement of Activities  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)**

	Without Donor Restrictions	With Donor Restrictions	2018	2017
<b>Operating</b>				
<b>Public Support and Revenue:</b>				
Contributions	\$ 291,830	\$ 5,000,113	\$ 5,291,943	\$ 2,245,567
Special events, net (Note 8)	422,050		422,050	277,144
Operating investment returns (Note 4)	108,427	(158)	108,269	97,599
Other income	136,522	93,690	230,212	101,601
	<b>958,829</b>	<b>5,093,645</b>	<b>6,052,474</b>	<b>2,721,911</b>
Net assets released from restrictions	2,935,930	(2,935,930)		
Endowment appropriations (Note 10)		126,000	126,000	806,200
<b>Total Public Support and Revenue</b>	<b>3,894,759</b>	<b>2,283,715</b>	<b>6,178,474</b>	<b>3,528,111</b>
<b>Expenses:</b>				
Program services	2,804,787		2,804,787	3,539,231
Management and general	548,861		548,861	623,376
Fundraising	444,265		444,265	380,086
<b>Total Expenses</b>	<b>3,797,913</b>		<b>3,797,913</b>	<b>4,542,693</b>
<b>Change in Net Assets - Operating</b>	<b>96,846</b>	<b>2,283,715</b>	<b>2,380,561</b>	<b>(1,014,582)</b>
<b>Nonoperating</b>				
Endowment contributions		400	400	500
Endowment investment returns (Note 4)		(520,876)	(520,876)	925,102
Endowment appropriations (Note 10)		(126,000)	(126,000)	(806,200)
<b>Change in Net Assets - Nonoperating</b>		<b>(646,476)</b>	<b>(646,476)</b>	<b>119,402</b>
<b>Total Change in Net Assets</b>	<b>96,846</b>	<b>1,637,239</b>	<b>1,734,085</b>	<b>(895,180)</b>
Net assets, beginning of year	532,610	9,080,831	9,613,441	10,508,621
<b>Net Assets, End of Year</b>	<b>\$ 629,456</b>	<b>\$ 10,718,070</b>	<b>\$ 11,347,526</b>	<b>\$ 9,613,441</b>

See accompanying notes.

**ALLIANCE FOR EDUCATION**

**Statement of Functional Expenses  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)**

	Program Services			Supporting Services			2018 Total	2017 Total
	Educational Investments	Affiliated School Activities	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Grants, scholarships and awards	\$ 1,315,985	\$ 212,510	\$ 1,528,495	\$ -	\$ 31,482	\$ 31,482	\$ 1,559,977	\$ 2,188,592
Contract services	202,471	98,670	301,141	52,679	81,810	134,489	435,630	391,787
Salaries and wages	415,975		415,975	315,492	187,474	502,966	918,941	921,419
Payroll taxes	32,353		32,353	23,836	14,296	38,132	70,485	73,783
Benefits	87,756		87,756	50,498	35,487	85,985	173,741	171,994
Special events					150,414	150,414	150,414	128,777
Postage and printing	676	3,571	4,247	3,732	15,271	19,003	23,250	17,877
Travel, meetings, meals and appreciation	37,912	162,442	200,354	7,928	8,554	16,482	216,836	303,822
Occupancy	46,309		46,309	37,307	29,796	67,103	113,412	117,034
Payroll administrative fees				18,519		18,519	18,519	17,977
Supplies and maintenance	27,220	127,519	154,739	7,716	5,545	13,261	168,000	217,102
Telephone	3,221	143	3,364	3,615	1,889	5,504	8,868	6,498
Bad debt		2,503	2,503		11,500	11,500	14,003	18,908
Miscellaneous	13,104	7,279	20,383	18,468	16,713	35,181	55,564	68,044
Depreciation	7,168		7,168	9,071	4,448	13,519	20,687	27,856
<b>Total expenses</b>	<b>2,190,150</b>	<b>614,637</b>	<b>2,804,787</b>	<b>548,861</b>	<b>594,679</b>	<b>1,143,540</b>	<b>3,948,327</b>	<b>4,671,470</b>
Less special events					(150,414)	(150,414)	(150,414)	(128,777)
<b>Total Operating Expenses</b>	<b>\$ 2,190,150</b>	<b>\$ 614,637</b>	<b>\$ 2,804,787</b>	<b>\$ 548,861</b>	<b>\$ 444,265</b>	<b>\$ 993,126</b>	<b>\$ 3,797,913</b>	<b>\$ 4,542,693</b>

See accompanying notes.

**ALLIANCE FOR EDUCATION**

**Statement of Cash Flows  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities:</b>		
Change in net assets	\$ 1,734,085	\$ (895,180)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Noncash items included in change in net assets:		
Depreciation	20,687	27,856
Net losses (gains) on investments	568,160	(914,210)
Loss from uncollectible pledges	8,003	11,908
Provision for allowance for doubtful accounts	6,000	7,000
Nonoperating items included in change in net assets:		
Appropriations from endowment for operations	126,000	806,200
Change in operating accounts:		
Promises to give	(131,744)	(88,465)
Accounts receivable and prepaid expenses	(21,918)	81,778
Accounts payable and accrued expenses	86,469	(51,671)
Grants payable	488,324	(103,850)
Funds held for others	(125,520)	53,077
Deferred rent	(9,170)	(4,431)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>2,749,376</b>	<b>(1,069,988)</b>
<b>Investing Activities:</b>		
Purchases of furniture, equipment and leasehold improvements	(2,302)	(1,169)
Appropriations from endowment for operations	(126,000)	(806,200)
Purchases of investments	(812,412)	(149,553)
Proceeds from sale of investments	273,145	1,056,784
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(667,569)</b>	<b>99,862</b>
<b>Financing Activities:</b>		
Payments on capital lease obligations	(2,820)	(4,607)
<b>Net Cash Used in Financing Activities</b>	<b>(2,820)</b>	<b>(4,607)</b>
<b>Net Change</b>	<b>2,078,987</b>	<b>(974,733)</b>
Cash and cash equivalents and school affiliated cash, beginning of year	2,731,832	3,706,565
<b>Cash and Cash Equivalents and School Affiliated Cash, End of Year</b>	<b>\$ 4,810,819</b>	<b>\$ 2,731,832</b>

See accompanying notes.



## ALLIANCE FOR EDUCATION

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### 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 the following programs:

Direct Service - The Alliance impacts human capital and talent development, through leadership of the Seattle Teacher Residency (STR), support of SPS' Extended Cabinet Leadership Learning program, and other activities undertaken in collaboration with SPS and other partners. 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.

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

Celebrating Success - The Alliance makes annual awards and sponsors or co-sponsors celebratory events each year that showcase achievements of schools, students, teachers and school leaders. Awards include the annual Thomas B. Foster Award for Principal Excellence.

**Basis of Presentation** - Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Alliance and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of the Alliance and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**Reclassifications** - Certain reclassifications have been made to prior year amounts presented in financial statements to conform with current year presentation. There has been no impact to changes in net assets or total net assets as a result of these reclassifications.

## ALLIANCE FOR EDUCATION

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 1 - Continued

**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.

**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, 2018, included four pledges from four organizations totaling \$271,500 or 94% of total gross promises to give. Promises to give at December 31, 2017, included four pledges from four organizations totaling \$140,000 or 85% of total gross 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, 2018 and 2017, the Alliance recognized cash and a corresponding liability for funds held for others of \$134,116 and \$259,636, 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 net assets with donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Gifts of equipment are reported as net assets without donor restrictions 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.

## ALLIANCE FOR EDUCATION

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 1 - Continued

For the year ended December 31, 2018, contributions from three donors totaling \$3,255,650 represented 62% of total contributions and net special event revenues. For the year ended December 31, 2017, contributions from one donor totaling \$501,500 represented 20% of total contributions and net special event revenues.

**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. Salaries and related costs are allocated based on a time estimate of where efforts are made. Expenses that cannot be associated with a specific program such as office supplies, occupancy costs, telephone, and depreciation are allocated as a percentage of time spent in each program and department.

**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.

**Comparative Totals** - The financial information includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**New Accounting Pronouncement** - For the year ended December 31, 2018, the Alliance adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets are now reported as net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

**Subsequent Events** - The Alliance has evaluated subsequent events through June 10, 2019, the date on which the financial statements were available to be issued.

**ALLIANCE FOR EDUCATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2018**

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**Note 2 - Promises to Give**

Unconditional promises to give at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Unconditional promises to give	\$ 289,181	\$ 165,440
Less allowance for doubtful promises to give	<u>(26,000)</u>	<u>(20,000)</u>
<b>Net Unconditional Promises to Give</b>	<b><u>\$ 263,181</u></b>	<b><u>\$ 145,440</u></b>

**Note 3 - Furniture, Equipment and Leasehold Improvements**

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

	<u>2018</u>	<u>2017</u>
Equipment	\$ 97,429	\$ 95,127
Leasehold improvements	22,931	22,931
Furniture	<u>49,880</u>	<u>49,880</u>
	170,240	167,938
Less accumulated depreciation	<u>(127,949)</u>	<u>(107,262)</u>
<b>Total Furniture, Equipment and Leasehold Improvements, Net</b>	<b><u>\$ 42,291</u></b>	<b><u>\$ 60,676</u></b>

**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>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 77,000	\$ 91,968
Fixed income securities	2,742,163	1,787,451
Equity securities	2,291,117	2,283,514
Equity mutual funds	1,830,755	2,622,574
Real assets	<u>170,142</u>	<u>354,563</u>
<b>Total Investments</b>	<b><u>\$ 7,111,177</u></b>	<b><u>\$ 7,140,070</u></b>

**ALLIANCE FOR EDUCATION**

**Notes to Financial Statements  
For the Year Ended December 31, 2018**

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**Note 4 - Continued**

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

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 215,815	\$ 167,318
Realized and unrealized (losses) gains, net	(568,160)	914,210
Investment fees	<u>(60,262)</u>	<u>(58,827)</u>
<b>Total Investment Returns</b>	<b><u>\$ (412,607)</u></b>	<b><u>\$ 1,022,701</u></b>

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>2018</u>	<u>2017</u>
Operating investment return	\$ 108,269	\$ 97,599
Nonoperating investment return	<u>(520,876)</u>	<u>925,102</u>
<b>Total Investment Return</b>	<b><u>\$ (412,607)</u></b>	<b><u>\$ 1,022,701</u></b>

**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, 2018 and 2017.

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  
For the Year Ended December 31, 2018**

**Note 4 - Continued**

**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, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 77,000	\$ -	\$ -	\$ 77,000
Fixed income securities		2,742,163		2,742,163
Equity securities	2,291,117			2,291,117
Equity mutual funds	1,830,755			1,830,755
Real assets	170,142			170,142
	<u>\$ 4,369,014</u>	<u>\$ 2,742,163</u>	<u>\$ -</u>	<u>\$ 7,111,177</u>

	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
	<u>\$ 5,352,619</u>	<u>\$ 1,787,451</u>	<u>\$ -</u>	<u>\$ 7,140,070</u>

**Note 5 - 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,

2019	\$ 3,126
2020	<u>2,605</u>
Total required lease payments	5,731
Less amount representing interest	<u>(232)</u>
	5,499
Less current portion of capital lease obligations	<u>(2,945)</u>
<b>Long-Term Portion of Capital Lease Obligations</b>	<u><b>\$ 2,554</b></u>

## ALLIANCE FOR EDUCATION

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### 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, 2018 and 2017, was \$113,412 and \$117,034, respectively, and is included in occupancy expense. Future payments under these leases are as follows:

For the Year Ending December 31,

2019	\$	120,554
2020		124,161
2021		127,886
2022		<u>21,899</u>
	\$	<u><u>394,500</u></u>

#### 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 sixth cohort of residents in the 2018-19 school year. The mission of STR is to accelerate student achievement through the preparation, support and retention of a group of excellent teachers who reflect the rich diversity in Seattle Public Schools (SPS). 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. The 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 this support is dependent on acceptance to the program, continuing in the program and performing at a successful level of proficiency. At December 31, 2018 the Alliance recorded a liability of \$113,966 for Cohort 6 (2018-19) resident and mentor stipends for which the conditions have been met. Expected future remaining stipends due to mentors and residents of Cohort 6 that are conditional and are not included in liabilities at December 31, 2018 total \$209,429. The Alliance also made a commitment to graduates of Cohort One (2013-14) to reimburse the tuition they paid to the UW for their MIT enrollment. The Alliance's commitment is to reimburse the former residents in installments over five years subject to the condition that the resident completes each year as a teacher of record in a Seattle Title 1 school. Expected tuition reimbursements due to Cohort 1 residents for future school years (up to and including 2020-21) total \$75,600.

The Alliance has also 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.

## ALLIANCE FOR EDUCATION

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 7 - Continued

The Alliance has made a conditional grant commitment to SPS to support some of the costs of the International Baccalaureate (IB) program at Rainier Beach High School. The Alliance has committed up to \$50,000 for the school year ending December 31, 2019. This commitment is subject to the condition that satisfactory program impact reports are submitted and that SPS confirms the IB program continuation by August 31, 2019.

The Alliance is also committed to \$2,217 for Middle School Literacy programs as of December 31, 2018, which will be recognized and released when certain conditions are met.

#### Note 8 - Special Events

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

	<u>2018</u>	<u>2017</u>
Event revenues	\$ 572,464	\$ 405,921
Event expenses	<u>(150,414)</u>	<u>(128,777)</u>
<b>Net Special Event Income</b>	<b><u>\$ 422,050</u></b>	<b><u>\$ 277,144</u></b>

During both 2018 and 2017, the Alliance hosted the Annual Community Lunch and the Annual Black and Orange Ball, a gala dinner and an auction.

#### 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, 2018 and 2017, 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, 2018 and 2017, were \$59,503 and \$57,521, respectively.

#### Note 10 - Endowments

The Alliance's endowments consist of a number of funds established for a variety of donor-restricted purposes. Its endowments include both endowments with perpetual restrictions and donor-restricted funds set up to function as endowments but allowing for the possibility of spending of corpus, if necessary.



## ALLIANCE FOR EDUCATION

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 10 - Continued

**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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, and (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The funds are classified as net assets with donor restrictions 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.

Changes to endowment net assets are as follows:

Endowment net assets, December 31, 2017	\$ 7,117,935
Endowment investment loss-	
Endowment administration fees	(70,601)
Investment fees	(59,798)
Interest and dividends	174,369
Realized and unrealized losses	<u>(564,846)</u>
Total endowment investment loss	(520,876)
Contributions	400
Appropriation of endowment for expenditure	<u>(126,000)</u>
<b>Endowment Net Assets, December 31, 2018</b>	<b><u><u>\$ 6,471,459</u></u></b>

## ALLIANCE FOR EDUCATION

### Notes to Financial Statements For the Year Ended December 31, 2018

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#### Note 10 - Continued

Endowment net assets, December 31, 2016	\$ 6,998,533
Endowment investment return-	
Endowment administration fees	(71,023)
Investment fees	(58,518)
Interest and dividends	148,577
Realized and unrealized losses	<u>906,066</u>
Total endowment investment return	925,102
Contributions	500
Appropriation of endowment for expenditure	<u>(806,200)</u>
<b>Endowment Net Assets, December 31, 2017</b>	<b><u><u>\$ 7,117,935</u></u></b>

**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 For the Year Ended December 31, 2018

#### Note 11 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2018</u>	<u>2017</u>
Subject to the passage of time or expenditure for specified purpose-		
Breakfast sponsorships	\$ 10,000	\$ 20,000
Auction sponsorships	10,000	
Educational investments	2,728,195	564,103
Affiliated school activities	1,498,416	1,378,793
Endowment supported grants and awards	<u>6,314,632</u>	<u>6,961,108</u>
Total subject to the passage of time or expenditure for specified purposes	10,561,243	8,924,004
Endowment funds-		
Original gifts and required retained earnings (corpus)	<u>156,827</u>	<u>156,827</u>
<b>Total Net Assets With Donor Restrictions</b>	<b><u>\$ 10,718,070</u></b>	<b><u>\$ 9,080,831</u></b>

#### Note 12 - Liquidity and Availability of Financial Assets

As part of the Alliance's liquidity management, it has a practice/policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Operating funds are held in lower-risk cash and fixed-income securities and are included in the cash and cash equivalents and investments lines on the statement of financial position. The following reflects the Alliance's financial assets as of the date of the statement of financial position, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,591,884	\$ 1,533,177
School affiliated cash accounts	1,218,935	1,198,655
Accounts receivable	2,274	
Promises to give, net	263,181	145,440
Investments	<u>7,111,177</u>	<u>7,140,070</u>
Total financial assets	12,187,451	10,017,342
Less funds held for others	(134,116)	(259,636)
Less financial assets with donor imposed restrictions	<u>(10,718,070)</u>	<u>(9,080,831)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u>\$ 1,335,265</u></b>	<b><u>\$ 676,875</u></b>