stockman kast ryan + co LLP

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

Consolidated Financial Statements

For The Year Ended December 31, 2017

And

Independent Auditors' Report

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Colorado Springs Child Nursery Centers, Inc.
dba Early Connections Learning Centers

We have audited the accompanying consolidated financial statements of The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates (collectively the Organization), which comprise the consolidated balance sheet as of December 31, 2017 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Certified Public Accountants and Business Advisors | 102 N. Cascade Avenue, Suite 400, Colorado Springs, CO 80903
www.skrco.com telephone: (719) 630-1186
facsimile: (719) 630-1187

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates as of December 31, 2017 and the change in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates' 2016 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated 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 December 31, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Stockman Kast Ryan & Co., LLP

March 22, 2018

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2017 (with comparative totals for 2016)

	2017						
	Unrestricted			Temporarily	Permanently		2016
	Operating	Designated	Total	Restricted	Restricted	Total	Total
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 194,843	$ 627	$ 195,470	$ 127,594		$ 323,064	$ 212,389
Accounts receivable	238,237		238,237			238,237	232,365
Pledges receivable				502,020		502,020	404,200
Investments		3,865,830	3,865,830	79,153	$ 1,167,051	5,112,034	4,666,525
Prepaid expenses	13,161		13,161			13,161	33,201
Total	446,241	3,866,457	4,312,698	708,767	1,167,051	6,188,516	5,548,680
PLEDGES RECEIVABLE				88,000		88,000	
BENEFICIAL INTEREST IN PERPETUAL TRUSTS					747,905	747,905	688,105
PROPERTY AND EQUIPMENT, NET	1,084,937		1,084,937			1,084,937	866,946
TOTAL	$ 1,531,178	$ 3,866,457	$ 5,397,635	$ 796,767	$ 1,914,956	$ 8,109,358	$ 7,103,731
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts payable	$ 163,435	$ 10,000	$ 173,435			$ 173,435	$ 92,407
Accrued expenses	268,008		268,008			268,008	236,598
Line of credit	80,000		80,000			80,000	150,000
Current portion of capital lease obligations	2,496		2,496			2,496	3,365
Total	513,939	10,000	523,939			523,939	482,370
CAPITAL LEASE OBLIGATIONS							1,453
Total liabilities	513,939	10,000	523,939	$ —	$ —	523,939	483,823
NET ASSETS	1,017,239	3,856,457	4,873,696	796,767	1,914,956	7,585,419	6,619,908
TOTAL	$ 1,531,178	$ 3,866,457	$ 5,397,635	$ 796,767	$ 1,914,956	$ 8,109,358	$ 7,103,731

See notes to consolidated financial statements.

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017 (with comparative totals for 2016)

	2017						2016
	Unrestricted			Temporarily	Permanently		
	Operating	Designated	Total	Restricted	Restricted	Total	Total
REVENUES							
Program service fees	$ 3,779,288		$ 3,779,288			$ 3,779,288	$ 3,251,256
Contributions	745,247	$ 142	745,389	$ 717,614		1,463,003	902,050
Investment income	84	605,678	605,762	79,153		684,915	252,095
Gain on beneficial interest in perpetual trusts					$ 59,800	59,800	7,958
Net assets released from restrictions - Satisfaction of time and purpose restrictions	404,218	(18)	404,200	(404,200)			
Transfers	250,544	(250,544)					
Total	5,179,381	355,258	5,534,639	392,567	59,800	5,987,006	4,413,359
EXPENSES							
Program	4,364,628		4,364,628			4,364,628	3,732,913
Management and general	429,673		429,673			429,673	520,158
Fundraising	227,194		227,194			227,194	150,452
Total	5,021,495	—	5,021,495	—	—	5,021,495	4,403,523
CHANGE IN NET ASSETS	157,886	355,258	513,144	392,567	59,800	965,511	9,836
NET ASSETS, Beginning of year	859,353	3,501,199	4,360,552	404,200	1,855,156	6,619,908	6,610,072
NET ASSETS, End of year	$ 1,017,239	$ 3,856,457	$ 4,873,696	$ 796,767	$ 1,914,956	$ 7,585,419	$ 6,619,908

See notes to consolidated financial statements.

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017 (with comparative totals for 2016)

	2017				
	Program	Management and General	Fund Raising	Total	2016 Total
Salaries, taxes and benefits	$ 3,215,055	$ 368,807	$ 151,865	$ 3,735,727	$ 3,197,310
Food	359,457			359,457	316,496
Supplies	172,083	3,886	639	176,608	150,855
Repairs and maintenance	144,115	7,585		151,700	155,036
Home Network expenses	110,533			110,533	103,801
Professional fees	66,742	9,138	14,730	90,610	93,044
Depreciation	60,857	8,394	698	69,949	67,126
Telephone and utilities	55,122	3,556	592	59,270	55,706
Insurance	45,555	6,284	524	52,363	45,563
Fundraising expenses			43,068	43,068	36,261
Bad debt expense	26,200			26,200	23,670
Conferences, meetings and travel	19,454	6,225	259	25,938	18,373
Advertising and recruitment	11,109	6,665	4,443	22,217	30,770
Rental expense	19,145			19,145	16,299
Printing	6,121	3,061	6,122	15,304	17,201
Dues and subscriptions	3,998	750	250	4,998	17,533
Postage	1,085	543	1,086	2,714	2,748
Interest expense		2,363		2,363	5,319
Miscellaneous	47,997	2,416	2,918	53,331	50,412
Total	$ 4,364,628	$ 429,673	$ 227,194	$ 5,021,495	
Percent of total	87%	9%	4%	100%	
Comparative totals — 2016	$ 3,732,913	$ 520,158	$ 150,452		$ 4,403,523
Percent of total — 2016	85%	12%	3%	100%	

See notes to consolidated financial statements.

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 (with comparative totals for 2016)

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	$ 965,511	$ 9,836
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	69,949	67,126
Provisions for bad debts	26,200	23,670
Unrealized and realized gain on investments	(414,399)	(101,873)
Gain on beneficial interest in perpetual trusts	(59,800)	(7,958)
Changes in operating assets and liabilities:		
Accounts receivable	(32,072)	(72,360)
Pledges receivable	(185,820)	(245,921)
Prepaid expenses	20,040	15,408
Accounts payable and accrued expenses	112,438	58,879
Net cash provided by (used in) operating activities	502,047	(253,193)
INVESTING ACTIVITIES		
Purchases of property and equipment	(287,940)	(6,401)
Purchases of investments	(919,609)	(688,480)
Sales of investments	888,499	848,806
Net cash provided by (used in) investing activities	(319,050)	153,925
FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(2,322)	(3,201)
Advances on line of credit	140,000	265,000
Payments on line of credit	(210,000)	(195,000)
Net cash provided by (used in) financing activities	(72,322)	66,799
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110,675	(32,469)
CASH AND CASH EQUIVALENTS, Beginning of year	212,389	244,858
CASH AND CASH EQUIVALENTS, End of year	$ 323,064	$ 212,389
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 2,363	$ 5,319

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers (the Center) offers a comprehensive program of social, emotional and cognitive development for children in the Pikes Peak Region. This includes education with an emphasis on literacy and language development, nutrition and health, all in partnership with families. The Center's goal is to help each child grow physically, mentally and cognitively in an atmosphere of acceptance that helps build feelings of confidence and independence. Every effort is made to consider the whole child in all environmental experiences.

The Colorado Springs Child Nursery Centers, Inc. Foundation (the Foundation) was organized for the purpose of raising and investing funds for the mission of the Center. The Foundation's Board of Directors is made up of members from the Center's Board of Directors as well as individuals from the community. Foundation income may be distributed to the Center to meet operating and non-operating expenses upon resolution of the Foundation Board.

Home Network of the Pikes Peak Region, LLC (Home Network) is an affiliated program providing professional development, coaching and business support to improve quality of the early childhood education programs of its members.

Day Nursery Building Corp. and CNC-Chelton Building Corp. are real estate holding companies established for the benefit of the Center.

Principles of Consolidation — The consolidated financial statements include the accounts of the Center, the Foundation, Home Network, Day Nursery Building Corp. and CNC-Chelton Building Corp. (collectively, the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation — The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets — which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets — which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets — which represents resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The accompanying financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Cash and Cash Equivalents — For the purposes of the financial statements, cash and cash equivalents are defined as cash on hand, demand deposits at banks, and money market funds. The Organization maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits.

Contributions — Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and is reported as contribution revenue.

Donated Services and Materials — Donated services and materials are recorded as both a revenue and expenditure in the accompanying statements of activities and changes in net assets at their estimated values. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations.

Accounts Receivable — Accounts receivable are stated at the invoiced amount. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance. Changes in the valuation allowance have not been material to the financial statements. Accounts receivable are considered by management to be fully collectible and accordingly, no allowance for doubtful accounts is deemed necessary.

Pledges Receivable — Management believes that all pledges receivable recorded at December 31, 2017 and 2016 are collectible and no allowance for doubtful contributions is deemed necessary.

Investments — Investments are recorded at fair value. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized. Donated investments are recorded at fair value on the date of donation. Fair values for money market funds and mutual funds are determined through quoted market prices.

Property and Equipment — Property and equipment are recorded at cost or at fair value at date of receipt if donated. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets, which range from three to fifty years. All acquisitions in excess of $5,000 and expenditures for repairs, maintenance and improvements that materially extend the useful lives of assets are capitalized.

Compensated Absences — Employees of the Organization earn a vested right to compensation for unused vacation time. Accordingly, the Organization has made an accrual for vacation compensation that employees have earned but not taken.

Tax Status — The Center, the Foundation and Home Network are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Day Nursery Building Corp and CNC-Chelton Building Corp are exempt from federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

The Organization believes that it does not have any uncertain tax positions that are material to the financial statements. The Organization's income tax returns for 2014 through the current period remain open to examination by the Internal Revenue Service and relevant state authorities.

Functional Allocation of Expenses — The Organization maintains its accounting records on the basis of natural expense classifications and, accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates — Preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — The Organization has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. PLEDGES RECEIVABLE

The Organization has pledges receivable from donors. Pledges receivable are as follows as of December 31:

	2017	2016
Due in less than one year	$ 502,020	$ 404,200
Due in two to five years	88,000	
Total	$ 590,020	$ 404,200

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization is required to use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured on a recurring basis stated at fair value as of December 31:

2017:	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments:				
Money market funds	$ 12,104	$ 12,104		
Equity mutual funds:				
International funds	1,126,036	1,126,036		
Large-cap growth funds	802,628	802,628		
Large-cap value funds	766,801	766,801		
Alternative funds	328,742	328,742		
Mid-cap blend funds	253,612	253,612		
Large-cap blend funds	2,500	2,500		
Fixed income mutual fund	1,819,611	1,819,611		
Total investments	5,112,034	5,112,034	$ —	$ —
Beneficial interest in perpetual trusts	747,905		747,905	
Total	$ 5,859,939	$ 5,112,034	$ 747,905	$ —

2016:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market funds	$ 945	$ 945		
Equity mutual funds:				
International funds	995,562	995,562		
Large-cap growth funds	738,452	738,452		
Large-cap value funds	706,796	706,796		
Alternative funds	300,000	300,000		
Mid-cap blend funds	239,677	239,677		
Large-cap blend funds	2,500	2,500		
Fixed income mutual fund	1,682,593	1,682,593		
Total investments	4,666,525	4,666,525	$ —	$ —
Beneficial interest in perpetual trusts	688,105		688,105	
Total	$ 5,354,630	$ 4,666,525	$ 688,105	$ —

Investment income consists of the following for the years ended December 31:

	2017	2016
Interest and dividends (net of investment expenses of $42,687 and $41,883, respectively)	$ 270,516	$ 150,222
Net realized and unrealized gains	414,399	101,873
Total	$ 684,915	$ 252,095

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	2017	2016
Land	$ 107,894	$ 107,894
Buildings and improvements	2,214,963	1,928,904
Furniture and equipment	724,636	722,756
Total	3,047,493	2,759,554
Less accumulated depreciation	1,962,556	1,892,608
Property and equipment, net	$ 1,084,937	$ 866,946

5. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization is an income beneficiary of three separate trusts whose principal is held at various financial institutions in perpetuity. The Organization's share of the fair value of the trusts totaled $747,905 and $688,105 at December 31, 2017 and 2016, respectively. The fair value of the Organization's interest in the trusts is determined primarily based on the Organization's proportionate share of the fair value of the underlying assets of the trusts. Fair value of the underlying assets is determined using quoted market prices and pricing services. The Organization received $20,982 and $23,944 in distributions from the trusts during the years ended December 31, 2017 and 2016, respectively. The Organization's shares of gains from these trusts were $59,800 and $7,958 in 2017 and 2016, respectively.

6. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

	2017	2016
Time restrictions	$ 590,020	$ 404,200
Program restrictions	127,594	
Endowment funds	79,153	
Total	$ 796,767	$ 404,200

Permanently restricted net assets consist of endowment funds to be held in perpetuity. The income from the assets can be used for operations.

The Board of Directors has also designated the Foundation assets, excluding the permanently restricted endowment funds, for the purpose of generating additional income to be used for the Organization's operations.

7. ENDOWMENT FUNDS

The Organization's endowment consists of five donor restricted endowment funds established and restricted for the purpose of supporting the operations of the Organization. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The act provides statutory guidance for management investment and expenditure of endowment funds held by not-for-profit organizations. The Organization has interpreted UPMIFA as requiring the preservation of 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Organization
7) The investment policies of the Organization

Changes in endowment fund net assets and the endowment net asset composition by type of fund as of December 31, 2017 and 2016 are as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment balance, January 1, 2016	$ (7,129)	$ —	$ 1,847,198	$ 1,840,069
Investment return:				
Investment income	7,129	30,513		37,642
Net appreciation, realized and unrealized		25,532	7,958	33,490
Total investment return	7,129	56,045	7,958	71,132
Appropriations for expenditures	(20,187)	(56,045)	—	(76,232)
Endowment balance, December 31, 2016	(20,187)	—	1,855,156	1,834,969
Investment return:				
Investment income	20,187	41,672		61,859
Net appreciation, realized and unrealized		94,791	59,800	154,591
Total investment return	20,187	136,463	59,800	216,450
Appropriations for expenditures	—	(57,310)	—	(57,310)
Endowment balance, December 31, 2017	$ —	$ 79,153	$ 1,914,956	$ 1,994,109

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $20,187 as of December 31, 2016. There were no such deficiencies as of December 31, 2017.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy the endowment assets are invested in a manner that is intended to produce maximum results with stated risk tolerances. The

Organization expects its endowment funds, over time, to provide an average rate of return of approximately the sum of 6% plus the consumer price in (CPI) annually. Actual returns in any given year may vary from this amount. Included in endowments are perpetual trusts held by third parties, these trusts are controlled by the third party and the investment policies of the Organization does not apply to them. The balance of perpetual trusts held by third parties was $747,905 and $688,105 at December 31, 2017 and 2016, respectively.

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Equity based investments include large-cap, mid-cap, small-cap and international equities. The Organization also uses fixed income securities to achieve its objectives.

8. OPERATING LEASE COMMITMENTS

The Organization leases equipment under a non-cancellable operating lease expiring in 2019. As of December 31, 2017, future minimum lease payments under the operating lease are as follows:

2018	$ 22,344
2019	22,344
Total	$ 44,688

Rent expense for the operating lease for both the years ended December 31, 2017 and 2016 totaled $22,344.

9. CAPITAL LEASE OBLIGATIONS

The Organization leases office equipment under the terms of a lease that is accounted for as a capital lease. Assets under the capital lease at December 31, 2017 and 2016 are recorded at a cost of $15,652 and accumulated depreciation of $13,684 and $12,119, respectively.

The following is a schedule by year of future minimum lease payments under the capital lease as of December 31, 2017:

2018	$ 2,514
Total minimum lease payments	2,514
Less amount representing interest	18
Present value of net minimum lease payments	2,496
Less current portion	2,496
Long-term portion	$ —

10. LINE OF CREDIT

As of December 31, 2017, the Organization had a $300,000 line of credit with a bank that expires September 1, 2018. The line of credit bears interest at the bank's prime rate and is secured by all accounts, instruments, and investments. There was an outstanding balance on the line at December 31, 2017 and 2016 of $80,000 and $150,000, respectively.

11. CONTRIBUTED SUPPLIES AND SERVICES

The value of donated supplies and services included in the financial statements as contributions and the corresponding expenses are as follows for the years ended December 31:

	2017	2016
EXPENSES		
Supplies	$ 39,479	$ 28,908
Rental expense	9,000	9,000
Services	4,230	3,308
Total expenses	$ 52,709	$ 41,216