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

Consolidated Financial Statements

For The Year Ended December 31, 2018

And

Independent Auditors' Report

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

TABLE OF CONTENTS

STOCKMAN KAST RYAN + COMPANY

102 N. Cascade Avenue, Suite 400
Colorado Springs, CO 80903
T: 719.630.1186
F: 719.630.1187
skrco.com

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, 2018 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.

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, 2018 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2018 the Organization 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. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates' 2017 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated March 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Stockman Kast Ryan + Co, LLP

March 28, 2019

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

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2018 (with comparative totals for 2017)

	2018					2017
	Without Donor Restriction			With Donor		
	Undesignated	Designated	Total	Restriction	Total	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 116,916	$ 1,871	$ 118,787		$ 118,787	$ 323,064
Accounts receivable	237,875		237,875		237,875	238,237
Pledges receivable				$ 377,173	377,173	502,020
Investments		3,348,707	3,348,707	1,239,325	4,588,032	5,112,034
Prepaid expenses	27,959		27,959		27,959	13,161
Total	382,750	3,350,578	3,733,328	1,616,498	5,349,826	6,188,516
PLEDGES RECEIVABLE				129,000	129,000	88,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS				677,969	677,969	747,905
PROPERTY AND EQUIPMENT, NET	1,140,818		1,140,818		1,140,818	1,084,937
TOTAL	$ 1,523,568	$ 3,350,578	$ 4,874,146	$ 2,423,467	$ 7,297,613	$ 8,109,358
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	$ 86,287	$ 10,000	$ 96,287		$ 96,287	$ 173,435
Accrued expenses	270,994		270,994		270,994	268,008
Line of credit						80,000
Current portion of capital lease obligations						2,496
Total liabilities	357,281	10,000	367,281	$ —	367,281	523,939
NET ASSETS	1,166,287	3,340,578	4,506,865	2,423,467	6,930,332	7,585,419
TOTAL	$ 1,523,568	$ 3,350,578	$ 4,874,146	$ 2,423,467	$ 7,297,613	$ 8,109,358

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, 2018 (with comparative totals for 2017)

	2018					
	Without Donor Restriction			With Donor		2017
	Undesignated	Designated	Total	Restriction	Total	Total
REVENUES						
Program service fees	$ 4,078,922		$ 4,078,922		$ 4,078,922	$ 3,779,288
Contributions	409,310	$ 2,105	411,415	$ 632,876	1,044,291	1,463,003
Investment income (loss)	11	(225,411)	(225,400)	(54,429)	(279,829)	684,915
Gain (loss) on beneficial interest in perpetual trusts				(69,936)	(69,936)	59,800
Net assets released from restrictions - Satisfaction of time and purpose restrictions	845,173	(48,406)	796,767	(796,767)		
Transfers	244,167	(244,167)				
Total	5,577,583	(515,879)	5,061,704	(288,256)	4,773,448	5,987,006
EXPENSES						
Program	4,623,953		4,623,953		4,623,953	4,364,628
Management and general	453,493		453,493		453,493	429,673
Fundraising	351,089		351,089		351,089	227,194
Total	5,428,535	—	5,428,535	—	5,428,535	5,021,495
CHANGE IN NET ASSETS	149,048	(515,879)	(366,831)	(288,256)	(655,087)	965,511
NET ASSETS, Beginning of year	1,017,239	3,856,457	4,873,696	2,711,723	7,585,419	6,619,908
NET ASSETS, End of year	$ 1,166,287	$ 3,340,578	$ 4,506,865	$ 2,423,467	$ 6,930,332	$ 7,585,419

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, 2018 (with comparative totals for 2017)

	2018				
	Program	Management and General	Fund Raising	Total	2017 Total
Salaries, taxes and benefits	$ 3,378,593	$ 363,061	$ 181,064	$ 3,922,718	$ 3,753,626
Food	377,742			377,742	359,457
Supplies	175,367	12,007	13,559	200,933	197,068
Repairs and maintenance	137,862	32,644		170,506	151,700
Professional fees	87,999	9,735	66,694	164,428	95,608
Depreciation	113,897	15,710	1,309	130,916	69,949
Home Network expenses	123,498			123,498	110,533
Telephone and utilities	46,448	4,640	9,544	60,632	59,270
Fundraising expenses			58,462	58,462	43,068
Advertising and recruitment	39,858	3,534	5,131	48,523	22,217
Insurance	44,756	2,406	962	48,124	52,363
Conferences, meetings and travel	42,255	1,414	3,548	47,217	40,910
Bad debt expense	28,251			28,251	26,200
Rental expense	19,950	1,092		21,042	19,145
Printing	6,606	3,164	10,075	19,845	15,304
Interest expense		3,098		3,098	2,363
Postage	871	988	741	2,600	2,714
Total	$ 4,623,953	$ 453,493	$ 351,089	$ 5,428,535	
Percent of total	85%	8%	7%	100%	
Comparative totals — 2017	$ 4,364,628	$ 429,673	$ 227,194		$ 5,021,495
Percent of total — 2017	87%	9%	4%	100%	

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 (with comparative totals for 2017)

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	$ (655,087)	$ 965,511
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	130,916	69,949
Provisions for bad debts	28,251	26,200
Unrealized and realized loss (gain) on investments	366,625	(414,399)
Loss (gain) on beneficial interest in perpetual trusts	69,936	(59,800)
Changes in operating assets and liabilities:		
Accounts receivable	(27,889)	(32,072)
Pledges receivable	83,847	(185,820)
Prepaid expenses	(14,798)	20,040
Accounts payable and accrued expenses	(74,162)	112,438
Net cash provided by (used in) operating activities	(92,361)	502,047
INVESTING ACTIVITIES		
Purchases of property and equipment	(186,797)	(287,940)
Purchases of investments	(669,498)	(919,609)
Sales of investments	826,875	888,499
Net cash used in investing activities	(29,420)	(319,050)
FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(2,496)	(2,322)
Advances on line of credit	333,000	140,000
Payments on line of credit	(413,000)	(210,000)
Net cash used in financing activities	(82,496)	(72,322)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(204,277)	110,675
CASH AND CASH EQUIVALENTS, Beginning of year	323,064	212,389
CASH AND CASH EQUIVALENTS, End of year	$ 118,787	$ 323,064
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 3,098	$ 2,363

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 two classes of net assets: net assets without donor restrictions, which represents the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represents resources restricted by donors as to purpose or by the passage of time and 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, 2017, 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 revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction 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 revenue and net assets without donor restriction.

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, 2018 and 2017 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 net assets without donor restrictions 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.

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.

Change in Accounting Principle — On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. During 2018, management implemented ASU 2016-14 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications — Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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. LIQUIDITY AND AVAILABILITY

The following table reflects the Center's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date because of contractual restrictions or internal board designations. Amounts not available include net assets with donor restrictions.

	2018	**2017**
Cash and cash equivalents	$ 118,787	$ 323,064
Accounts receivable	237,875	238,237
Pledges receivable	506,173	590,020
Investments	4,588,032	5,112,034
Total current assets	5,450,867	6,263,355

Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(126,703)	(215,594)
Restricted by donors in perpetuity	(1,845,020)	(1,914,956)
Total amounts unavailable for general expenditures within one year	(1,971,723)	(2,130,550)
Less amounts unavailable to management without Board's approval:		
Board designated for Endowment	(3,350,578)	(3,856,457)
Total amounts unavailable to management without Board's approval	(5,322,301)	(5,987,007)
Total financial assets available to management to meet cash needs for general expenditures within one year	$ 128,566	$ 276,348

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests any cash in excess of daily requirements in short-term investments. The Organization's typical operating procedure to manage an emergency cash flow need is to draw from the Organization's line of credit (see note 12) or draw funds from the Foundation. The Organization manages their cash flow through regular (daily) analysis of cash flows and budgeted expenses.

3. METHODS USED FOR ALLOCATION OF EXPENSES AMONG PROGRAM AND SUPPORTING SERVICES

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, supplies, repairs and maintenance, professional fees, depreciation and other operating expenses, which are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services or use of supplies.

4. PLEDGES RECEIVABLE

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

	2018	2017
Due in less than one year	$ 377,173	$ 502,020
Due in two to five years	129,000	88,000
Total	$ 506,173	$ 590,020

5. 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:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018:				
Investments:				
Money market funds	$ 14,784	$ 14,784		
Equity mutual funds:				
International funds	922,898	922,898		
Large-cap value funds	637,653	637,653		
Large-cap growth funds	612,520	612,520		
Alternative funds	345,661	345,661		
Preferred securities	237,586	237,586		
Mid-cap blend funds	207,929	207,929		
Large-cap blend funds	2,500	2,500		
Fixed income mutual fund	1,606,501	1,606,501		
Total investments	4,588,032	4,588,032	$ —	$ —
Beneficial interest in perpetual trusts	677,969		677,969	
Total	$ 5,266,001	$ 4,588,032	$ 677,969	$ —
2017:				
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	$ —

6. PROPERTY AND EQUIPMENT

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

	2018	2017
Land	$ 107,894	$ 107,894
Buildings and improvements	2,401,760	2,214,963
Furniture and equipment	724,636	724,636
Total	3,234,290	3,047,493
Less accumulated depreciation	2,093,472	1,962,556
Property and equipment, net	$ 1,140,818	$ 1,084,937

7. 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 $677,969 and $747,905 at December 31, 2018 and 2017, 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 $22,847 and $20,982 in distributions from the trusts during the years ended December 31, 2018 and 2017, respectively. The Organization's shares of gains (losses) from these trusts were ($69,936) and $59,800 in 2018 and 2017, respectively.

8. BOARD DESIGNATED NET ASSETS

The Board of Directors has designated the Foundation assets, excluding the endowment funds to be held indefinitely, for the purpose of generating additional income to be used for the Organization's operations. As of December 31, 2018 and 2017, board designated net assets were $3,467,281 and $3,856,457, respectively.

9. NET ASSETS WITH DONOR RESTRICTION

Net assets are restricted for the following purposes or periods, as of December 31:

	2018	2017
Subject to the passage of time	$ 632,876	$ 669,173
Subject to expenditure for a specified purpose		127,594
Endowment funds to be held indefinitely	1,790,591	1,914,956
Total	$ 2,423,467	$ 2,711,723

Endowment funds are to be held indefinitely. The income from the assets can be used for operations.

10. 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 adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation 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 Foundation classifies as net assets with donor restrictions to be held permanently (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 as net assets with donor restrictions to be held permanently is classified as net assets with donor restrictions subject to time restriction until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation 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, 2018 and 2017 are as follows:

	With Donor Restriction
Year ended December 31, 2018:	
Endowment balance, beginning of year	$ 1,994,109
Total investment return	(141,274)
Appropriation for expenditures	(62,244)
Endowment balance, end of year	$ 1,790,591
Net Assets with Donor Restrictions	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 1,112,622
The portion of endowment funds held in perpetual trusts	$ 677,969

	With Donor Restriction
Year ended December 31, 2017:	
Endowment balance, beginning of year	$ 1,834,969
Total investment return	216,450
Appropriation for expenditures	(57,310)
Endowment balance, end of year	$ 1,994,109

Net Assets with Donor Restrictions

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 1,167,051
The portion of endowment funds with a purpose restriction:	
With time restriction	$ 79,153
The portion of endowment funds held in perpetual trusts	$ 747,905

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. As of December 31, 2018 the Organization had such deficiencies of $54,429.

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 3.5% 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.

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.

11. OPERATING LEASE COMMITMENTS

The Organization leases equipment under a non-cancellable operating lease expiring in 2019. As of December 31, 2018, future minimum lease payments under the operating lease are $22,344 for the year ending December 31, 2019.

Rent expense for the operating lease for both the years ended December 31, 2018 and 2017 totaled $22,344.

12. LINE OF CREDIT

As of December 31, 2018, the Organization had a $300,000 line of credit with a bank that expires September 1, 2019. 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 of $80,000. There was no outstanding balance on the line at December 31, 2018.

13. 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:

	2018	2017
EXPENSES		
Supplies	$ 28,625	$ 39,479
Rental expense	9,000	9,000
Services	12,476	4,230
Total expenses	$ 50,101	$ 52,709