

BoardSource[®]

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**BOARDSOURCE
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YEARS ENDED DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
BoardSource
Washington, DC

We have audited the accompanying financial statements of BoardSource (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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.

Board of Directors
BoardSource

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BoardSource as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
March 27, 2019

**BOARDSOURCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 918,021	\$ 753,857
Investments	2,932,514	3,092,625
Accounts Receivable, Net	166,376	383,356
Grants Receivable	1,240,000	115,000
Deferred Rent Receivable	25,137	19,686
Inventory	125,974	84,235
Prepaid Expenses	179,008	178,352
Property and Equipment, Net	1,002,927	1,110,577
Total Assets	\$ 6,589,957	\$ 5,737,688
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 193,536	\$ 275,241
Deferred Revenue	1,021,178	969,718
Deferred Construction Allowance	401,130	510,529
Deferred Rent	485,531	566,075
Total Liabilities	2,101,375	2,321,563
NET ASSETS		
Without Donor Restrictions	2,280,747	2,479,192
With Donor Restrictions	2,207,835	936,933
Total Net Assets	4,488,582	3,416,125
Total Liabilities and Net Assets	\$ 6,589,957	\$ 5,737,688

See accompanying Notes to Financial Statements.

**BOARDSOURCE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Consulting Services	\$ 1,241,715	\$ -	\$ 1,241,715	\$ 1,538,050	\$ -	\$ 1,538,050
Grants and Contributions	811,978	2,211,000	3,022,978	1,027,004	451,754	1,478,758
Membership Programs	1,587,929	-	1,587,929	1,447,835	-	1,447,835
Publications	428,561	-	428,561	434,508	-	434,508
Assessment Services	690,769	-	690,769	651,544	-	651,544
BoardSource Leadership Forum	-	-	-	694,355	-	694,355
Public Trainings	357,793	-	357,793	312,834	-	312,834
Investment Income	(145,482)	(11,235)	(156,717)	326,950	25,411	352,361
Other Income	265,921	-	265,921	270,252	-	270,252
Net Assets Released from Restrictions:						
Satisfaction of Program Restrictions	928,863	(928,863)	-	645,940	(645,940)	-
Total Revenue and Support	<u>6,168,047</u>	<u>1,270,902</u>	<u>7,438,949</u>	<u>7,349,272</u>	<u>(168,775)</u>	<u>7,180,497</u>
EXPENSES						
Program Services:						
Sector Leadership Initiatives	1,052,695	-	1,052,695	1,086,236	-	1,086,236
Membership Programs	1,323,782	-	1,323,782	1,010,984	-	1,010,984
Consulting Services	1,637,580	-	1,637,580	1,507,210	-	1,507,210
BoardSource Leadership Forum	54,679	-	54,679	747,165	-	747,165
Public Trainings	393,824	-	393,824	360,209	-	360,209
Assessment Services	452,168	-	452,168	345,762	-	345,762
Publications	380,075	-	380,075	358,442	-	358,442
Total Program Services	<u>5,294,803</u>	<u>-</u>	<u>5,294,803</u>	<u>5,416,008</u>	<u>-</u>	<u>5,416,008</u>
Supporting Services:						
General and Administrative	723,294	-	723,294	679,441	-	679,441
Development	348,395	-	348,395	503,450	-	503,450
Total Supporting Services	<u>1,071,689</u>	<u>-</u>	<u>1,071,689</u>	<u>1,182,891</u>	<u>-</u>	<u>1,182,891</u>
Total Expenses	<u>6,366,492</u>	<u>-</u>	<u>6,366,492</u>	<u>6,598,899</u>	<u>-</u>	<u>6,598,899</u>
CHANGE IN NET ASSETS	(198,445)	1,270,902	1,072,457	750,373	(168,775)	581,598
Net Assets, Beginning of Year	<u>2,479,192</u>	<u>936,933</u>	<u>3,416,125</u>	<u>1,728,819</u>	<u>1,105,708</u>	<u>2,834,527</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,280,747</u></u>	<u><u>\$ 2,207,835</u></u>	<u><u>\$ 4,488,582</u></u>	<u><u>\$ 2,479,192</u></u>	<u><u>\$ 936,933</u></u>	<u><u>\$ 3,416,125</u></u>

See accompanying Notes to Financial Statements.

**BOARDSOURCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Program Activities								Supporting Activities			Total Expenses
	Sector		BoardSource						Management	Total		
	Leadership Initiatives	Membership Programs	Consulting Services	Leadership Forum	Public Trainings	Assessment Services	Publications	Total	and General	Development	Total	
Salaries and Benefits	\$ 567,671	\$ 761,621	\$ 374,269	\$ 32,431	\$ 119,631	\$ 237,027	\$ 162,342	\$ 2,254,992	\$ 445,534	\$ 202,924	\$ 648,458	\$ 2,903,450
Consulting Delivery Fees	-	-	717,108	-	-	-	-	717,108	-	-	-	717,108
Occupancy Expenses	-	-	-	-	-	-	-	-	919,123	-	919,123	919,123
Cost of Good Sold	-	-	-	-	-	-	60,714	60,714	-	-	-	60,714
Fulfillment Shipping Expenses	-	-	-	-	-	-	34,566	34,566	-	-	-	34,566
Credit Card Processing Fees	-	15,165	490	-	9,666	11,368	10,127	46,816	13,729	-	13,729	60,545
Conferences and Meetings	515	-	-	-	64,788	-	-	65,303	22,186	633	22,819	88,122
Consultants and Professional Svcs	61,998	43,348	195,993	-	47,900	-	2,730	351,969	149,673	-	149,673	501,642
Printing, Postage, Shipping	14,755	4,402	78	-	11,722	-	-	30,957	5,585	1,170	6,755	37,712
IT Related Expenses	-	-	-	-	-	-	-	-	68,874	-	68,874	68,874
Depreciation and Amortization	-	-	-	-	-	-	-	-	263,764	-	263,764	263,764
Other Expenses	58,393	24,608	120,151	2,251	66,240	68,245	9,520	349,408	341,553	19,911	361,464	710,872
Office and Admin (Allocated)	349,363	474,638	229,491	19,997	73,877	135,528	100,076	1,382,970	(1,506,727)	123,757	(1,382,970)	-
Total Expenses	\$ 1,052,695	\$ 1,323,782	\$ 1,637,580	\$ 54,679	\$ 393,824	\$ 452,168	\$ 380,075	\$ 5,294,803	\$ 723,294	\$ 348,395	\$ 1,071,689	\$ 6,366,492

See accompanying Notes to Financial Statements.

**BOARDSOURCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	Program Activities								Supporting Activities			Total Expenses
	Sector			BoardSource					Management and General	Development	Total	
	Leadership Initiatives	Membership Programs	Consulting Services	Leadership Forum	Public Trainings	Assessment Services	Publications	Total				
Salaries and Benefits	\$ 594,339	\$ 581,237	\$ 319,852	\$ 194,920	\$ 106,647	\$ 174,020	\$ 123,473	\$ 2,094,488	\$ 419,884	\$ 297,721	\$ 717,605	\$ 2,812,093
Consulting Delivery Fees	-	-	692,228	-	-	-	-	692,228	-	-	-	692,228
Occupancy Expenses	-	-	-	-	-	-	-	-	887,465	-	887,465	887,465
Cost of Good Sold	-	-	-	-	-	-	107,275	107,275	-	-	-	107,275
Fulfillment Shipping Expenses	-	-	-	-	-	-	31,275	31,275	-	-	-	31,275
Credit Card Processing Fees	-	13,260	-	14,081	7,896	10,701	9,859	55,797	9,259	-	9,259	65,056
Conferences and Meetings	45,874	-	-	198,034	26,182	1,698	-	271,788	12,733	3,620	16,353	288,141
Consultants and Professional Svcs	36,002	32,200	162,977	29,220	49,141	1,500	-	311,040	148,041	4,480	152,521	463,561
Printing, Postage, Shipping	11,791	7,905	795	28,120	9,375	-	-	57,986	3,211	234	3,445	61,431
IT Related Expenses	-	-	-	-	-	-	-	-	86,275	-	86,275	86,275
Depreciation and Amortization	-	-	-	-	-	-	-	-	227,224	-	227,224	227,224
Other Expenses	31,106	15,087	138,947	162,177	95,277	50,351	9,746	502,691	358,835	15,349	374,184	876,875
Office and Admin (Allocated)	367,124	361,295	192,411	120,613	65,691	107,492	76,814	1,291,440	(1,473,486)	182,046	(1,291,440)	-
Total Expenses	\$ 1,086,236	\$ 1,010,984	\$ 1,507,210	\$ 747,165	\$ 360,209	\$ 345,762	\$ 358,442	\$ 5,416,008	\$ 679,441	\$ 503,450	\$ 1,182,891	\$ 6,598,899

See accompanying Notes to Financial Statements.

**BOARDSOURCE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,072,457	\$ 581,598
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	263,764	227,224
Abandoned IT Project Costs	-	13,450
Unrealized Loss (Gain) on Investments	314,195	(231,288)
Realized Gains on Investments	(89,743)	(65,855)
Changes in Assets and Liabilities:		
Accounts Receivable	216,980	(259,786)
Grants Receivable	(1,125,000)	175,300
Deferred Rent Receivable	(5,451)	(10,249)
Inventory	(41,739)	50,979
Prepaid Expenses	(656)	(60,414)
Accounts Payable and Accrued Expenses	(81,705)	105,499
Deferred Revenue	51,460	(160,999)
Deferred Construction Allowance	(109,399)	(109,398)
Deferred Rent	(80,544)	(58,949)
Net Cash Provided by Operating Activities	384,619	197,112
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(244,341)	(208,531)
Proceeds from Sales of Investments	180,000	155,000
Purchases of Property and Equipment	(156,114)	(150,390)
Net Cash Used by Investing Activities	(220,455)	(203,921)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	164,164	(6,809)
Cash and Cash Equivalents, Beginning of Year	753,857	760,666
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 918,021	\$ 753,857
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment Financed through Capital Lease Arrangement	\$ 14,943	\$ -

See accompanying Notes to Financial Statements.

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

BoardSource was organized in 1990 under the laws of the District of Columbia as a nonprofit organization. The primary purpose of BoardSource is to inspire and support excellence in nonprofit governance and board and staff leadership. The vision of BoardSource is a world where every social sector organization has the leadership it needs to fulfill its mission and advance the public good. These activities are funded primarily through public grants without donor restriction and project-specific grants, membership revenue, training and assessment service revenue, publication sales, and revenue from consulting engagements.

Basis of Accounting

BoardSource prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

For financial statement purposes, BoardSource considers all money market accounts and certificates of deposits with maturity dates twelve months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consist of amounts due to BoardSource from consulting, trainings, assessments, and organizational memberships. BoardSource's management periodically reviews the status of these receivables for collectability, which is assessed on management's knowledge of the relationship with the customer and the age of the receivable. Based on these reviews and the nature of the receivables, management has estimated that the \$5,016 allowance for doubtful accounts is reasonable for both of the years ended December 31, 2018 and 2017.

Grants Receivable

Grants receivable represent amounts due from corporate donors and foundations. For the year ended December 31, 2018, \$865,000 is considered fully collectible and due in one year and \$375,000 is considered fully collectible and due in two years. For the year ended December 31, 2017, all amounts were considered fully collectible and due within one year.

Investments

Investments consist of equity and fixed income mutual funds and are valued at fair value in the accompanying financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales are reflected on a trade date basis. All transactions that have not been settled or completed, but for which a receivable or an obligation exists, are reflected as investments in the accompanying statements of financial position. Investment income and realized gains and losses on sales of investments are computed on an average cost method, are recorded on the trade date of the transaction, and are included in investment income in the accompanying statements of activities.

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory, which consists principally of publications and other resource materials held for resale, is stated at the lower of cost or market value. The cost of inventory is calculated using the weighted-average method of accounting. Obsolete inventory is written off when identified.

Property and Equipment

Furniture, equipment, and computer software are stated at cost and are depreciated or amortized on a straight-line basis over the estimated useful lives of the respective assets, which range from two to seven years. Leasehold improvements are amortized over the lease period or the useful lives of the improvements, whichever is shorter. Expenditures greater than \$5,000 for major repairs and improvements that extend the useful life of an asset and are capitalized, whereas expenditures for minor repairs and maintenance costs are expensed when incurred.

Net Assets

For financial statement purposes, net assets consist of the following:

Net assets without donor restrictions: Represent funds available for general operations or that have been designated by the board of directors for a particular purpose.

Net assets with donor restrictions: Represent net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of BoardSource and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition

BoardSource reports grants and contributions as support with donor restrictions if they are received with donor stipulations that limit the use of the assets. Limitations placed on granted assets may be in the form of permitting asset usage during a certain time period (time restriction) or for a particular program or project (purpose restriction). 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 accompanying statements of activities as satisfaction of a time or program restriction. However, donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

Grants and contributions without donor restrictions are reported as support in the year in which payments are received and/or unconditional promises are made. Conditional promises are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash, which are primarily donated investment securities, are recorded at their estimated fair value at the date of donation.

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned. Accordingly, advance collections from customers for consulting, public trainings and assessments are recorded as deferred revenue upon receipt and are recognized as revenue when the consulting engagement or training is completed or the meeting is held. Similarly, dues paid by members in advance of the period to which the dues pertain are also reflected in the accompanying statements of financial position as deferred revenue and are recognized as revenue in the period to which the dues relate. Product sales are recorded as revenue when the related product is shipped.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, office and occupancy, information technology, insurance, accounting fees, and marketing, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Income Taxes

BoardSource is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a Section 501(a) organization. The Internal Revenue Service has determined that BoardSource is a publicly supported organization.

BoardSource's income tax returns are subject to review and examination by federal and state authorities. BoardSource is not aware of any activities that would jeopardize its tax-exempt status.

Subsequent Events

In preparing these financial statements, BoardSource has evaluated events and transactions for potential recognition or disclosure through March 27, 2019, the date the financial statements were available to be issued.

BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 CONCENTRATION OF FINANCIAL AND CREDIT RISK

Credit Risk

BoardSource places its cash and cash equivalents with various financial institutions and limits the amount of credit exposure by any one financial institution. BoardSource has not experienced any losses in such accounts.

Risk and Uncertainties

BoardSource's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following as of December 31, 2018:

Cash and Cash Equivalents	\$ 918,021
Accounts Receivable, Net	166,376
Grants Receivable	865,000
Investments	<u>2,663,305</u>
Total	<u>\$ 4,612,702</u>

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor restricted endowments that is restricted for specific purposes is not available for general expenditure. Although BoardSource does not intend to spend from its board-designated endowment (other than amounts appropriated per the Board's appropriations approval), these amounts could be made available if necessary.

As part of BoardSource's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. BoardSource invests cash in excess of daily requirements in short-term investments, short-term certificates of deposit, and money market funds. To help manage unanticipated liquidity needs, BoardSource has a line of credit in the amount of \$200,000 which it could draw upon, but as of the date of this report, has not had the need to do so.

BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 INVESTMENTS

A fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value is established by GAAP. 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 under GAAP are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that BoardSource has the ability to access.

Level 2 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.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's 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.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy. There have been no changes in methodologies used at December 31, 2018 and 2017.

Equity and fixed income mutual funds - valued using quoted prices for identical assets in active markets on a daily basis.

The following table presents BoardSource's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31:

	2018			Total
	Level 1	Level 2	Level 3	
Equity Mutual Funds	\$ 1,958,725	\$ -	\$ -	\$ 1,958,725
Fixed Income Mutual Funds	973,789	-	-	973,789
Total	<u>\$ 2,932,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,932,514</u>
	2017			Total
	Level 1	Level 2	Level 3	
Equity Mutual Funds	\$ 2,310,542	\$ -	\$ -	\$ 2,310,542
Fixed Income Mutual Funds	782,083	-	-	782,083
Total	<u>\$ 3,092,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,092,625</u>

BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 ACCOUNTS RECEIVABLE

As of December 31, 2018 and 2017, accounts receivable are composed of the following:

	2018	2017
Consulting Services	\$ 93,894	\$ 275,382
Membership Programs	73,806	102,216
Publication Sales and Assessments	2,688	10,774
Training and Other	1,004	-
Subtotal	<u>171,392</u>	<u>388,372</u>
Less: Allowance for Doubtful Accounts	(5,016)	(5,016)
Accounts Receivable, Net	<u>\$ 166,376</u>	<u>\$ 383,356</u>

NOTE 6 PROPERTY AND EQUIPMENT

BoardSource held the following property and equipment as of December 31, 2018 and 2017:

	2018	2017
Leasehold Improvements	\$ 1,317,991	\$ 1,317,991
Computer Software	555,691	1,182,052
Furniture and Equipment	507,655	486,545
Subtotal	<u>2,381,337</u>	<u>2,986,588</u>
Less: Accumulated Depreciation and Amortization	(1,378,410)	(1,876,011)
Property and Equipment, Net	<u>\$ 1,002,927</u>	<u>\$ 1,110,577</u>

Depreciation and amortization expense totaled \$263,764 and \$227,224 for the years ended December 31, 2018 and 2017, respectively.

NOTE 7 LINE OF CREDIT

In May 2015, as part of a board-approved strategy for managing cash flow within annual budget parameters, BoardSource entered into a \$200,000 line of credit agreement with a financial institution which matures May 2020. Interest is charged at a variable rate based on Prime Rate. BoardSource has not drawn down any amounts since the opening of the line, and there is no outstanding balance.

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 8 RISKS AND COMMITMENTS

Hotel Commitment

BoardSource has entered into an agreement with a hotel to provide conference facilities and room accommodations for its 2020 leadership conference. The agreement contains a clause whereby BoardSource is liable for damages in the event of cancellation. However, if BoardSource is forced to cancel for economic reasons and rebooks a program of equal or greater revenue within one year of the date of the original event, 75% of the cancellation fees would be applied to the event. BoardSource's management does not believe that any losses will be incurred under this contract. The maximum possible amount of damages was approximately \$40,000 at December 31, 2018.

Operating Leases

BoardSource has entered into a noncancellable lease agreement for office space that expires on August 31, 2022. The lease can be extended for an additional five-year period, as long as BoardSource exercises this option by August 31, 2021. Under the terms of this lease, the base rent is subject to annual increases of 2.2%. In addition, the lessor has provided BoardSource with a seven-month rent abatement and a tenant improvement allowance toward leasehold construction costs of \$1,267,200 as an incentive to enter into the lease agreement.

All fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and deferred construction allowance in the accompanying statements of financial position.

Future minimum lease payments required under the lease are as follows:

For the Year Ending <u>December 31,</u>	
2019	\$ 1,004,098
2020	1,026,643
2021	1,049,770
2022	710,266
Total	<u>\$ 3,790,777</u>

In May 2016, BoardSource entered into a long-term subtenant lease which expires on August 31, 2022.

Future minimum sublease payments required under the long-term subtenant lease are as follows:

For the Year Ending <u>December 31,</u>	
2019	\$ 134,704
2020	138,532
2021	144,073
2022	99,077
Total	<u>\$ 516,386</u>

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 8 RISKS AND COMMITMENTS (CONTINUED)

Operating Leases (Continued)

Rent expense totaled \$919,123 and \$887,465 for the years ended December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, rental income related to the subleases was \$261,955 and \$261,010, respectively, and is included in other income in the accompanying statements of activities.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, net assets with donor restrictions were restricted as follows:

	2018	2017
Subject to expenditure for specific purpose:		
Sector Leadership Initiatives and Other Programs	\$ 1,938,626	\$ 656,489
Subject to BoardSource's spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amount of \$57,809 and \$69,044, respectively), the income from which is expendable to support the Judith O'Connor Memorial Fund for scholarships awarded	269,209	280,444
Total net assets with donor restrictions	\$ 2,207,835	\$ 936,933

NOTE 10 ENDOWMENT FUNDS

BoardSource's endowment consists primarily of a donor-restricted endowment that generates earnings to support the Judith O'Connor Memorial Fund, a lectureship that honors outstanding leaders and thinkers in the nonprofit sector for their achievements in nonprofit leadership or their contribution to the field of nonprofit governance, and scholarships to attend the BoardSource Leadership Forum. In addition, the board of directors has chosen to internally designate funds from unrestricted resources to support the same purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

BoardSource's board of directors has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (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, BoardSource classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by BoardSource in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, BoardSource 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 BoardSource 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 BoardSource.
- The investment policies of BoardSource.

As of December 31, BoardSource's endowment had the following net asset composition:

		2018		
		Without Donor Restrictions	With Donor Restrictions	Total
	Donor-Restricted	\$ -	\$ 269,209	\$ 269,209
	Board-Designated	29,071	-	29,071
	Total	\$ 29,071	\$ 269,209	\$ 298,280
		2017		
		Without Donor Restrictions	With Donor Restrictions	Total
	Donor-Restricted	\$ -	\$ 280,444	\$ 280,444
	Board-Designated	29,071	-	29,071
	Total	\$ 29,071	\$ 280,444	\$ 309,515

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law (Continued)

For the years ended December 31, 2018 and 2017, the endowment funds had the following activity:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, January 1, 2017	\$ 29,071	\$ 295,940	\$ 325,011
Investment Return:			
Investment Income	-	8,774	8,774
Net Appreciation (Realized and Unrealized)	-	16,637	16,637
Total Investment Return	-	25,411	25,411
Release from Restrictions	-	(40,907)	(40,907)
Endowment Net Assets December 31, 2017	29,071	280,444	309,515
Investment Return:			
Investment Income	-	4,515	4,515
Net Appreciation (Realized and Unrealized)	-	(15,750)	(15,750)
Total Investment Return	-	(11,235)	(11,235)
Release from Restrictions	-	-	-
Endowment Net Assets December 31, 2018	<u>\$ 29,071</u>	<u>\$ 269,209</u>	<u>\$ 298,280</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires BoardSource to retain as a fund or perpetual duration. There were no such deficiencies as of December 31, 2018 and 2017.

Investment Objectives and Risk Parameters

BoardSource 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, as approved by the board of directors, the endowment assets are invested in funds to achieve growth in principal value and income over time sufficient to preserve or increase the purchasing power of the funds, thus protecting the funds against inflation, and allow distribution of income for designated uses. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the investment strategy emphasizes total return, in which investment returns are achieved through both capital appreciation (realized and unrealized), and current yield (interest and dividends). BoardSource's current asset allocation for endowment funds targets a composition of between 50% and 70% in equity mutual funds and between 30% and 50% in fixed-income mutual funds.

**BOARDSOURCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

Spending Policy

Expenditures from the Judith O'Connor Memorial Fund are released from restriction as scholarships are awarded, in accordance with donor stipulations or as appropriated by the board of directors.

NOTE 11 PENSION PLAN

BoardSource sponsors a defined-contribution plan under Section 401(k) of the Internal Revenue Code. Under the defined-contribution plan, employees may elect to contribute up to the federal tax limitation annually. An employee who is at least 21 years of age can elect to make contributions to the plan and is eligible for BoardSource's matching and discretionary contributions on the first quarter of his or her enrollment date after completing six months of service. BoardSource matches 100% of an employee's contributions up to 3% of his or her eligible compensation and 50% of an employee's contributions between 3% and 5% of his or her eligible compensation. An employee is vested in his or her own contributions and the employer matching contributions at the time the contributions are made. Contributions to the plan totaled \$79,192 and \$81,732 for the years ended December 31, 2018 and 2017, respectively.

Additionally, BoardSource may contribute a discretionary amount of up to 6% of an employee's compensation for all eligible participants. Employees are fully vested in employer discretionary contributions after three years of service. No discretionary contributions were made for the years ended December 31, 2018 and 2017.