



Financial Statements

For the Year Ended December 31, 2013

## *Table of Contents*

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	<i>Page</i>
<b>Independent Auditors' Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10
<b>Supplementary Information:</b>	
Schedule of Functional Expenses	11

***Independent Auditors' Report******Board of Directors  
Washington STEM  
Seattle, Washington***

We have audited the accompanying financial statements of Washington STEM (the Organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

# CLARK NUBER

## ***Report on Summarized Comparative Information***

We have previously audited the Organization's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expense shown on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Certified Public Accountants  
March 12, 2014

**WASHINGTON STEM**

**Statement of Financial Position**

**December 31, 2013**

**(With Comparative Totals for 2012)**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,930,436	\$ 2,574,010
Current portion of pledges receivable, net	2,868,701	3,381,973
Prepaid expenses	<u>20,693</u>	<u>1,384</u>
<b>Total Current Assets</b>	<b>4,819,830</b>	<b>5,957,367</b>
Long-term portion of pledges receivable, net	2,099,439	4,663,370
Furniture, fixtures and equipment, net	<u>24,291</u>	<u>39,093</u>
<b>Total Assets</b>	<b><u>\$ 6,943,560</u></b>	<b><u>\$ 10,659,830</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 46,370	\$ 36,178
Grants and investments payable		80,272
Accrued liabilities	<u>237,545</u>	<u>72,733</u>
<b>Total Liabilities</b>	<b>283,915</b>	<b>189,183</b>
<b>Net Assets:</b>		
Unrestricted	2,079,741	2,542,881
Temporarily restricted	<u>4,579,904</u>	<u>7,927,766</u>
<b>Total Net Assets</b>	<b><u>6,659,645</u></b>	<b><u>10,470,647</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 6,943,560</u></b>	<b><u>\$ 10,659,830</u></b>

See accompanying notes.

**WASHINGTON STEM**

**Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2013  
(With Comparative Totals For 2012)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
<b>Contributions and Public Support:</b>				
Corporations	\$ 54,575	\$ 152,800	\$ 207,375	\$ 142,459
Foundations	48,230	25,000	73,230	621,822
Individuals	7,886	9,700	17,586	79,904
In-kind contributions	6,277	75,000	81,277	7,046
	<u>116,968</u>	<u>262,500</u>	<u>379,468</u>	<u>851,231</u>
<b>Total Contributions and Public Support</b>	<b>116,968</b>	<b>262,500</b>	<b>379,468</b>	<b>851,231</b>
Other income	18,990		18,990	
Net assets released from restriction	3,610,362	(3,610,362)		
	<u>3,746,320</u>	<u>(3,347,862)</u>	<u>398,458</u>	<u>851,231</u>
<b>Total Revenues</b>	<b>3,746,320</b>	<b>(3,347,862)</b>	<b>398,458</b>	<b>851,231</b>
<b>Expenses:</b>				
Program services	3,363,382		3,363,382	3,882,937
Management and general	408,162		408,162	741,575
Fundraising	437,916		437,916	660,889
	<u>4,209,460</u>	<u></u>	<u>4,209,460</u>	<u>5,285,401</u>
<b>Total Expenses</b>	<b>4,209,460</b>	<b></b>	<b>4,209,460</b>	<b>5,285,401</b>
<b>Change in Net Assets</b>	<b>(463,140)</b>	<b>(3,347,862)</b>	<b>(3,811,002)</b>	<b>(4,434,170)</b>
Net assets, beginning of year	2,542,881	7,927,766	10,470,647	14,904,817
	<u>2,542,881</u>	<u>7,927,766</u>	<u>10,470,647</u>	<u>14,904,817</u>
<b>Net Assets, End of Year</b>	<b>\$ 2,079,741</b>	<b>\$ 4,579,904</b>	<b>\$ 6,659,645</b>	<b>\$ 10,470,647</b>

See accompanying notes.

**WASHINGTON STEM**

**Statement of Cash Flows**  
**For the Year Ended December 31, 2013**  
**(With Comparative Totals For 2012)**

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (3,811,002)	\$ (4,434,170)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation and amortization	11,961	15,078
Loss on disposal of assets	2,441	
Change in assets and liabilities:		
Pledges receivable	3,077,203	4,056,991
Prepaid expenses	(19,309)	6,302
Accounts payable	10,192	(125,799)
Accrued liabilities	164,812	16,440
Grants and investments payable	(80,272)	37,408
<b>Net Cash Used by Operating Activities</b>	<b>(643,974)</b>	<b>(427,750)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of furniture, fixtures and equipment		(8,048)
Proceeds from the sale of furniture, fixtures and equipment	400	8,695
<b>Net Cash Provided by Investing Activities</b>	<b>400</b>	<b>647</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(643,574)</b>	<b>(427,103)</b>
Cash and cash equivalents, beginning of year	2,574,010	3,001,113
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,930,436</b>	<b>\$ 2,574,010</b>

See accompanying notes.

## **WASHINGTON STEM**

### ***Notes to Financial Statements For the Year Ended December 31, 2013***

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#### ***Note 1 - Significant Accounting Policies***

**Organization** - Washington STEM (the Organization) is a nonprofit organization dedicated to advancing innovation, equity, and excellence in science, technology, engineering, and mathematics (STEM) education. The Organization mobilizes education, business, and civic leaders to fulfill its shared responsibility to accelerate improvements in STEM instruction throughout the State of Washington and dramatically improve learning outcomes for all students.

As a nonprofit venture fund, the Organization makes investments to test and validate scalable approaches for improving STEM teaching. The Organization spurs and supports the delivery of effective real-world STEM learning opportunities to students in and out of school. The Organization also identifies and generates knowledge, tools and resources to build capacity in the field and fuel advocacy efforts. All of its efforts are designed to increase student performance, college readiness and success, and the pursuit of STEM degrees and careers, including STEM teaching. Program services reflect the grants and investments made directly to tax-exempt organizations, as well as in-kind support provided, to support the generation, capture, sharing and application of promising practices to improve STEM teaching and learning at scale. This nonprofit venture model will dramatically expand the reach and impact of the Organization's strategy across the state and nation.

**Basis of Presentation** - The financial statements of the Organization are presented on the accrual basis of accounting. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions and unrestricted net assets designated by the Organization for various purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or passage of time. Temporarily restricted net assets were time and purpose restricted at December 31, 2013 and 2012.

Permanently Restricted Net Assets - Support received in the form of endowment or sustaining funds which can never be spent. The Organization had no permanently restricted net assets at December 31, 2013 and 2012.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

**Revenue Recognition** - Cash contributions are recorded as revenues in the period received, in accordance with donor restrictions. Unconditional promises to give (pledges) are recorded at fair value in the period the promise is received, in accordance with donor-imposed restrictions. Other revenue consists of seminar registration fees and is recognized when the seminar occurs.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of a demand deposit account at December 31, 2013 and 2012.

## **WASHINGTON STEM**

### ***Notes to Financial Statements For the Year Ended December 31, 2013***

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#### ***Note 1 - Continued***

**Pledges Receivable** - Pledges receivable, unconditional promises to give, that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in revenue and support. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

**Furniture, Fixtures and Equipment** - The Organization capitalizes furniture, fixtures and equipment with a value greater than \$1,000, at cost, or at fair value on the date received if donated. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, ranging from four to seven years.

**Donated Goods and Services** - The Organization recognizes as revenue, in the statement of activities and changes in net assets, the value of donated goods and certain services at their fair values on the date received or pledged. The fair value of the donated services is recognized in the financial statements when the services received create or enhance nonfinancial assets, or require specialized skills, are provided by individuals possessing these skills, and would have been purchased if not donated. The value of donated services totaled \$75,000 for the year ended December 31, 2013. Donated goods totaled \$6,885 and \$6,435 for the years ended December 31, 2013 and 2012, respectively.

**Grant and Investment Expense** - The Organization awards cash grants and provides in-kind contributions in the form of professional services and expertise to tax-exempt organizations to accelerate and support STEM instruction throughout Washington State. Grant and investment expense is recognized on the statement of activities and changes in net assets as program expense at the time committed by the Organization. Grants payable over more than one year are recorded at their discounted present value using a risk adjusted rate of return. Changes in discounts are recognized over the period of the promise as adjustments to grant expense. Grants and investments payable at December 31, 2012, were scheduled to be paid within one year. There are no grants and investments payable at December 31, 2013.

**Vulnerability from Certain Concentrations** - Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents. Cash and cash equivalents held by one financial institution exceeded federally insured limits at times during the years ended December 31, 2013 and 2012, respectively.

During the year ended December 31, 2013, 66% of the Organization's revenue was from five donors and 90% of its pledges receivable were from two donors. For the year ended December 31, 2012, 79% of the Organization's revenue and 86% of its pledges receivable were from two donors.

## WASHINGTON STEM

### Notes to Financial Statements For the Year Ended December 31, 2013

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#### Note 1 - Continued

**Federal Income Tax Status** - The Internal Revenue Service has determined the Organization to be a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax has been made in these financial statements. The Organization files income tax returns with the U.S. government. The Organization is subject to income tax examinations based on the applicable laws and regulations.

**Schedule of Functional Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among program, management and general, and fundraising categories based on the benefits derived.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results may differ from such estimates.

**Prior Year Summarized Information** - For comparative purposes, the financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

**Subsequent Events** - The Organization has evaluated subsequent events through March 12, 2014, the date on which the financial statements were available to be issued.

#### Note 2 - Pledges Receivable

Pledges receivable were as follows at December 31:

	<u>2013</u>	<u>2012</u>
Pledges receivable expected in less than one year	\$ 2,918,701	\$ 3,381,973
Pledges receivable expected in one to five years	<u>2,108,303</u>	<u>4,718,464</u>
	5,027,004	8,100,437
Allowance for doubtful accounts	(50,000)	
Present value discount	<u>(8,864)</u>	<u>(55,094)</u>
<b>Pledges Receivable, Net</b>	<b><u>\$ 4,968,140</u></b>	<b><u>\$ 8,045,343</u></b>

## WASHINGTON STEM

### Notes to Financial Statements For the Year Ended December 31, 2013

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#### Note 2 - Continued

Pledges receivable with due dates extending beyond one year were discounted using discount rates based on risk adjusted rates of return of 0.13% and 0.17% at December 31, 2013 and 2012, respectively. An allowance for uncollectible pledges was not deemed necessary at December 31, 2012.

The Organization receives pledges from its board members. Pledges outstanding from board members totaled \$350,000 and \$425,000 at December 31, 2013 and 2012, respectively.

#### Note 3 - Furniture, Fixtures and Equipment

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

	<u>2013</u>	<u>2012</u>
Office equipment	\$ 36,614	\$ 41,066
Furniture and fixtures	<u>16,967</u>	<u>16,967</u>
	53,581	58,033
Less accumulated depreciation	<u>(29,290)</u>	<u>(18,940)</u>
<b>Furniture, Fixtures and Equipment, Net</b>	<b><u>\$ 24,291</u></b>	<b><u>\$ 39,093</u></b>

#### Note 4 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following at December 31:

	<u>2013</u>	<u>2012</u>
Time restricted	\$ 4,347,404	\$ 7,827,766
Purpose restricted for STEM program initiatives	<u>232,500</u>	<u>100,000</u>
<b>Total Temporarily Restricted Net Assets</b>	<b><u>\$ 4,579,904</u></b>	<b><u>\$ 7,927,766</u></b>

Temporarily restricted net assets totaling \$3,480,362 were released from time restrictions and \$130,000 was released from purpose restrictions during the year ended December 31, 2013.

## WASHINGTON STEM

### *Notes to Financial Statements For the Year Ended December 31, 2013*

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#### **Note 5 - Facilities License Agreement**

In July 2010, the Organization entered into a commercial office license agreement for its office facilities with a related party. The original license agreement ends in September 2015 and provides for one renewal option for up to five additional years. The payments due under the terms of the license agreement include base rent and the Organization's share of utilities and parking expenses.

In May 2012, the commercial office license agreement was amended to reduce the amount of base rent paid by the Organization for the remaining term of the agreement. In addition, an early termination fee was added to the license agreement in the amount of \$125,000 to be reduced by \$25,000 per year over the five year term of the license agreement. The minimum payments due under the terms of the amended license agreement for future years are as follows:

*For the Year Ending December 31,*

2014	\$ 108,306
2015	<u>81,230</u>
<b>Total Future Minimum License Payments</b>	<b><u>\$ 189,536</u></b>

Facilities expense incurred under the license agreement totaled \$109,514 and \$110,612 for the years ended December 31, 2013 and 2012, respectively.

#### **Note 6 - Retirement Plan**

The Organization sponsors a 401(k) plan covering all full-time employees who have completed one month of service. Participating employees may make voluntary contributions and the Organization makes matching contributions equal to 100% on the first 3% of an employee's elective salary deferral, and then 50% on the elective salary deferral in excess of 3% to a maximum of 5%, for a total possible match of 4%. These matching contributions vest immediately. The Organization's matching contributions to the 401(k) plan totaled \$63,780 and \$111,067 for the years ended December 31, 2013 and 2012, respectively. The Organization may also elect to make discretionary contributions to participants pending board approval; however, no such contributions were made for the years ended December 31, 2013 or 2012.

#### **Note 7 - Related Party Transactions**

The Organization entered into a commercial office license agreement for its office facilities (Note 5). In addition, the Organization obtains professional accounting, marketing, and information technology services from a related party. Professional service fees totaled \$16,970 and \$43,996 for the years ended December 31, 2013 and 2012, respectively.

***SUPPLEMENTARY INFORMATION***

**WASHINGTON STEM**

***Schedule of Functional Expenses  
For the Year Ended December 31, 2013  
(With Comparative Totals For 2012)***

	<u>Supporting Services</u>			<u>Total Supporting Services</u>	<u>2013</u>	<u>2012</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>			
Grants and investments	\$ 1,450,270	\$ -	\$ -	\$ -	\$ 1,450,270	\$ 2,079,252
Salaries, taxes and benefits	1,293,609	270,237	344,619	614,856	1,908,465	2,216,827
Consultants and professional services	338,113	56,441	62,158	118,599	456,712	619,726
Convenings, conferences, and travel	132,430	2,751	2,032	4,783	137,213	85,679
Operating costs	148,960	78,733	29,107	107,840	256,800	283,917
<b>Total Expenses</b>	<b><u>\$ 3,363,382</u></b>	<b><u>\$ 408,162</u></b>	<b><u>\$ 437,916</u></b>	<b><u>\$ 846,078</u></b>	<b><u>\$ 4,209,460</u></b>	<b><u>\$ 5,285,401</u></b>

See independent auditors' report.