



Financial Statements

For the Year Ended December 31, 2014

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Independent Auditor's 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, 2014, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2014, 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.



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Report on Summarized Comparative Information

We have previously audited the Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 12, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, 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.

Clark Nuber PS

Certified Public Accountants
March 16, 2015

WASHINGTON STEM

Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,886,328	\$ 1,930,436
Current portion of pledges receivable, net	3,689,607	2,868,701
Prepaid expenses	<u>39,120</u>	<u>20,693</u>
Total Current Assets	5,615,055	4,819,830
Long-term portion of pledges receivable, net	460,027	2,099,439
Furniture, fixtures and equipment, net	<u>43,432</u>	<u>24,291</u>
Total Assets	<u>\$ 6,118,514</u>	<u>\$ 6,943,560</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 57,789	\$ 46,370
Accrued liabilities	<u>390,958</u>	<u>237,545</u>
Total Liabilities	448,747	283,915
Net Assets:		
Unrestricted	1,501,740	2,079,741
Temporarily restricted	<u>4,168,027</u>	<u>4,579,904</u>
Total Net Assets	<u>5,669,767</u>	<u>6,659,645</u>
Total Liabilities and Net Assets	<u>\$ 6,118,514</u>	<u>\$ 6,943,560</u>

See accompanying notes.

WASHINGTON STEM

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2014
(With Comparative Totals For 2013)

	Unrestricted	Temporarily Restricted	2014	2013
Contributions and Public Support:				
Corporations	\$ 1,029,707	\$ 1,526,500	\$ 2,556,207	\$ 207,375
Foundations	29,327	413,747	443,074	73,230
Individuals	50,000	101,891	151,891	17,586
In-kind contributions	43,141		43,141	81,277
Public funding		20,000	20,000	
Total Contributions and Public Support	1,152,175	2,062,138	3,214,313	379,468
Other income	25,028		25,028	18,990
Net assets released from restriction	2,474,015	(2,474,015)		
Total Revenues	3,651,218	(411,877)	3,239,341	398,458
Expenses:				
Program services	3,410,423		3,410,423	3,363,382
Management and general	393,686		393,686	408,162
Fundraising	425,110		425,110	437,916
Total Expenses	4,229,219		4,229,219	4,209,460
Change in Net Assets	(578,001)	(411,877)	(989,878)	(3,811,002)
Net assets, beginning of year	2,079,741	4,579,904	6,659,645	10,470,647
Net Assets, End of Year	\$ 1,501,740	\$ 4,168,027	\$ 5,669,767	\$ 6,659,645

See accompanying notes.

WASHINGTON STEM**Statement of Cash Flows
For the Year Ended December 31, 2014
(With Comparative Totals For 2013)**

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (989,878)	\$ (3,811,002)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation and amortization	13,429	11,961
Loss on disposal of assets	8,055	2,441
Change in assets and liabilities:		
Pledges receivable	818,506	3,077,203
Prepaid expenses	(18,427)	(19,309)
Accounts payable	11,419	10,192
Accrued liabilities	153,413	164,812
Grants and investments payable		(80,272)
Net Cash Used in Operating Activities	(3,483)	(643,974)
Cash Flows From Investing Activities:		
Purchases of furniture, fixtures and equipment	(40,625)	
Proceeds from the sale of furniture, fixtures and equipment		400
Net Cash (Used in) Provided by Investing Activities	(40,625)	400
Net Change in Cash and Cash Equivalents	(44,108)	(643,574)
Cash and cash equivalents, beginning of year	1,930,436	2,574,010
Cash and Cash Equivalents, End of Year	\$ 1,886,328	\$ 1,930,436

See accompanying notes.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2014

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, 2014 and 2013.

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, 2014 and 2013.

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, 2014 and 2013.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2014

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 goods and services totaled \$43,141 and \$81,277 for the years ended December 31, 2014 and 2013, respectively.

Grant and Investment Expense - The Organization awards cash and in-kind grants and provides in-kind contributions in the form of professional services and expertise to tax-exempt organizations to accelerate and support STEM education 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. For in-kind grants, the Organization recognizes as expense the value of granted goods and services at their fair values at the time the grant was made. 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. There were no grants and investments payable at December 31, 2014 and 2013, respectively.

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, 2014 and 2013, respectively.

During the year ended December 31, 2014, 78% of the Organization's revenue was from one donor and 95% of its pledges receivable were from three donors. For 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.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2014

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 accounting principles generally accepted in the United States of America (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, 2013, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through March 16, 2015, 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>2014</u>	<u>2013</u>
Pledges receivable expected in less than one year	\$ 3,759,607	\$ 2,918,701
Pledges receivable expected in one to five years	<u>467,000</u>	<u>2,108,303</u>
	4,226,607	5,027,004
Allowance for doubtful accounts	(70,000)	(50,000)
Present value discount	<u>(6,973)</u>	<u>(8,864)</u>
Pledges Receivable, Net	<u>\$ 4,149,634</u>	<u>\$ 4,968,140</u>

Pledges receivable with due dates extending beyond one year were discounted using discount rates based on risk adjusted rates of return of 0.12% and 0.13% at December 31, 2014 and 2013, respectively. An allowance for uncollectible pledges was recorded for \$70,000 and \$50,000 as of December 31, 2014 and 2013, respectively.

The Organization receives pledges from its board members. Pledges outstanding from board members totaled \$650,000 and \$350,000 at December 31, 2014 and 2013, respectively.

WASHINGTON STEM

Notes to Financial Statements
For the Year Ended December 31, 2014

Note 3 - Furniture, Fixtures and Equipment

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

	<u>2014</u>	<u>2013</u>
Office equipment	\$ 55,947	\$ 36,614
Furniture and fixtures	<u>16,967</u>	<u>16,967</u>
	72,914	53,581
Less accumulated depreciation	<u>(29,482)</u>	<u>(29,290)</u>
Furniture, Fixtures and Equipment, Net	<u>\$ 43,432</u>	<u>\$ 24,291</u>

Note 4 - Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Time restricted	\$ 4,093,027	\$ 4,479,904
Purpose restricted for STEM program initiatives	<u>75,000</u>	<u>100,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,168,027</u>	<u>\$ 4,579,904</u>

Temporarily restricted net assets totaling \$2,474,015 were released from restriction during the year ended December 31, 2014. Of that amount \$2,420,000 was released due to the passage of time, and \$285,247 was released as the purpose of the gifts had been fulfilled.

During the year ended December 31, 2014, management determined that certain unrestricted contributions had been inadvertently reflected as releases from temporarily restricted net assets as of and for the year ended December 31, 2013. As a result, management reclassified net assets to increase temporarily restricted net assets and decrease unrestricted net assets by \$231,232. This change is included in total net asset releases noted above. The change does not affect previously reported total contribution revenue or total net assets.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2014

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, at December 31, 2014, through September 2015 total \$81,230. Facilities expense incurred under the license agreement totaled \$111,058 and \$109,514 for the years ended December 31, 2014 and 2013, 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 \$67,483 and \$63,780 for the years ended December 31, 2014 and 2013, 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, 2014 or 2013.

Note 7 - Related Party Transactions

The Organization entered into a commercial office license agreement for its office facilities (Note 5). In addition, until 2013, the Organization obtained professional accounting, marketing, and information technology services from a related party. Professional service fees totaled \$16,970 for the year ended December 31, 2013. No such services were obtained during the year ended December 31, 2014.

SUPPLEMENTARY INFORMATION

WASHINGTON STEM

Schedule of Functional Expenses
For the Year Ended December 31, 2014
(With Comparative Totals For 2013)

	Program Services	Supporting Services			2014	2013
		Management and General	Fundraising	Total Supporting Services		
Grants and investments	\$ 1,504,447	\$ -	\$ -	\$ -	\$ 1,504,447	\$ 1,450,270
Salaries, taxes and benefits	1,264,932	281,677	346,944	628,621	1,893,553	1,908,465
Consultants and professional services	383,754	30,183	18,631	48,814	432,568	456,712
Convenings, conferences, and travel	144,714	1,592	8,506	10,098	154,812	137,213
Operating costs	112,576	80,234	51,029	131,263	243,839	256,800
Total Expenses	\$ 3,410,423	\$ 393,686	\$ 425,110	\$ 818,796	\$ 4,229,219	\$ 4,209,460

See independent auditor's report.