



Financial Statements

For the Year Ended December 31, 2016

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Independent Auditor's Report

**To the 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, 2016, 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.



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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, 2016, activities 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated March 23, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 expenses shown on page 12 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 30, 2017

WASHINGTON STEM

Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,168,668	\$ 3,404,718
Accounts receivable	197,877	134,417
Current portion of pledges receivable	2,829,000	2,118,133
Prepaid expenses	34,802	28,460
Total Current Assets	7,230,347	5,685,728
Long-term portion of pledges receivable, net	1,067,940	1,477,837
Furniture, fixtures and equipment, net	87,662	35,992
Total Assets	\$ 8,385,949	\$ 7,199,557
Liabilities and Net Assets		
Liabilities:		
Accounts and grants payable	\$ 207,390	\$ 163,564
Accrued liabilities	204,297	172,979
Total Current Liabilities	411,687	336,543
Net Assets:		
Unrestricted	3,939,911	3,801,801
Temporarily restricted	4,034,351	3,061,213
Total Net Assets	7,974,262	6,863,014
Total Liabilities and Net Assets	\$ 8,385,949	\$ 7,199,557

See accompanying notes.

WASHINGTON STEM

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	2016	2015
Support and Revenue:				
Corporations	\$ 73,459	\$ 4,115,104	\$ 4,188,563	\$ 667,000
Foundations	9,049	736,500	745,549	588,682
Individuals	254,784	1,002,000	1,256,784	3,307,665
In-kind contributions	41,348		41,348	67,967
Contract revenue	798,032		798,032	184,250
Other income	16,509		16,509	28,638
Net assets released from restriction	4,880,466	(4,880,466)		
Total Support and Revenue	6,073,647	973,138	7,046,785	4,844,202
Expenses:				
Program services	4,622,618		4,622,618	2,647,798
Management and general	561,960		561,960	443,381
Fundraising	750,959		750,959	559,776
Total Expenses	5,935,537		5,935,537	3,650,955
Change in Net Assets	138,110	973,138	1,111,248	1,193,247
Net assets, beginning of year	3,801,801	3,061,213	6,863,014	5,669,767
Net Assets, End of Year	\$ 3,939,911	\$ 4,034,351	\$ 7,974,262	\$ 6,863,014

See accompanying notes.

WASHINGTON STEM**Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)**

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,111,248	\$ 1,193,247
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	16,275	13,220
Loss on disposal of assets	12,764	
Change in assets and liabilities:		
Pledges receivable	(300,970)	553,664
Accounts receivable	(63,460)	(134,417)
Prepaid expenses	(6,342)	10,660
Accounts payable	43,826	105,775
Accrued liabilities	31,318	(217,979)
Net Cash Provided by Operating Activities	844,659	1,524,170
Cash Flows From Investing Activities:		
Purchases of furniture, fixtures and equipment	(80,709)	(5,780)
Net Cash Used in Investing Activities	(80,709)	(5,780)
Net Change in Cash and Cash Equivalents	763,950	1,518,390
Cash and cash equivalents, beginning of year	3,404,718	1,886,328
Cash and Cash Equivalents, End of Year	\$ 4,168,668	\$ 3,404,718

See accompanying notes.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2016

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 their 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, revenue, 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, 2016 and 2015.

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, 2016 and 2015.

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 revenue 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. Program grants are recorded as purpose-restricted revenue with release of restrictions upon completion of the project. For contracts, which represent agency commitments to provide funds upon completion of project milestones or deliverables, revenue is recognized in the statement of activities and changes in net assets once the milestones or deliverables have been completed. Other revenue consists of seminar registration fees and is recognized when the seminar occurs.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

Fiscal Sponsorships - In September 2016, the Organization entered into an agreement to serve as a fiscal sponsor for Project Pilgrimage. Project Pilgrimage works to enhance equity through access to education. Revenue from this program consists of purpose restricted contributions. Program expenses are included in program services in the statement of activities and changes in net assets.

Cash and Cash Equivalents - Cash and cash equivalents consist of savings and demand deposit accounts at December 31, 2016 and 2015.

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 in the statement of activities and changes in net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no outstanding conditional pledges at December 31, 2016 and 2015.

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. Leasehold improvements are depreciated over the shorter of their useful life or the lease term.

In-Kind Contributions - 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 \$41,348 and \$67,967 for the years ended December 31, 2016 and 2015, respectively.

Grant and Investment Expense - The Organization awards cash and in-kind grants and 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. Grants payable are included in accounts payable on the statement of financial position and totaled \$115,228 and \$48,000 at December 31, 2016 and 2015, respectively.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

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, 2016 and 2015, respectively.

During the year ended December 31, 2016, 71% of the Organization's revenue was from two donors and 83% of its pledges receivable were from three donors. For the year ended December 31, 2015, 73% of the Organization's revenue was from one donor and 87% of its pledges receivable were from three donors.

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.

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, 2015, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through March 30, 2017, the date on which the financial statements were available to be issued. See Note 7 for additional information on subsequent events.

Note 2 - Pledges Receivable

Pledges receivable were as follows at December 31:

	<u>2016</u>	<u>2015</u>
Pledges receivable expected in less than one year	\$ 2,829,000	\$ 2,118,133
Pledges receivable expected in one to nine years	<u>1,101,500</u>	<u>1,484,000</u>
	3,930,500	3,602,133
Present value discount	<u>(33,560)</u>	<u>(6,163)</u>
Pledges Receivable	<u><u>\$ 3,896,940</u></u>	<u><u>\$ 3,595,970</u></u>

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2016

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 0.85% and 0.32% at December 31, 2016 and 2015, respectively. An allowance for uncollectible pledges was not considered necessary at December 31, 2016 and 2015.

From time to time, the Organization receives contributions from its board members. Contributions from board members totaled \$31,050 and \$0 for the year ended December 31, 2016 and 2015, respectively. Pledges outstanding from board members totaled \$325,000 and \$567,000 at December 31, 2016 and 2015, respectively.

Note 3 - Furniture, Fixtures and Equipment

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

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 101,089	\$ 61,727
Furniture and fixtures	16,967	16,967
Leasehold improvements	<u>4,768</u>	<u></u>
	122,824	78,694
Less accumulated depreciation	<u>(35,162)</u>	<u>(42,702)</u>
Furniture, Fixtures and Equipment, Net	<u>\$ 87,662</u>	<u>\$ 35,992</u>

Note 4 - Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Time restricted	\$ 2,650,322	\$ 2,460,837
Purpose restricted for STEM program initiatives	344,618	600,376
Purpose restricted for Project Pilgrimage	<u>1,039,411</u>	<u></u>
Total Temporarily Restricted Net Assets	<u>\$ 4,034,351</u>	<u>\$ 3,061,213</u>

Temporarily restricted net assets totaling \$4,880,466 were released from restriction during the year ended December 31, 2016. Of that amount \$3,789,104 was released due to the passage of time, and \$1,091,362 was released as the purpose of the gifts had been fulfilled.

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 was for five years and provided 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.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 5 - Continued

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 license 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.

In September 2015, the commercial office license agreement was amended to extend the license through September 30, 2018. In September 2016, the commercial office license agreement was amended to increase the square footage and increase the base rent to \$89,117 per year (increasing 3% every October 1) and operating expenses of \$36,358 per year (increasing 4% every October 1).

Effective February 1, 2017, the Organization leased office space for the Washington State Opportunity Scholarship Program (Note 7). Rent expense under the terms of the lease is approximately \$50,000 per year and will increase by 4% per year through the five year term of the lease. These amounts are included in the total minimum payments shown below.

The total minimum payments due under both of these agreements for future years are as follows:

2017	\$	176,484
2018		152,306
2019		54,005
2020		56,050
2021		69,145
Thereafter		<u>5,860</u>
Total Future Minimum License Payments	\$	<u>513,850</u>

Facilities expense incurred under the license agreement totaled \$133,938 and \$112,351 for the years ended December 31, 2016 and 2015, respectively.

Note 6 - Retirement Plan

The Organization sponsors a 401(k) employee benefit retirement plan (the 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 Plan totaled \$87,872 and \$72,031 for the years ended December 31, 2016 and 2015, 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, 2016 or 2015.

WASHINGTON STEM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 7 - Subsequent Events (Unaudited)

Effective February 1, 2017, the Board of the Organization approved a contract for professional services between the State of Washington Student Achievement Council and the Washington State Opportunity Scholarship Board whereas the Organization will serve as Program Administrator to the Washington State Opportunity Scholarship program (WSOS). The contract term ends June 30, 2018 with options to extend to future periods.

At the time program administration was transferred to Washington STEM, the annual operating budget of WSOS was \$15 million (unaudited), of which an estimated \$13 million (unaudited) will be paid out in scholarships for the 2016-2017 academic year.

Below is a summary of WSOS assets and liabilities transferred for administration by the Organization at January 31, 2017. (These amounts are unaudited).

Cash	\$ 11,860,622
Investments	74,278,010
Other assets	24,378
Pledges and grants receivable	<u>41,782,734</u>
Total Assets	<u>\$ 127,945,744</u>
Scholarship Liabilities	\$ 21,790,028

The amounts reported for scholarship liabilities and scholarship expense are based on the previous program administrator's long term projections of scholarship commitments by academic year which have been calculated using certain estimates such as retention rates and other assumptions that affect the reported amounts of liabilities and expenses during the relevant period. Actual results could differ from the estimates.

SUPPLEMENTARY INFORMATION

WASHINGTON STEM

Schedule of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Supporting Services			Total Supporting Services	2016	2015
	Program Services	Management and General	Fundraising			
Grants and investments	\$ 2,098,846	\$ -	\$ -	\$ -	\$ 2,098,846	\$ 749,223
Salaries, taxes and benefits	1,544,981	374,322	668,848	1,043,170	2,588,151	1,991,237
Consultants and professional services	539,794	69,988	7,700	77,688	617,482	496,754
Convenings, conferences and travel	292,771	2,366	12,357	14,723	307,494	173,387
Operating costs	146,226	115,284	62,054	177,338	323,564	240,354
Total Expenses	\$ 4,622,618	\$ 561,960	\$ 750,959	\$ 1,312,919	\$ 5,935,537	\$ 3,650,955

See independent auditor's report.