



Financial Statements

For the Years Ended December 31, 2017 and 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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets 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.

Auditor's 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 audits 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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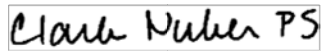
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Opinion

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, 2017 and 2016, activities and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The program-level information included in the statements of financial position, statements of activities and changes in net assets, and statements of cash flows on pages 3 through 8, as well as the accompanying schedules of functional expenses shown on pages 20 through 22 are presented for purposes of additional analysis and are 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 23, 2018

WASHINGTON STEM

Statement of Financial Position December 31, 2017

	Washington STEM	WSOS	Project Pilgrimage	Interfund Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	\$ 3,820,120	\$ 1,606,525	\$ 2,027,013	\$ -	\$ 7,453,658
Accounts receivable	215,778	61,008	3,017		279,803
Interfund receivable	9,580		9,371	(18,951)	
Current portion of pledges receivable, net	1,812,500	6,635,050	94,600		8,542,150
State match receivable, net		2,886,686			2,886,686
Prepaid expenses	45,948	42,027	2,725		90,700
Short-term portion of investments		21,091,267			21,091,267
Total Current Assets	5,903,926	32,322,563	2,136,726	(18,951)	40,344,264
Long-term portion of pledges receivable, net	3,110,681	7,438,262	251,068		10,800,011
Long-term portion of investments		95,150,319			95,150,319
Furniture, fixtures and equipment, net	70,549	20,344			90,893
Total Assets	\$ 9,085,156	\$ 134,931,488	\$ 2,387,794	\$ (18,951)	\$ 146,385,487
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 61,297	\$ 50,590	\$ 25,348	\$ -	\$ 137,235
Grants payable	48,000				48,000
Interfund payable	9,371	9,580		(18,951)	
Accrued liabilities	288,612	131,913	6,700		427,225
Current portion of scholarship liabilities, net		11,010,058			11,010,058
Total Current Liabilities	407,280	11,202,141	32,048	(18,951)	11,622,518
Long-term portion of scholarship liabilities, net		15,782,521			15,782,521
Total Liabilities	407,280	26,984,662	32,048	(18,951)	27,405,039
Net Assets:					
Unrestricted	2,925,349				2,925,349
Temporarily restricted	5,752,527	82,946,826	2,355,746		91,055,099
Permanently restricted		25,000,000			25,000,000
Total Net Assets	8,677,876	107,946,826	2,355,746		118,980,448
Total Liabilities and Net Assets	\$ 9,085,156	\$ 134,931,488	\$ 2,387,794	\$ (18,951)	\$ 146,385,487

See accompanying notes.

WASHINGTON STEM

**Statement of Financial Position
December 31, 2016**

	Washington STEM	Project Pilgrimage	Interfund Eliminations	Total
Assets				
Current Assets:				
Cash and cash equivalents	\$ 4,051,324	\$ 117,344	\$ -	\$ 4,168,668
Accounts receivable	197,877			197,877
Interfund receivable		21,459	(21,459)	
Current portion of pledges receivable, net	2,728,500	100,500		2,829,000
Prepaid expenses	34,802			34,802
Total Current Assets	7,012,503	239,303	(21,459)	7,230,347
Long-term portion of pledges receivable, net	296,218	771,722		1,067,940
Furniture, fixtures and equipment, net	87,662			87,662
Total Assets	\$ 7,396,383	\$ 1,011,025	\$ (21,459)	\$ 8,385,949
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 92,102	\$ -	\$ -	\$ 92,102
Grants payable	115,288			115,288
Interfund payable	21,459		(21,459)	
Accrued liabilities	204,297			204,297
Total Current Liabilities	433,146		(21,459)	411,687
Net Assets:				
Unrestricted	3,939,911			3,939,911
Temporarily restricted	3,023,326	1,011,025		4,034,351
Total Net Assets	6,963,237	1,011,025		7,974,262
Total Liabilities and Net Assets	\$ 7,396,383	\$ 1,011,025	\$ (21,459)	\$ 8,385,949

See accompanying notes.

WASHINGTON STEM

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2017

	Washington STEM	WSOS	Project Pilgrimage	Interfund Eliminations	Total
Unrestricted Activity					
Unrestricted Support and Revenue:					
Contributions	\$ 351,718	\$ -	\$ -	\$ -	\$ 351,718
Contract revenue	1,001,741			(399,807)	601,934
Interest income	9,905				9,905
Other income	57,367				57,367
Release from time restrictions	2,485,579				2,485,579
Release from purpose restrictions	835,995	19,976,826	431,564		21,244,385
Total Unrestricted Support and Revenue	4,742,305	19,976,826	431,564	(399,807)	24,750,888
Expenses:					
Program services	3,956,255	18,885,586	395,564	(4,450)	23,232,955
Management and general	1,104,928	503,667	36,000	(395,357)	1,249,238
Fundraising	694,292	587,573			1,281,865
Total Expenses	5,755,475	19,976,826	431,564	(399,807)	25,764,058
Change in Unrestricted Net Assets	(1,013,170)				(1,013,170)
Temporarily Restricted Activity					
Temporarily restricted contributions	6,049,383	2,224,873	1,776,285		10,050,541
Temporarily restricted State match		11,648,049			11,648,049
Investment return, net		7,965,211			7,965,211
Release from time restrictions	(2,485,579)				(2,485,579)
Release from purpose restrictions	(835,995)	(19,976,826)	(431,564)		(21,244,385)
Change in Temporarily Restricted Net Assets	2,727,809	1,861,307	1,344,721		5,933,837
Change in Net Assets Before Transfer of the WSOS program to Washington STEM	1,714,639	1,861,307	1,344,721		4,920,667
Transfer of the WSOS program to Washington STEM (Note 11)		106,085,519			106,085,519
Total Change in Net Assets	1,714,639	107,946,826	1,344,721		111,006,186
Net assets, beginning of year	6,963,237		1,011,025		7,974,262
Net Assets, End of Year	\$ 8,677,876	\$ 107,946,826	\$ 2,355,746	\$ -	\$ 118,980,448
Summary Information					
Total Revenue and Investment Return	\$ 7,470,114	\$ 21,838,133	\$ 1,776,285	\$ (399,807)	\$ 30,684,725

See accompanying notes.

WASHINGTON STEM

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2016

	Washington STEM	Project Pilgrimage	Interfund Eliminations	Total
Unrestricted Activity				
Unrestricted Support and Revenue:				
Contributions	\$ 378,640	\$ -	\$ -	\$ 378,640
Contract revenue	809,532		(11,500)	798,032
Interest income	4,909			4,909
Other income	11,600			11,600
Release from time restrictions	3,789,104			3,789,104
Release from purpose restrictions	1,232,377	(141,015)		1,091,362
Total Unrestricted Support and Revenue	6,226,162	(141,015)	(11,500)	6,073,647
Expenses:				
Program services	4,493,104	141,014	(11,500)	4,622,618
Management and general	561,960			561,960
Fundraising	750,959			750,959
Total Expenses	5,806,023	141,014	(11,500)	5,935,537
Change in Unrestricted Net Assets	420,139	(282,029)		138,110
Temporarily Restricted Activity				
Temporarily restricted contributions	4,701,565	1,152,039		5,853,604
Release from time restrictions	(3,789,104)			(3,789,104)
Release from purpose restrictions	(1,232,377)	141,015		(1,091,362)
Change in Temporarily Restricted Net Assets	(319,916)	1,293,054		973,138
Total Change in Net Assets	100,223	1,011,025		1,111,248
Net assets, beginning of year	6,863,014			6,863,014
Net Assets, End of Year	\$ 6,963,237	\$ 1,011,025	\$ -	\$ 7,974,262
Summary Information				
Total Revenue	\$ 5,906,246	\$ 1,152,039	\$ (11,500)	\$ 7,046,785

See accompanying notes.

WASHINGTON STEM

Statement of Cash Flows For the Year Ended December 31, 2017

	Washington STEM	WSOS	Project Pilgrimage	Interfund Eliminations	Total
Cash Flows From Operating Activities:					
Change in net assets before transfer of the WSOS program to Washington STEM	\$ 1,714,639	\$ 1,861,307	\$ 1,344,721	\$ -	\$ 4,920,667
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities, net of the transfer of the WSOS program to Washington STEM-					
Depreciation and amortization	25,814	3,210			29,024
Realized and unrealized gains on investments		(7,737,543)			(7,737,543)
Change in assets and liabilities:					
Accounts receivable	(39,360)	(5,439)	(3,017)		(47,816)
Pledges receivable	(1,898,463)	16,061,373	526,554		14,689,464
State match receivable		8,761,363			8,761,363
Prepaid expenses	(11,146)	(14,092)	(2,725)		(27,963)
Accounts payable	(9,346)	(75,176)	25,348		(59,174)
Grants payable	(67,288)				(67,288)
Accrued liabilities	84,315	131,913	6,700		222,928
Interfund receivables/payables	(21,668)	9,580	12,088		
Scholarship liabilities		5,002,551			5,002,551
Net Cash (Used) Provided by Operating Activities	(222,503)	23,999,047	1,909,669		25,686,213
Cash Flows From Investing Activities:					
Purchase of investments		(42,252,993)			(42,252,993)
Sales of investments		8,023,403			8,023,403
Purchases of furniture, fixtures and equipment	(13,623)	(23,554)			(37,177)
Proceeds from sale of assets	4,922				4,922
Net Cash Used in Investing Activities	(8,701)	(34,253,144)			(34,261,845)
Transfer of cash with WSOS program to WA STEM		11,860,622			11,860,622
Net Change in Cash and Cash Equivalents	(231,204)	1,606,525	1,909,669		3,284,990
Cash and cash equivalents, beginning of year	4,051,324		117,344		4,168,668
Cash and Cash Equivalents, End of Year	\$ 3,820,120	\$ 1,606,525	\$ 2,027,013	\$ -	\$ 7,453,658

See accompanying notes.

WASHINGTON STEM

Statement of Cash Flows For the Year Ended December 31, 2016

	Washington STEM	Project Pilgrimage	Interfund Eliminations	Total
Cash Flows From Operating Activities:				
Change in net assets	\$ 100,223	\$ 1,011,025	\$ -	\$ 1,111,248
Adjustments to reconcile change in net assets to net cash provided by operating activities-				
Depreciation and amortization	16,275			16,275
Loss on disposal of assets	12,764			12,764
Change in assets and liabilities:				
Accounts receivable	(63,460)			(63,460)
Pledges receivable	571,252	(872,222)		(300,970)
Prepaid expenses	(6,342)			(6,342)
Accounts payable	(71,462)			(71,462)
Grants payable	115,288			115,288
Accrued liabilities	31,318			31,318
Interfund receivables/payables	21,459	(21,459)		
Net Cash Provided by Operating Activities	727,315	117,344		844,659
Cash Flows From Investing Activities:				
Purchases of furniture, fixtures and equipment	(80,709)			(80,709)
Net Cash Used in Investing Activities	(80,709)			(80,709)
Net Change in Cash and Cash Equivalents	646,606	117,344		763,950
Cash and cash equivalents, beginning of year	3,404,718			3,404,718
Cash and Cash Equivalents, End of Year	\$ 4,051,324	\$ 117,344	\$ -	\$ 4,168,668

See accompanying notes.

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 1 - Significant Accounting Policies

Organization - Washington STEM (WA STEM) is a nonprofit organization dedicated to advancing innovation, equity, and excellence in science, technology, engineering, and mathematics (STEM) education. WA STEM 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, WA STEM makes investments to test and validate scalable approaches for improving STEM teaching. WA STEM spurs and supports the delivery of effective real-world STEM learning opportunities to students in and out of school. WA STEM 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.

WSOS - Washington State Opportunity Scholarship (WSOS) is a public-private partnership established by the Washington State legislature in 2011 under the Revised Code of Washington (RCW) Title 28B.145, Opportunity Scholarship Act, to increase access to high-demand STEM and health care majors for low- and middle-income students through scholarships and academic support. The legislation describes in detail how the program is to be funded and administered. Effective February 1, 2017, the Board of WA STEM approved an interagency contract with the State of Washington's Washington Student Achievement Council (WSAC) and the WSOS Board of Trustees for professional services whereby WA STEM will serve as Program Administrator to the WSOS program. The contract term ends June 30, 2018 with options to extend to future periods if authorized by each party to the agreement.

As WA STEM is a fiscal sponsor of the WSOS program, all balances and activity of WSOS as of the date of transfer from the previous Program Administrator are included in these financial statements. See Note 11.

Project Pilgrimage - In September 2016, WA STEM 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. As WA STEM is a fiscal sponsor of the Project Pilgrimage program, all balances and activity of Project Pilgrimage are included in these financial statements.

The financial account balances and activities of WA STEM and its sponsored programs, collectively, are referred to throughout these financial statements as "the Organization."

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, 2017 and 2016.

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 1 - Continued

Permanently Restricted Net Assets - Support received in the form of endowment or sustaining funds which can never be spent. The donors require the gift to be invested and only the income from such investments may be used to support the intended cause. Permanently restricted net assets of \$25,000,000 at December 31, 2017 related to an endowment for the WSOS program. The Organization had no permanently restricted net assets at December 31, 2016.

Revenues are reported as increases in unrestricted net assets unless use of the related assets are 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 -

Contributions - 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. In-kind contributions, including donated goods and certain services, are recognized at their fair values on the date received or pledged. Program grants are recorded as purpose-restricted revenue with release of restrictions upon incurring related expenses.

Contract Revenue - For agency commitments to provide funds upon completion of project milestones or deliverables, revenue is recognized in the statements of activities and changes in net assets once the milestones or deliverables have been completed. Contract revenue also includes fees paid by sponsored programs to WA STEM based on agreed upon terms in the contracts.

Other Revenue - Program or seminar registration fees that is recognized when the event occurs.

State Match - WSOS is a public-private partnership created by statute whereby private gifts are matched by contributions to the program from the State of Washington, subject to meeting certain conditions. For the period ended December 31, 2017, WSOS recognized approximately \$11.6 million in State match revenue, and collected approximately \$29.4 million in cash payments. The cash payments included \$21 million recognized as revenue prior to January 31, 2017. As of December 31, 2017, approximately \$3.2 million was receivable before deducting an allowance on uncollectible amounts of approximately \$0.3 million.

Cash and Cash Equivalents - The Organization considers all highly liquid investments purchased with an original maturity of three months or less, other than those held in the Organization's investment portfolio, to be cash equivalents.

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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 in the statements 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, 2017 and 2016.

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.

Investments and Investment Income - Investments generally consist of bonds, treasury securities, money market funds, and commingled index funds. Returns on investment, including unrealized gains and losses, are recognized in the period earned. Investment return is reported net of related fees.

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.

Scholarship Liabilities - Scholarship liabilities for the WSOS program are estimated using the number of students enrolled in the scholarship program and assumptions regarding retention rates, transfer rates and award amounts used in estimating future scholarship commitments. It is reasonably possible that the Organization's estimates used to calculate scholarship commitments will change in the near term. Scholarship liabilities due in subsequent years are reported at their present value, using risk-adjusted rates applicable to the year in which the liabilities were originally accrued. See Note 6.

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 statements 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.

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 and investments held at financial institutions exceeded federally insured limits at times during the years ended December 31, 2017 and 2016, respectively.

For the Organization as a whole, during the year ended December 31, 2017, 58% of contribution revenue was from three donors and 93% of its pledges receivable were from three donors. For 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.

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 1 - Continued

WA STEM - During the year ended December 31, 2017, 78% of the WA STEM contribution revenue was from two donors and 82% of its pledges receivable was from one donor. For the year ended December 31, 2016, 77% of the Organization's revenue was from two donors and 79% of its pledges receivable were from two donors.

WSOS - During the year ended December 31, 2017, 99% of the WSOS pledges receivable balance was from two donors. There were no concentrations in WSOS contribution revenue for the year.

Project Pilgrimage - During the year ended December 31, 2017, 70% of Project Pilgrimage contribution revenue was from two donors, and 80% of Project Pilgrimage pledges receivable were from two donors. During the year ended December 31, 2016, 87% of Project Pilgrimage contribution revenue was from one donor, and approximately 100% of Project Pilgrimage pledges receivable was from one donor.

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 statements 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.

Subsequent Events - The Organization has evaluated subsequent events through March 23, 2018, the date on which the financial statements were available to be issued. See Note 12.

Note 2 - Pledges Receivable

Pledges receivable were as follows at December 31:

	Washington STEM	WSOS	Project Pilgrimage	Total 2017	Total 2016
Pledges receivable expected in:					
Less than one year	\$ 1,812,500	\$ 6,635,050	\$ 94,600	\$ 8,542,150	\$ 2,829,000
One to five years	3,162,500	7,500,000	256,800	10,919,300	701,500
More than five years					400,000
	4,975,000	14,135,050	351,400	19,461,450	3,930,500
Present value discount	(51,819)	(61,738)	(5,732)	(119,289)	(33,560)
Pledges Receivable	\$ 4,923,181	\$ 14,073,312	\$ 345,668	\$ 19,342,161	\$ 3,896,940

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 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 between 0.12% and 1.2% at December 31, 2017. An allowance for uncollectible pledges was not considered necessary at December 31, 2017 and 2016.

The Project Pilgrimage program had a \$900,000 pledge receivable due from an individual donor at December 31, 2016. The payment schedule was over a 10-year period; however, the donor paid the balance in full during 2017.

From time to time, the Organization receives contributions from its board members. Contributions from WA STEM board members totaled \$15,362 and \$31,050 for the years ended December 31, 2017 and 2016, respectively. Contributions from WSOS board members totaled \$50,233 for the year ended December 31, 2017. Pledges outstanding from WA STEM board members totaled \$200,000 and \$325,000 at December 31, 2017 and 2016, respectively. Pledges outstanding from WSOS board members totaled \$10,000,000 at December 31, 2017.

Note 3 - Investments - WSOS

Investments as presented in the statements of financial position consisted of the following at December 31, 2017:

Cash and cash equivalents	\$ 29,622,194
Fixed income	
US treasury securities	13,900,000
US government bonds	3,489,850
Corporate bonds	2,698,944
Commingled equity index funds	44,571,789
Commingled intermediate credit	<u>21,958,809</u>
Total Investments	<u>\$ 116,241,586</u>

There were no investments held by the Organization at December 31, 2016, and all investments held at December 31, 2017 relate to the WSOS program.

The Organization Board and the WSOS Board approve the investment policies for WSOS investments, which were sourced from both private and public funds. These investment policies are guided by and are designed to comply with various State policies which govern the investment of State funds. All WSOS long-term investments are managed by the Washington State Investment Board (WSIB) as of December 31, 2017. The investment allocation is reviewed periodically based on program spending forecasts and other considerations.

Investment return is classified as follows for the year ended December 31, 2017:

Interest and dividends	\$ 294,351
Realized and unrealized gains	7,737,543
Investment fees	<u>(66,683)</u>
Total Investment Return, Net	<u>\$ 7,965,211</u>

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 4 - Fair Value Measurements

Valuation Techniques - U.S. GAAP provides a consistent model for determining fair value measurements for financial assets and liabilities and identifies three levels of inputs that are available for measuring fair value. Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

Cash and Cash Equivalents - Valued at cost, which approximates fair value.

Fixed Income Securities - Fixed income securities are valued using bid valuations from similar instruments in actively quoted markets.

Investments Measured at NAV - Includes commingled investment funds with securities measured at net asset value by WSIB.

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis were as follows at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 29,622,194	\$ -	\$ -	\$ 29,622,194
Fixed income				
US treasury securities	13,900,000			13,900,000
US government bonds		3,489,850		3,489,850
Corporate bonds		2,698,944		2,698,944
Total Investments in the Fair Value Hierarchy	\$ 43,522,194	\$ 6,188,794	\$ -	49,710,988
Investments measured at NAV				66,530,598
Total Investments at Fair Value at December 31, 2017				\$ 116,241,586

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 4 - Continued

In accordance with ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items in the statements of financial position.

The Organization's investments that are measured at their NAV per share practical expedient consist of commingled equity index funds, and commingled intermediate credit funds. There are no limitations on redemption amounts or frequency.

Note 5 - Furniture, Fixtures and Equipment

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

	Washington STEM	WSOS	Total 2017	Total 2016
Office equipment	\$ 108,861	\$ 9,231	\$ 118,092	\$ 101,089
Furniture and fixtures	16,967	14,294	31,261	16,967
Leasehold improvements	4,768		4,768	4,768
	130,596	23,525	154,121	122,824
Less accumulated depreciation	(60,047)	(3,181)	(63,228)	(35,162)
Furniture, Fixtures and Equipment, Net	\$ 70,549	\$ 20,344	\$ 90,893	\$ 87,662

Note 6 - Scholarship Commitments Liability

The WSOS program awards scholarships to qualifying students who pursue four-year degrees in STEM majors at various institutions of higher education in the state, beginning as early as freshman year and continuing through graduation, which may be in year five or six, subject to various restrictions. Scholarship commitments outstanding for this program are as follows at December 31, 2017:

Expected to be paid in:

2018	\$ 11,010,058
2019 through 2022	18,276,699
Total scholarship commitments	29,286,757
Less discounts to present value (rates of 2 - 3%)	(2,494,178)
Scholarship Commitments, Net	\$ 26,792,579

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 7 - Temporarily Restricted Net Assets

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

	Washington STEM	WSOS	Project Pilgrimage	Total 2017	Total 2016
Time restricted	\$ 4,198,181	\$ -	\$ -	\$ 4,198,181	\$ 2,650,322
Purpose restricted	1,554,346	78,834,513	2,355,746	82,744,605	1,384,029
Accumulated earnings on endowment		4,112,313		4,112,313	
Total Temporarily Restricted Net Assets	\$ 5,752,527	\$ 82,946,826	\$ 2,355,746	\$ 91,055,099	\$ 4,034,351

Note 8 - Permanently Restricted Net Assets - WSOS Endowment

At December 31, 2017, permanently restricted net assets consisted of one scholarship endowment fund for the WSOS program's endowment, earnings from which are to provide assistance to undergraduate students enrolled in baccalaureate institutions. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of the Organization has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of original gifts to the endowment as of the gift date, absent explicit donor stipulations to the contrary. As a result of this determination, the Organization classifies as permanently restricted net assets (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 the Organization in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Organization 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 the Organization 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 the Organization; and
- The investment policies of the Organization.

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 8 - Continued

Changes to the endowment fund were as follows for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2017	\$ -	\$ -	\$ -	\$ -
Transfer from WSOS to WA STEM		1,454,430	25,000,000	26,454,430
Endowment investment return-				
Interest and dividends		73,690		73,690
Realized and unrealized gains		2,584,193		2,584,193
Total endowment investment return		2,657,883		2,657,883
Endowment Net Assets, December 31, 2017	\$ -	\$ 4,112,313	\$ 25,000,000	\$ 29,112,313

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2017.

Return Objectives and Risk Parameters - The Organization has adopted investment 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. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, and guided by various state policies that govern investment of state funds, the endowment assets are invested in permissible funds to produce results that are measured against standard benchmarks while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5.5% annually. 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 Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Organization, including the WSOS Board of Directors, has implemented a practice of deferring all expenditures from the endowment fund, including for scholarships, for the immediate future.

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 9 - Office Space Agreements

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 has been subsequently amended several times. As of December 31, 2017, the agreement extends through September 30, 2018, plus two options to extend for one additional year each. Subsequent to year end, the Organization notified the lessor of its intent to exercise the first of the two available extension options, which extends the term through September 30, 2019 and adds additional office space.

Effective February 1, 2017, the Organization leased office space for the WSOS program. 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 each of these agreements for future years are as follows:

	Related Party Office License	WSOS Office Lease	Total
For the year ending:			
2018	\$ 167,038	\$ 51,905	\$ 218,943
2019	127,904	54,005	181,909
2020		56,050	56,050
2021		69,145	69,145
2022		5,860	5,860
Total Future Minimum License Payments	<u>\$ 294,942</u>	<u>\$ 236,965</u>	<u>\$ 531,907</u>

Facilities expense incurred under the related party office license agreement totaled \$148,694 and \$133,938 for the years ended December 31, 2017 and 2016, respectively. Facilities expense incurred under the WSOS leased office space totaled \$50,407 for the year ended December 31, 2017.

Note 10 - 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 may also elect to make discretionary contributions to participants pending board approval; however, no such contributions were made for the years ended December 31, 2017 or 2016.

WASHINGTON STEM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 10 - Continued

The Organization's matching contributions to the Plan are as follows for the years ended December 31:

	<u>WA STEM</u>	<u>WSOS</u>	<u>Total 2017</u>	<u>Total 2016</u>
Total Matching Contributions	\$ 104,513	\$ 36,980	\$ 141,493	\$ 87,872

Note 11 - Washington State Opportunity Scholarship Program

Below is a summary of WSOS assets, liabilities and net assets transferred for administration by WA STEM at January 31, 2017:

Assets:	
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>
Liabilities:	
Scholarship liabilities	\$ 21,790,028
Other liabilities	<u>70,197</u>
Total Liabilities	21,860,225
Net Assets:	
Temporarily restricted net assets	81,085,519
Permanently restricted net assets	<u>25,000,000</u>
Total Net Assets	<u>106,085,519</u>
Total Liabilities and Net Assets	<u>\$ 127,945,744</u>

The balances reported on the previous administrator's audited financial statements for the transfer of the WSOS program as of January 31, 2017 reported different totals by restriction for net assets. The variance consisted of a \$95,048 classification between temporarily restricted net assets and permanently restricted net assets. Total net assets of \$106,085,519 were transferred as reported in the previous administrator's report.

Note 12 - Subsequent Events

By mutual agreement, the fiscal sponsor agreement between Project Pilgrimage and the Organization will be terminated as of April 30, 2018. The program and all of its assets, liabilities, and net assets as of that date will be transferred to a new fiscal sponsor.

SUPPLEMENTARY INFORMATION

WASHINGTON STEM

Schedule of Functional Expenses - WA STEM Program For the Year Ended December 31, 2017

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Grants and investments	\$ 1,295,640	\$ -	\$ -	\$ -	\$ 1,295,640
Salaries, taxes and benefits	1,606,362	696,793	588,034	1,284,827	2,891,189
Consultants and professional services	581,161	188,304	19,227	207,531	788,692
Convenings, conferences and travel	303,154	22,035	24,394	46,429	349,583
Operating costs	169,938	197,796	62,637	260,433	430,371
Total Expenses for WA STEM, Excluding WSOS and Project Pilgrimage Programs	3,956,255	1,104,928	694,292	1,799,220	5,755,475
Less costs incurred under fiscal sponsor agreements	(4,450)	(395,357)		(395,357)	(399,807)
Total Expenses for WA STEM, Excluding WSOS and Project Pilgrimage Programs, Net of Costs Incurred Under Fiscal Sponsor Agreements	\$ 3,951,805	\$ 709,571	\$ 694,292	\$ 1,403,863	\$ 5,355,668

See independent auditor's report.

WASHINGTON STEM

Schedule of Functional Expenses - Washington State Opportunity Scholarship Program For the Year Ended December 31, 2017

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Scholarships	\$ 16,786,651	\$ -	\$ -	\$ -	\$ 16,786,651
Salaries, taxes and benefits	895,063	98,532	318,616	417,148	1,312,211
Consultants and professional services	475,269	394,632	49,564	444,196	919,465
Convenings, conferences and travel	188,743	2,186	97,461	99,647	288,390
Operating costs	539,860	8,317	121,932	130,249	670,109
Total Expenses for WSOS Program	<u>\$ 18,885,586</u>	<u>\$ 503,667</u>	<u>\$ 587,573</u>	<u>\$ 1,091,240</u>	<u>\$ 19,976,826</u>

See independent auditor's report.

WASHINGTON STEM**Schedule of Functional Expenses - Project Pilgrimage Program
For the Year Ended December 31, 2017**

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Consultants and professional services	\$ 180,408	\$ 36,000	\$ -	\$ 36,000	\$ 216,408
Convenings, conferences and travel	198,441				198,441
Operating costs	16,715				16,715
Total Expenses for Project Pilgrimage Program	\$ 395,564	\$ 36,000	\$ -	\$ 36,000	\$ 431,564

See independent auditor's report.