



February 28, 2014

Board of Governors
The Evergreen State College Foundation
Olympia, WA

We have audited the financial statements of The Evergreen State College Foundation as of and for the year ended June 30, 2013, and have issued our report thereon dated February 28, 2014. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 3, 2013, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of The Evergreen State College Foundation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

A PROFESSIONAL CORPORATION • CERTIFIED PUBLIC ACCOUNTANTS
www.frostco-cpa.com

824 STATE AVENUE NORTHEAST
POST OFFICE BOX 7609
OLYMPIA, WASHINGTON 98507
TELEPHONE (360) 786-8080 • FAX (360) 786-5627

2412 NORTH 30th STREET, SUITE 201
TACOMA, WASHINGTON 98407
TELEPHONE (253) 272-1555
FAX (253) 272-7051

601-108th AVENUE NORTHEAST, SUITE 1900
BELLEVUE, WASHINGTON 98004
TELEPHONE (425) 990-6446
FAX (425) 943-6801

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by The Evergreen State College Foundation is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year the Foundation adopted ASC 2011-04 as follows:

In May, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04).

The ASU expands fair value disclosure requirements and requires that for fair value measurements categorized within Level 3 of the fair value hierarchy, entities to provide certain quantitative information about significant unobservable inputs used in fair value. However, reporting entities that use net asset value (or unit value) as a practical expedient to determine the fair value of investments are not required to provide quantitative disclosures about unobservable inputs and assumptions for those investments even though they may be Level 3 fair value measurements. The FASB indicated that "disclosures about the fair value of those assets and liabilities that are subject to the practical expedient and categorized within Level 3 of the fair value hierarchy would not be meaningful for such instruments because the determination of the level in the hierarchy is made on the basis of the reporting entity's ability to redeem its investment, rather than on the basis of whether the inputs used in the measurement are observable or unobservable." Since the Foundation's investments in the CEF are valued using net asset value as a practical expedient, this ASU did not have a material affect on its financial statements.

There have been no changes in significant accounting policies or their application during the fiscal year 2013. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the fair value of investments in the CEF and determination of the quid-pro-quo.

Management's estimate of the fair value of its investments in the CEF is based on the estimated fair value of a CEF unit, which represents the fair value of the fund's net assets and does not include any adjustments. The fair value of the fund's net assets is based on quotations for debt and equity securities in the fund with readily determinable fair values, and for alternative investment which are not readily marketable, estimated fair values are determined by the investment managers for the respective investments. We evaluated the key factors and assumptions used to develop the fair value of the unit value and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting The Evergreen State College Foundation's financial statements relate to:

- Fair value of the CEF

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The Foundation did not discount its long-term pledge receivable. As a result, pledge receivable and contribution income was overstated by \$28,418. The effect in the misstatement, as determined by management, is immaterial to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- \$42,105 transfer from Endowment Fund to Unrestricted Fund for 5% endowment fee not recorded in prior year
- \$82,253 to record 5% endowment fee for current year

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to The Evergreen State College Foundation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated February 28, 2014.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with The Evergreen State College Foundation, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as The Evergreen State College Foundation's auditors.

This report is intended solely for the information and use of the Board of Governors, audit committee, and management of The Evergreen State College Foundation and is not intended to be and should not be used by anyone other than these specified parties.

FROST & COMPANY, P.S.

Frost & Company, P.S.

THE EVERGREEN STATE COLLEGE FOUNDATION

FINANCIAL REPORT

JUNE 30, 2013

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets.....	3
Statements of Functional Expenses.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-16

THE EVERGREEN STATE COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	ASSETS	
	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,780,880	\$ 2,721,629
Investments	601,406	350,891
Unconditional promises to give, current	940,894	965,366
Other receivables (Due from College)	215	4,200
	4,323,395	4,042,086
OTHER ASSETS		
Investments	6,845,361	5,386,927
Long-term unconditional promises to give, net	361,250	566,844
	7,206,611	5,953,771
	Total Assets	Total Assets
	\$ 11,530,006	\$ 9,995,857
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Accounts Payable	\$ 18,346	\$ 14,349
Payable to College	186,754	243,419
	205,100	257,768
	Total Current Liabilities	Total Current Liabilities
ANNUITY PAYMENT LIABILITY	12,416	13,058
	Total Liabilities	Total Liabilities
	217,516	270,826
NET ASSETS		
Unrestricted	1,218,989	1,042,955
Temporarily Restricted	4,666,986	4,832,392
Permanently Restricted	5,426,515	3,849,684
	11,312,490	9,725,031
	Total Net Assets	Total Net Assets
	\$ 11,530,006	\$ 9,995,857

The accompanying notes are an integral part of these financial statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013</u>	<u>2012</u>
SUPPORT AND REVENUES					
Gifts and contributions	\$ 365,570	\$ 456,517	\$ 1,823,523	\$ 2,645,610	\$ 2,625,948
In-kind support from College	950,951	-	-	950,951	1,266,294
Investment income <loss>	5,183	692,281	-	697,464	(48,083)
Change in value of split-interest agreement	-	(2,392)	-	(2,392)	(2,376)
Gift fees	82,253	-	-	82,253	42,105
Reclassifications and transfers	246,692	-	(246,692)	-	-
Net assets released from restrictions	1,311,812	(1,311,812)	-	-	-
Total support and revenues	<u>2,962,461</u>	<u>(165,406)</u>	<u>1,576,831</u>	<u>4,373,886</u>	<u>3,883,888</u>
EXPENSES					
Program services:					
Grants and scholarships	1,148,571	-	-	1,148,571	1,387,237
Other College support	634,803	-	-	634,803	639,036
Total program services	<u>1,783,374</u>	<u>-</u>	<u>-</u>	<u>1,783,374</u>	<u>2,026,273</u>
Support Services:					
Management and General	589,223	-	-	589,223	411,070
Fundraising	413,830	-	-	413,830	887,819
Total support services	<u>1,003,053</u>	<u>-</u>	<u>-</u>	<u>1,003,053</u>	<u>1,298,889</u>
Total expenses	<u>2,786,427</u>	<u>-</u>	<u>-</u>	<u>2,786,427</u>	<u>3,325,162</u>
Increase (decrease) in net assets	<u>176,034</u>	<u>(165,406)</u>	<u>1,576,831</u>	<u>1,587,459</u>	<u>558,726</u>
NET ASSETS					
Beginning of year	1,042,955	4,832,392	3,849,684	9,725,031	9,166,305
Ending Net Assets	<u>\$ 1,218,989</u>	<u>\$ 4,666,986</u>	<u>\$ 5,426,515</u>	<u>\$ 11,312,490</u>	<u>\$ 9,725,031</u>

The accompanying notes are an integral part of these financial statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	Program Services			Support Services			2012 Totals
	Grants and Scholarships	Other College Support	Total Programs	Management and General	Fundraising	Total Support Services	
Grants and allocations	\$ 1,148,571	\$ -	\$ 1,148,571	\$ -	\$ -	\$ -	\$ 1,148,571
In-kind management services	-	77,909	77,909	370,144	341,166	711,310	789,219
In-kind supplies and equipment use	-	14,180	14,180	70,901	56,721	127,622	141,802
Food	-	52,056	52,056	29,463	-	29,463	81,519
Purchased services	-	18,139	18,139	18,955	-	18,955	37,094
Accounting	-	-	-	19,000	-	19,000	19,000
Printing and publications	-	9,708	9,708	-	-	-	9,708
Supplies	-	39,352	39,352	2,610	-	2,610	41,962
Travel	-	12,031	12,031	5,277	-	5,277	17,308
In-kind rent(space)	-	1,993	1,993	1,993	15,943	17,936	19,929
Salaries, wages and benefits	-	362,328	362,328	50,000	-	50,000	412,328
Rental and fees	-	14,016	14,016	11,784	-	11,784	25,800
Postage and shipping	-	3,895	3,895	938	-	938	4,833
Miscellaneous	-	29,196	29,196	8,158	-	8,158	37,354
	<u>\$ 1,148,571</u>	<u>\$ 634,803</u>	<u>\$ 1,783,374</u>	<u>\$ 589,223</u>	<u>\$ 413,830</u>	<u>\$ 1,003,053</u>	<u>\$ 2,786,427</u>
							<u>\$ 3,325,162</u>

The accompanying notes are an integral part of these financial statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,587,459	\$ 558,726
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long term purposes	(1,823,523)	(588,157)
Bad Debts	(50,000)	-
Donated marketable securities	(97,216)	(29,445)
Investment Income added to investments	(222,412)	(210,703)
Unrealized (gains) losses on investments and change in value of split interest agreements	(467,756)	269,104
(Increase) decrease in unconditional promises to give	100,000	219,992
(Increase) decrease in other current assets	3,985	(2,502)
(Increase) decrease in accounts payable	3,997	459
Decrease in payable to College and employees	(56,665)	(31,275)
Net cash provided (used) by operating activities	<u>(1,022,131)</u>	<u>186,199</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	-	261,794
Proceeds from sale of donated stock	95,581	28,631
Purchases of investments	(1,014,753)	(698,000)
Net cash used by investing activities	<u>(919,172)</u>	<u>(407,575)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	2,003,589	588,157
Payment of annuity obligations	(3,035)	(3,035)
Net cash provided by financing activities	<u>2,000,554</u>	<u>585,122</u>
 Net increase in cash and cash equivalents	59,251	363,746
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,721,629</u>	<u>2,357,883</u>
 End of year	<u>\$ 2,780,880</u>	<u>\$ 2,721,629</u>

The accompanying notes are an integral part of these financial statements

THE EVERGREEN STATE COLLEGE FOUNDATION NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Evergreen State College Foundation (Foundation) is a not-for-profit corporation organized under the laws of the State of Washington for the charitable and the educational benefit of The Evergreen State College (the College). The Foundation was organized to function exclusively for the purposes of promoting, supporting, maintaining, developing, increasing and extending educational offerings, and the pursuit thereof, in connection with the College.

A summary of the Foundation's significant accounting policies follows:

Basis of Presentation

The accompanying financial statements are presented using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The net assets, revenues, gains and losses, and other support and expenses in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Foundation and changes therein are classified as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. They are available to support the Foundation's operations. Included within these net assets are board designated net assets which are to be used for specific purposes but may, at the board's discretion, subsequently be used for other purposes.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Permanently Restricted Net Assets

Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or a part of the income earned on any related investments for general or specific purposes.

Contributions

Contributions received whose donor-imposed restrictions are met within the same reporting period are reported as increases in unrestricted net assets. Temporarily restricted net assets are available for the purpose of scholarship and academic support. Permanently restricted net assets are restricted to investment in perpetuity; the income from which is expendable to support scholarships and academic program support.

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of a donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional Promises to Give

Contributions, including unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenues in the period received. Unconditional promises to give due in the next year are reported at their net realizable

THE EVERGREEN STATE COLLEGE FOUNDATION NOTES TO FINANCIAL STATEMENTS

value. Unconditional promises to give, due in subsequent years are reported on the present value of their net realizable value, using an appropriate discount rate. Amortization of discounts is included in contribution revenue.

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at fair value on the date of the donation. In the absence of any stipulations, contributions of property and equipment are recorded as unrestricted support.

Donated Materials and Services

Donated materials and services are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of receipt. Contributed services are recognized if they require specialized skills that would have been purchased had they not been contributed.

Cash and Cash Equivalents

For purposes of reporting of the statements of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The Foundation maintains its cash and cash equivalents accounts at financial institutions in amounts, in which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

Investments

The Foundation maintains most of its investments in a pooled fund managed by the University of Washington in its Consolidated Endowment Fund (CEF). The University of Washington CEF had a fair value of \$2,346,693,014 as of June 30, 2013 consisting of 28,898,083 units valued at \$81.206 per unit. The Foundation owns 80,298 units valued at \$6,594,888 as of June 30, 2013. Asset allocation of the CEF at June 30, 2013 was as follows:

Emerging Markets Equity	18%
Developed Markets Equity	45%
Real Assets	7%
Opportunistic	4%
Absolute Return	17%
Fixed Income	9%

The fair value of the CEF is based on a per unit valuation, which is based on the estimated fair value of the underlying investments. The fair value of debt and equity securities with a readily determinable fair value is based on quotations from national securities exchanges. The alternative investments, which are not readily marketable, are carried at the estimate fair values provided by the investment managers. The estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed. The Foundation also has time certificates of \$250,000 or less at various local banks and credit unions. Interest-bearing deposits and investments in the CEF are carried at market value with the annual change in market value recorded as "Investment income" in the statements of activities.

The percentage participation allocation method is used to allocate all investment income, including realized and unrealized gains and losses, to the various funds based on a percentage of interest in the pooled investment.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. The fair value hierarchy

THE EVERGREEN STATE COLLEGE FOUNDATION NOTES TO FINANCIAL STATEMENTS

prioritizes the inputs used to measure fair value into three broad levels. The three levels of the fair value hierarchy are defined as follows:

Level 1- Inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.

Level 3- Unobservable inputs for the asset or liability that reflect management's own assumptions about the assumptions that market participants would use in pricing the asset or liability as of the reporting date.

Credit Risk

The Foundation's investments consist of financial instruments including interest-bearing deposits, and investments in the CEF. These financial instruments may subject the Foundation to concentrations of credit risk, and from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. Management believes the risk with respect to the balances is minimal, due to the high credit rating of the institutions used.

Market Risk

The Foundation is subject to market risk, foreign currency risk, and interest rate risk with respect to its investment portfolio. To manage these risks, the Foundation has an investment policy designed to provide optimal return within reasonable risk tolerances.

Split-Interest Agreements

Under these agreements, donors initially make gifts directly to the Foundation. The Foundation has beneficial interest, and records an asset related to the agreements at fair market value and also records liability related to the split-interest agreement equal to the present value of the expected future benefit distributions. The discount rate applied is 7.5%.

Federal Income Taxes

The Foundation is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. Income from certain activities not directly related to the Foundation's tax-exempt purpose would be subject to taxation as unrelated business income. The Foundation did not engage in any activity unrelated to its tax-exempt purpose; accordingly, no provision for income taxes is included in the accompanying financial statements. In accordance with requirements related to accounting for uncertainties in income taxes, the Foundation has determined they have no uncertain tax positions at June 30, 2013 and 2012. The fiscal years ended June 30, 2012, 2011 and 2010 remain open for examination by taxing authorities.

Financial Statement Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if applicable, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Functional Expenses

In order to provide information in regards to service efforts, the cost of providing each of the Foundation's programs have been presented on a functional basis. In order to provide this presentation, certain costs were required to be allocated among programs and supporting services benefited. The cost of providing the various programs and other

THE EVERGREEN STATE COLLEGE FOUNDATION NOTES TO FINANCIAL STATEMENTS

activities have been summarized on a functional basis in the statements of activities and in more detail in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Related Parties

The Foundation has a quid pro quo agreement with the College. The College provides personnel, including management, accounting and clerical support. The College also provides office space and various other non personnel costs to the Foundation.

Fund Raising

Fund-raising expenses include costs to solicit donations through annual giving, major giving, planned giving, and corporation and Foundation giving.

Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

New Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*," to converge the guidance in U.S. generally accepted accounting principles (GAAP) and IFRS on fair value measurements and disclosures. The amendments that clarify several aspects of the guidance in FASB *Accounting Standards Codification (ASC) 820* include the application of the highest and best use and valuation premise concepts. The amendments require new disclosures, including information about the valuation techniques and unobservable inputs used in Level 3 measurements and a description of the sensitivity to changes in unobservable inputs, use of a nonfinancial asset in a way that differs from the asset's highest and best use, and categorization by level of items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. The new guidance did not have a significant impact on the Foundation's financial statements, and any required additional disclosures are included in the footnotes.

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires not-for-profit entities to classify cash receipts from the "nearly immediate" sale of donated financial assets as an operating activity in the consolidated statement of cash flows when received with no donor-imposed restrictions. When the donor has restricted the use of the cash receipts from the sale of donated financial assets, classification as a financial activity would be required. When financial assets are not "nearly immediately" sold, classification as an investing activity would be appropriate. The amendments in ASU 2012-05 are effective prospectively for fiscal years beginning after June 15, 2013. Management is in the process of evaluating the potential impact this guidance will have on its financial statements.

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958), Services Received from Personnel of an Affiliate*, which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments in the Update are effective

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. Management is in the process of evaluating the potential impact this guidance will have on its financial statements.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 940,894	\$ 965,366
Receivable in one to five years	361,250	566,844
Total Unconditional Promises to Give	<u><u>\$ 1,302,144</u></u>	<u><u>\$ 1,532,210</u></u>

At June 30, 2013 the discount to net realizable value of the unconditional promises to give was not significant.

NOTE 3 – INVESTMENTS

Investments are as follows at June 30:

	<u>2013</u>	<u>2012</u>
Certificates of Deposit	\$ 851,879	\$ 851,065
Investment in the University of Washington's Consolidated Endowment Fund	<u>6,594,888</u>	<u>4,886,753</u>
Total Investments	<u><u>\$ 7,446,767</u></u>	<u><u>\$ 5,737,818</u></u>

Certificates of deposit mature as follows as of June 30:

2013	\$	601,406
2014		<u>250,473</u>
		<u><u>\$ 851,879</u></u>

Investment income <loss>, included on the accompanying statement of activities are as follows for the years ended June 30:

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 225,859	\$ 218,645
Net unrealized gains (losses) on investments	471,605	(266,728)
Total Investment Income <loss>	<u><u>\$ 697,464</u></u>	<u><u>\$ (48,083)</u></u>

NOTE 4 – ENDOWMENTS

The net asset classification of donor restricted endowment funds for a not-for-profit is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Disclosure about endowment funds, both donor-restricted and board designated endowment funds are required.

The Foundation endowment funds include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor imposed restrictions.

The Foundation has interpreted the enacted version of UPMIFA for Washington State and determined that requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, is appropriate. As a result of this interpretation, the Foundation classifies as permanently restricted net assets, a) the original value of the gifts donated to the permanent endowment, b) the original value of subsequent gifts, if any, to the permanent endowment, and c) accumulations to the permanent endowment, as applicable, 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Endowment net asset composition by type of fund as of June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$	\$ 1,414,399	\$ 5,426,515	\$ 6,840,914
	<u>\$</u>	<u>\$ 1,414,399</u>	<u>\$ 5,426,515</u>	<u>\$ 6,840,914</u>

Changes in endowment net assets for the year ended June 30, 2013

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2012	\$ -	\$ 946,616	\$ 3,849,684	\$ 4,796,300
Investment return	-	619,276	-	619,276
Contributions, net of transfers	-	(158,228)	1,576,831	1,418,603
Net assets released	-	6,735	-	6,735
Endowment net assets, June 30, 2013	<u>\$ -</u>	<u>\$ 1,414,399</u>	<u>\$ 5,426,515</u>	<u>\$ 6,840,914</u>
Endowment net asset composition by type of fund as of June 30, 2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 946,616</u>	<u>\$ 3,849,684</u>	<u>\$ 4,796,300</u>
Changes in endowment net assets for the year ended June 30, 2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2011	\$ -	\$ 1,523,000	\$ 3,261,527	\$ 4,784,527
Investment return	-	(55,255)	-	(55,255)
Contributions, net of transfers	-	(57,743)	1,046,782	989,039
Correction of classification	-	(137,905)	(458,625)	(596,530)
Net assets released	-	(183,283)	-	(183,283)
Future disbursements set aside	-	(142,198)	-	(142,198)
Endowment net assets, June 30, 2012	<u>\$ -</u>	<u>\$ 946,616</u>	<u>\$ 3,849,684</u>	<u>\$ 4,796,300</u>

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

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 requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are required to be reported in unrestricted net assets. Deficiencies of this nature were zero and \$3,356 as of June 30, 2013 and 2012, respectively. The prior year deficiency resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Foundation has most of its investments in the University of Washington Consolidated Endowment Fund (CEF), whose objectives are 1) to provide permanent funding for endowed programs, 2) maintain the purchasing power of the CEF after spending and inflation. The objective of preserving purchasing power emphasizes the need to take a long-term perspective in formulating, 3) to provide a predictable and stable source of income for endowed programs, and 4) to provide a maximum level of return consistent with prudent risk levels. This objective assumes the construction of a global, equity-oriented, diversified portfolio coupled with active risk management.

Strategies Employed for Achieving Objectives

To achieve its investment objective, the CEF will be divided into two distinct funds: a “Capital Appreciation Fund” and a “Capital Preservation Fund.” Sub-categories of these Funds each with its own target are also specified. Over the long run, the allocation between and within the Funds may be the single most important determinant of the CEF’s investment performance.

Investment Strategy	Long-term Target	Policy Range
Emerging Markets Equity	18%	
Developed Markets Equity	45%	
Real Assets	7%	
Opportunistic	4%	
CAPITAL APPRECIATION FUND	74%	55%-85%
Absolute Return	17%	
Fixed Income	9%	
CAPITAL PRESERVATION FUND	26%	15%-45%

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distributions each year based on the following allocation:

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

For new endowments, distributions will be phased in to allow growth: zero percent in the year of establishment; two percent in year two based on a two-year rolling average; three percent in year three based on a three-year rolling average; five percent in the fourth year based on a four-year rolling average; and five percent based on a five-year rolling average thereafter. The Finance and Investment Committee in a given year may recommend reduced payout rates for that year.

Any scholarship endowment fund that would pay out less than \$1,000 in a year will not be distributed to allow time to build a level commensurate with student needs and staff and scholarship reader resources required for processing applications.

In establishing these policies, the Foundation considered the expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate consistent with the consumer price index. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 5 – FAIR VALUE OF FINANCIAL MEASUREMENTS

The Foundation has determined the fair value of certain assets and liabilities through the application of FASB ASC 820-10 *Fair Value Measurements*.

Fair Value of assets measured on a recurring basis at June 30 are as follows:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 851,879	\$ -	\$ 851,879
Investment in the University of Washington's Consolidated Endowment Fund	-	6,594,888	-	6,594,888
	<u>\$ -</u>	<u>\$ 7,446,767</u>	<u>\$ -</u>	<u>\$ 7,446,767</u>
Total investments				

Year Ended June 30, 2012

	Quoted Market Prices in Active Markets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Unobservable Inputs <u>(Level 3)</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 851,065	\$ -	\$ 851,065
Investment in the University of Washington's Consolidated Endowment Fund	-	4,886,753	-	4,886,753
	<u>\$ -</u>	<u>\$ 5,737,818</u>	<u>\$ -</u>	<u>\$ 5,737,818</u>
Total investments				

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CHARITABLE GIFT ANNUITIES

Certain donors have entered into charitable gift annuity agreements with the Foundation under which the Foundation received certain assets. The assets were recorded at their fair market value on the date of receipt and are included in the general investments of the Foundation. In consideration of the assets received, the Foundation is required to pay quarterly installments to the donor over the donor's life. These installment payments totaled \$3,035 for the year ended June 30, 2013 and \$3,035 for the year ended June 30, 2012. The charitable gift annuity obligation is recorded at the present value of the future cash flows expected to be paid based on the life expectancy of the donors discounted at the applicable rate as specified in the agreements. The charitable gift annuity obligation totaled \$12,416 and \$13,058 as of June 30, 2013 and 2012, respectively. In 2009, the Foundation purchased a certificate of deposit with a face value of \$100,000 for the purpose of satisfying the requirement to pledge assets for its annuity obligation. This certificate is renewed annually.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Foundation owed the College \$186,754 and \$243,419 as of June 30, 2013 and 2012, respectively. The majority of the amount due is related to pass-thru grants.

The Foundation receives substantial contributed support services under an agreement with the College. These services are included in both support and revenues and also in expenses on the accompanying Statements of Activities and Changes in Net Assets. See Note 11 for additional in-kind support information.

NOTE 8 – RELEASE OF NET ASSETS

Net assets of \$1,516,399 and \$1,549,915 were released from donor restrictions for the years ended June 30, 2013 and 2012, respectively, by incurring expenses satisfying the restricted purposes or by the occurrences of other events specified by the donors.

NOTE 9 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for programs and scholarships at June 30, 2013 and 2012 and total \$4,666,986 and \$4,832,392, respectively.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following:

	<u>2013</u>	<u>2012</u>
Programs and scholarships	\$ 5,312,325	\$ 3,735,494
Library	114,190	114,190
Total Restricted Net Assets	<u>\$ 5,426,515</u>	<u>\$ 3,849,684</u>

NOTE 10 – CONCENTRATIONS

Major Donor

During the years ended June 30, 2013 and 2012, 41% and 37%, respectively, of total gifts and contributions were from one donor.

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – IN-KIND SUPPORT

The Foundation receives substantial contributed support services under an agreement with the College. These services are included in both support and revenues and also in expenses on the accompanying statements of activities and changes in net assets. In addition, the Foundation receives in-kind donations from individuals and corporations, which are included in gifts and contributions and also as expenses on the statements of activities.

Donated materials and services are as follows for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Art Work	\$ 50,400	\$ 24,384
Materials	<u>8,581</u>	<u>6,896</u>
Total in-kind support from individuals and corporate donors	60,994	33,292
<u>From the College:</u>		
Management services	789,219	1,108,514
Rent	19,929	29,746
Supplies and equipment usage	<u>141,803</u>	<u>128,034</u>
Total in-kind support from the College	950,951	1,266,294
Total in-kind support	<u>\$ 1,011,945</u>	<u>\$ 1,299,586</u>

NOTE 12 – LEASES

The Foundation has a long-term operating lease for a vehicle expiring in May 2014. Lease expense totaled \$4,236 and \$5,160 for the years ended June 30, 2013 and 2012, respectively. Minimum lease payments required for 2014 is \$3,530.

NOTE 13 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 27, 2014 the date on which the financial statements were available to be issued.

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

During the years ended June 30, 2013 and 2012, 41% and 37%, respectively, of total gifts and contributions were from one donor.

NOTE 11 – IN-KIND SUPPORT

The Foundation receives substantial contributed support services under an agreement with the College. These services are included in both support and revenues and also in expenses on the accompanying statements of activities and changes in net assets. In addition, the Foundation receives in-kind donations from individuals and corporations, which are included in gifts and contributions and also as expenses on the statements of activities.

Donated materials and services are as follows for the years ended June 30:

Art Work	\$ 50,400	\$ 24,384
Materials	<u>8,581</u>	<u>6,896</u>
Total in-kind support from individuals and corporate donors	58,981	31,280
<u>From the College:</u>		
Management services	789,219	1,108,514
Rent	19,929	29,746
Supplies and equipment usage	<u>141,803</u>	<u>128,034</u>
Total in-kind support from the College	950,951	1,266,294
Total in-kind support	<u>\$ 1,009,932</u>	<u>\$ 1,297,574</u>

NOTE 12 – LEASES

The Foundation has a long-term operating lease for a vehicle expiring in May 2014. Lease expense totaled \$4,236 and \$5,160 for the years ended June 30, 2012 and 2011, respectively. Minimum lease payments required for 2013 is \$4,236 and \$3,530 for 2014.

NOTE 13 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 27, 2014 the date on which the financial statements were available to be issued.