



THE EVERGREEN STATE COLLEGE FOUNDATION



ANNUAL REPORT 2016 • 2017



**FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

February 22, 2018

Board of Governors
The Evergreen State College Foundation
Olympia, Washington

We have audited the accompanying financial statements of *The Evergreen State College Foundation*, which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *The Evergreen State College Foundation* as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Smith & Associates
Smith & Associates
Olympia, Washington

THE EVERGREEN STATE COLLEGE FOUNDATION
Statement of Financial Position
Year Ended June 30, 2017

ASSETS

| | 2017 | 2016 |
|--|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash, including restricted cash | \$ 3,078,398 | \$ 1,970,977 |
| Investments | 249,538 | 345,000 |
| Beneficial interest in lead trust | 150,000 | 150,000 |
| Unconditional promises to give, current | 357,230 | 386,126 |
| Total Current Assets | 3,835,166 | 2,852,103 |
| OTHER ASSETS | | |
| Certificate of deposit | - | |
| Investments | 14,273,546 | 12,822,709 |
| Beneficial interest in lead trust | 1,633,127 | 1,737,771 |
| Long-term unconditional promises to give | 180,857 | 387,109 |
| Total Other Assets | 16,087,530 | 14,947,589 |
| Total Assets | \$ 19,922,696 | \$ 17,799,691 |

LIABILITIES AND NET ASSETS

| | | |
|---|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 14,381 | \$ 16,179 |
| Payable to College | 314,670 | 155,023 |
| Total Current Liabilities | 329,051 | 171,202 |
| ANNUITY PAYMENT LIABILITY | | |
| Total Liabilities | 10,036 | 10,596 |
| Total Liabilities | 339,087 | 181,798 |
| NET ASSETS | | |
| Unrestricted | 1,904,757 | 1,670,987 |
| Temporarily Restricted | 8,565,556 | 7,125,997 |
| Permanently Restricted | 9,113,296 | 8,820,910 |
| Total Net Assets | 19,583,609 | 17,617,894 |
| Total Liabilities and Net Assets | \$ 19,922,696 | \$ 17,799,692 |

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

THE EVERGREEN STATE COLLEGE FOUNDATION
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2017 | 2016 |
|---|---------------------|---------------------------|---------------------------|----------------------|----------------------|
| SUPPORT AND REVENUES | | | | | |
| Gifts and contributions | \$ 262,033 | \$ 2,657,568 | \$ 230,115 | \$ 3,149,716 | \$ 4,589,975 |
| In-kind support from College | 1,307,136 | - | - | 1,307,136 | 1,307,545 |
| Investment income | 216,168 | 1,348,929 | - | 1,565,097 | (182,180) |
| Change in value of split-interest agreement | - | (2,475) | - | (2,475) | (3,025) |
| Gift fees | 79,538 | - | - | 79,538 | 125,200 |
| Reclassifications and transfers | - | (62,271) | 62,271 | - | (0) |
| Net assets released from restrictions | 2,502,192 | (2,502,192) | - | - | - |
| Total support and revenues | 4,367,067 | 1,439,559 | 292,386 | 6,099,012 | 5,837,515 |
| EXPENSES | | | | | |
| Program services: | | | | | |
| Grants and scholarships | 2,229,074 | - | - | 2,229,074 | 839,820 |
| Other College support | 425,342 | - | - | 425,342 | 670,934 |
| Total program services | 2,654,416 | - | - | 2,654,416 | 1,510,754 |
| Support Services: | | | | | |
| Management and General | 861,088 | - | - | 861,088 | 826,974 |
| Fundraising | 617,793 | - | - | 617,793 | 614,683 |
| Total support services | 1,478,881 | - | - | 1,478,881 | 1,441,657 |
| Total expenses | 4,133,297 | - | - | 4,133,297 | 2,952,411 |
| Increase (decrease) in net assets | 233,770 | 1,439,559 | 292,386 | 1,965,715 | 2,885,105 |
| NET ASSETS | | | | | |
| Beginning of year | 1,670,987 | 7,125,997 | 8,820,910 | 17,617,894 | 14,732,789 |
| Ending Net Assets | \$ 1,904,757 | \$ 8,565,556 | \$ 9,113,296 | \$ 19,583,609 | \$ 17,617,894 |

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

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 | 2015 |
|---|---------------------|------------------------|------------------------|----------------------|----------------------|
| SUPPORT AND REVENUES | | | | | |
| Gifts and contributions | \$ 238,989 | \$ 2,902,438 | \$ 1,448,549 | \$ 4,589,975 | \$ 2,841,981 |
| In-kind support from College | 1,307,545 | - | - | 1,307,545 | 1,226,233 |
| Investment income | (23,148) | (159,032) | - | (182,180) | 628,135 |
| Change in value of split-interest agreement | - | (3,025) | - | (3,025) | (3,070) |
| Gift fees | 125,200 | - | - | 125,200 | 75,823 |
| Reclassifications and transfers | - | (11,775) | 11,775 | - | - |
| Net assets released from restrictions | 1,222,689 | (1,222,689) | - | - | - |
| Total support and revenues | 2,871,275 | 1,505,916 | 1,460,324 | 5,837,515 | 4,769,102 |
| EXPENSES | | | | | |
| Program services: | | | | | |
| Grants and scholarships | 839,820 | - | - | 839,820 | 1,050,231 |
| Other College support | 670,934 | - | - | 670,934 | 646,431 |
| Total program services | 1,510,754 | - | - | 1,510,754 | 1,696,662 |
| Support Services: | | | | | |
| Management and General | 826,974 | - | - | 826,974 | 740,300 |
| Fundraising | 614,683 | - | - | 614,683 | 737,255 |
| Total support services | 1,441,657 | - | - | 1,441,657 | 1,477,555 |
| Total expenses | 2,952,411 | - | - | 2,952,411 | 3,174,217 |
| Increase (decrease) in net assets | (81,136) | 1,505,917 | 1,460,324 | 2,885,105 | 1,594,886 |
| NET ASSETS | | | | | |
| Beginning of year | 1,752,123 | 5,620,080 | 7,360,586 | 14,732,789 | 13,137,903 |
| Ending Net Assets | \$ 1,670,987 | \$ 7,125,997 | \$ 8,820,910 | \$ 17,617,894 | \$ 14,732,789 |

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

THE EVERGREEN STATE COLLEGE FOUNDATION
Statement of Functional Expenses
Year Ended June 30, 2017
(With Comparative Totals for 2016)

| | Program Services | | | Support Services | | | 2016 Totals |
|------------------------------------|-------------------------------|-----------------------------|---------------------|---------------------------|-------------------|---------------------------|---------------------|
| | Grants and Scholarships | Other College Support | Total Programs | Management and General | Fundraising | Total Support Services | |
| Grants and allocations | \$ 2,229,074 | \$ - | \$ 2,229,074 | \$ - | \$ - | \$ - | \$ 839,820 |
| In-kind management services | - | 88,249 | 88,249 | 463,518 | 415,946 | 879,464 | 1,055,705 |
| In-kind supplies and equipment use | - | 31,472 | 31,472 | 157,358 | 125,887 | 283,245 | 222,664 |
| Food | - | 93,035 | 93,035 | 32,498 | 25,863 | 58,361 | 210,995 |
| Purchased services | - | 36,411 | 36,411 | 14,340 | 5,000 | 19,340 | 82,931 |
| Accounting | - | - | - | 16,989 | - | 16,989 | 16,042 |
| Printing and publications | - | 4,300 | 4,300 | 56 | 4,060 | 4,116 | 21,092 |
| Supplies | - | 28,982 | 28,982 | 4,997 | 1,581 | 6,578 | 62,897 |
| Travel | - | 7,827 | 7,827 | 2,765 | 987 | 3,752 | 17,848 |
| In-kind rent (space) | - | 2,471 | 2,471 | 2,471 | 19,764 | 22,235 | 29,176 |
| Salaries, wages and benefits | - | 87,173 | 87,173 | - | - | - | 212,345 |
| Rental and fees | - | 5,460 | 5,460 | 16,776 | - | 16,776 | 30,755 |
| Postage and shipping | - | 1,036 | 1,036 | 11 | 448 | 459 | 1,900 |
| Miscellaneous | - | 38,926 | 38,926 | 149,309 | 18,257 | 167,566 | 148,242 |
| | <u>\$ 2,229,074</u> | <u>\$ 425,342</u> | <u>\$ 2,654,416</u> | <u>\$ 861,088</u> | <u>\$ 617,793</u> | <u>\$ 1,478,881</u> | <u>\$ 2,952,410</u> |
| | | | | | | | <u>\$ 4,133,297</u> |

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

THE EVERGREEN STATE COLLEGE FOUNDATION
Statement of Functional Expenses
Year Ended June 30, 2016
(With Comparative Totals for 2015)

| | Program Services | | | Support Services | | | 2015 | Totals | 2016 | Totals | 2015 | Totals |
|------------------------------------|-------------------------|-----------------------|----------------|------------------------|-------------|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Grants and Scholarships | Other College Support | Total Programs | Management and General | Fundraising | Total Support Services | | | | | | |
| Grants and allocations | \$ 839,820 | \$ - | \$ 839,820 | \$ - | \$ - | \$ - | \$ - | \$ 839,820 | \$ - | \$ 839,820 | \$ - | \$ 1,050,231 |
| In-kind management services | - | 98,588 | 98,588 | 527,260 | 429,857 | 957,117 | 957,117 | 1,055,705 | 1,055,705 | 993,426 | 993,426 | 207,595 |
| In-kind supplies and equipment use | - | 22,266 | 22,266 | 111,332 | 89,066 | 200,398 | 200,398 | 222,664 | 222,664 | 207,595 | 207,595 | 132,215 |
| Food | - | 150,284 | 150,284 | 24,717 | 35,994 | 60,711 | 60,711 | 210,995 | 210,995 | 132,215 | 132,215 | 56,230 |
| Purchased services | - | 63,594 | 63,594 | 12,837 | 6,500 | 19,337 | 19,337 | 82,931 | 82,931 | 19,430 | 19,430 | 9,157 |
| Accounting | - | - | - | 16,042 | - | 16,042 | 16,042 | 21,092 | 21,092 | 65,709 | 65,709 | 8,321 |
| Printing and publications | - | 15,916 | 15,916 | 49 | 5,127 | 5,176 | 5,176 | 62,897 | 62,897 | 17,848 | 17,848 | 25,212 |
| Supplies | - | 57,786 | 57,786 | 4,257 | 854 | 5,111 | 5,111 | 29,176 | 29,176 | 497,939 | 497,939 | 40,794 |
| Travel | - | 11,760 | 11,760 | 5,363 | 725 | 6,088 | 6,088 | 212,345 | 212,345 | 30,755 | 30,755 | 6,372 |
| In-kind rent (space) | - | 2,918 | 2,918 | 2,918 | 23,340 | 26,258 | 26,258 | 1,900 | 1,900 | 148,242 | 148,242 | 61,588 |
| Salaries, wages and benefits | - | 196,541 | 196,541 | - | 15,804 | 15,804 | 15,804 | 2,952,411 | 2,952,411 | 3,174,217 | 3,174,217 | |
| Rental and fees | - | 17,165 | 17,165 | 13,590 | - | 13,590 | 13,590 | | | | | |
| Postage and shipping | - | 1,666 | 1,666 | - | 234 | 234 | 234 | | | | | |
| Miscellaneous | - | 32,450 | 32,450 | 108,609 | 7,183 | 115,792 | 115,792 | | | | | |
| | \$ 839,820 | \$ 670,934 | \$ 1,510,754 | \$ 826,974 | \$ 614,683 | \$ 1,441,657 | \$ 1,441,657 | \$ 2,952,411 | \$ 2,952,411 | \$ 3,174,217 | \$ 3,174,217 | |

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

THE EVERGREEN STATE COLLEGE FOUNDATION

Statement of Cash Flows
Year Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,965,715 | \$ 2,885,105 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Contributions restricted for long term purposes | (292,386) | (1,460,324) |
| Bad Debts | (50) | (6,000) |
| Donated marketable securities | (79,305) | (196,297) |
| Investment Income added to investments | (470,399) | (405,301) |
| Unrealized (gains) losses on investments | (1,094,698) | 594,420 |
| Decrease (Increase) in unconditional promises to give | 235,148 | (68,079) |
| Decrease (Increase) in Split-Interest Agreements | 104,644 | (1,887,771) |
| Decrease in accounts payable | (1,798) | (6,551) |
| Increase in payable to College | 159,647 | 155,023 |
| Net cash provided (used) by operating activities | 526,518 | (395,775) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from CDs | 345,000 | 602 |
| Proceeds from sale of donated stock | 77,267 | 191,781 |
| Purchases of investments | (130,715) | (1,717,025) |
| Net cash provided (used) by investing activities | 291,552 | (1,524,642) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for long-term purposes | 292,386 | 1,480,609 |
| Payment of annuity obligations | (3,035) | (3,025) |
| Net cash provided by financing activities | 289,351 | 1,477,584 |
| Net increase (decrease) in cash and cash equivalents | 1,107,421 | (442,833) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 1,970,977 | 2,413,810 |
| End of year | \$ 3,078,398 | \$ 1,970,977 |

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

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**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 (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.

Gifts and Contributions

Gifts and contributions that have donor-imposed restrictions are listed based on the donor's intent. 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 and contributions 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.

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Unconditional Promises to Give

Contributions, including unconditional promises to give are recognized as revenues in the period received. Unconditional promises to give due within one year are reported at their net realizable value. FASB Statement 116 requires that an Allowance for Uncollectable Pledges be used; however, based on management judgment, past history, and the rare occurrences of pledges not being fulfilled, management has decided not to use an Allowance for Uncollectable Pledges account as any allowance would be immaterial.

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

For purposes of reporting on the statements of cash flows, the Foundation considers all checking accounts as cash, except those held in an investment portfolio. As of June 30, 2017 and 2016, cash totaled \$3,078,398 and \$1,970,977 of which \$1,172,550 and \$270,007 was restricted for donor purposes.

Investments

The Foundation has investments which include certificates of deposits, an investment portfolio with Morgan Stanley and invested funds in the University of Washington's Consolidated Endowment Fund (CEF).

In 2014, the Foundation established an investment portfolio with Morgan Stanley:

| Morgan Stanley | 2017 | 2016 |
|-------------------------|---------------------|---------------------|
| Cash | \$ 469 | \$ 578 |
| Mutual Funds | 153,628 | 328,701 |
| Certificates of Deposit | 912,066 | 704,093 |
| Total | \$ 1,066,163 | \$ 1,033,372 |

Most investments are classified as noncurrent regardless of maturity due to the long-term nature of the portfolio. The estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed.

The annual change in market value of investments is 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.

The Foundation began investing in the University of Washington's Consolidated Endowment Fund in 2003.

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Asset allocation of the CEF at June 30 was as follows:

University of Washington Consolidated Endowment Fund (CEF)

Fair Market Value as of June:

| | 2017 | 2016 |
|-----------------------|------------------|------------------|
| Total Units at U of W | 33,785,914 | 34,527,691 |
| Value per Unit | \$ 93.050 | \$ 85.960 |
| Total value at U of W | \$ 3,143,790,117 | \$ 2,968,000,318 |

TESC Foundation Portion

| | | |
|-------------------------------|---------------|---------------|
| Total Units | 139,966 | 125,584 |
| Value per Unit | \$ 93.050 | \$ 85.960 |
| Total TESC Foundation Portion | \$ 13,023,838 | \$ 10,795,210 |

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 Foundation can redeem units in the CEF at the end of a calendar quarter.

At June 30, 2017 and 2016, an additional \$183,520 and \$994,127 respectively, was held by the University of Washington pending investment purchases.

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 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.

Assets listed at fair market value are listed in the note (*Fair Value of Financial Measurements*).

Credit and Market Risk

The Foundation's investments consist of financial instruments including interest-bearing deposits, and investments in the CEF and with Morgan Stanley. 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.

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Investment securities are exposed to various risks including, but not limited to, interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. 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.

In December 2015, the Foundation became a 50% beneficiary of a Charitable Lead Annuity Trust split-interest agreement. The basis of recognition for the revenue is the present value of the future cash flow for the expected annuity payment.

The Foundation has another agreement that has a liability equal to the present value of the expected future benefit distributions to the donor.

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, 2017 and 2016. The fiscal years ended June 30, 2017, 2016, 2015 and 2014 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

Expenses are charged to program services, fundraising and management and general categories based on direct expenditures incurred. Any expenditure not directly chargeable to a functional expense category is allocated based on labor costs, square footage rates for space, and the cost of shared usage of supplies and equipment.

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 support of the Foundation. The services provided without cost are recognized as in-kind revenues and expenses.

Fund-Raising

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

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

New Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. ASU No. 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The Foundation is currently evaluating the impact this ASU will have on the financial statements.

In May 2014, the FASB issued *Revenue from Contracts with Customers*, (ASU No. 2014-09). This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Foundation is currently evaluating the impact this ASU will have on the financial statements.

In February 2016, the FASB issued *Leases*, (ASU No. 2016-02). This Update was issued to increase the transparency and comparability among organizations by requiring lessees to recognize the assets and liabilities associated with all leases on the statement of financial position. The amendments in this Update are effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact this ASU will have on the financial statements.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30 are as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 357,230 | \$ 386,126 |
| Receivable in one to five years | 187,615 | 397,098 |
| Long-term pledge receivable discount | <u>(6,758)</u> | <u>(9,989)</u> |
| Total Unconditional Promises to Give | <u>\$ 538,087</u> | <u>\$ 773,235</u> |

The discount rates are based on what the risk free applicable federal long-term rates were at the time each unconditional promise to give was made. The rates range from 2.19% and 3.37% and the total discount for the long-term promises to give as of June 30, 2017, and June 30, 2016, is \$6,758 and \$9,989, respectively.

NOTE 3 – INVESTMENTS

Long and short term investments are as follows at June 30:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Cash | \$ 469 | \$ 578 |
| Certificates of deposit | 950,944 | 1,049,093 |
| Mutual funds | 364,313 | 328,701 |
| Investment in the University of Washington Consolidated Endowment Fund | <u>13,207,358</u> | <u>11,789,337</u> |
| Total Investments | <u>\$ 14,523,084</u> | <u>\$ 13,167,709</u> |

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Investment income included on the accompanying statement of activities is as follows for the years ended June 30:

| | 2017 | 2016 |
|---|--------------|--------------|
| Interest and dividend income | \$ 470,399 | \$ 404,699 |
| Net realized/ unrealized gains on investments | 1,094,698 | (586,879) |
| Total Investment Loss/income | \$ 1,565,097 | \$ (182,180) |

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

THE EVERGREEN STATE COLLEGE FOUNDATION
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Changes in endowment net assets for the year ended June 30, 2017

| | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|---------------------------|---------------------------|--------------|
| Endowment net assets, July 1, 2016 | \$ 1,744,999 | \$ 8,820,910 | \$10,565,909 |
| Adjustment for reclassified funds | - | - | - |
| Investment return | 1,344,918 | - | 1,344,918 |
| Contributions, net of transfers | (361,249) | 292,386 | (68,863) |
| Net assets released | 9,477 | - | 9,477 |
| Endowment net assets, June 30, 2017 | \$ 2,738,145 | \$ 9,113,296 | \$11,851,441 |

Changes in endowment net assets for the year ended June 30, 2016

| | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|---------------------------|---------------------------|---------------|
| Endowment net assets, July 1, 2015 | \$ 2,241,112 | \$ 7,360,586 | \$ 9,601,698 |
| Adjustment for reclassified funds | - | - | - |
| Investment return | (158,454) | - | (158,454) |
| Contributions, net of transfers | (354,891) | 1,460,324 | 1,105,433 |
| Net assets released | 17,232 | - | 17,232 |
| Endowment net assets, June 30, 2016 | \$ 1,744,999 | \$ 8,820,910 | \$ 10,565,909 |

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. There were no deficiencies of this nature as of June 30, 2017 and 2016.

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Return Objectives and Risk Parameters

The Foundation's objectives are: 1) to provide permanent funding for endowed programs, 2) maintain the purchasing power of any endowments 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 Foundation invests most of its funds in the University of Washington's CEF. It is divided into sub-categories, each with its own targeted allocation. Over the long run, the allocation between and within the subcategories may be the single most important determinant of the CEF's investment performance.

| Investment Strategy | Long-term Target |
|----------------------------|-------------------------|
| Emerging Markets Equity | 20% |
| Developed Markets Equity | 38% |
| Private Equity | 12% |
| Real Assets | 6% |
| Opportunistic | 2% |
| Absolute Return | 15% |
| Fixed Income | 7% |

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 Foundation uses a weighted average or hybrid method of determining spending from Foundation Endowments. Spending is calculated by taking a weighted average comprising 80 percent of the prior year's spending adjusted by an inflation factor and 20 percent of the amount that results when the endowment's spending rate is applied to the endowment market value. The Foundation spending rate shall generally be 5%. The spending rate for new endowments shall be established beginning the end of the second year of investment. The initial endowment spending shall be based on 5% of the first two years rolling average.

In calculating the spending, the market value of the endowment shall be reduced by the total value of new contributions given to the endowment in the past fiscal year. The inflation factor shall be equal to the CPI except that it shall never fall below 0% nor exceed 5%. The minimum scholarship award level is \$1000. If the spending formula for a scholarship endowment generates a calculation for a scholarship award of less than \$1000, no distribution will be taken for that fiscal year and the scholarship will not be awarded.

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*.

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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

| | Year Ended June 30, 2017 | | | |
|--------------------------------------|--|-------------------------------|------------------------|----------------------|
| | Quoted Market Prices in Active Markets | Other Observable Inputs | Unobservable Inputs | Total |
| | (Level 1) | (Level 2) | (Level 3) | |
| Cash | \$ - | \$ 469 | \$ - | \$ 469 |
| Certificates of deposit | | 950,944 | | 950,944 |
| Mutual funds | | 364,313 | | 364,313 |
| Consolidated Endowment Fund (CEF) | | 13,207,358 | | 13,207,358 |
| Charitable Lead Annuity Trust | | 1,783,127 | | 1,783,127 |
| Total assets at fair value | \$ - | \$ 16,306,211 | \$ - | \$ 16,306,211 |

| | Year Ended June 30, 2016 | | | |
|--------------------------------------|--|-------------------------------|------------------------|----------------------|
| | Quoted Market Prices in Active Markets | Other Observable Inputs | Unobservable Inputs | Total |
| | (Level 1) | (Level 2) | (Level 3) | |
| Cash | \$ - | \$ 578 | \$ - | \$ 578 |
| Certificates of deposit | | 1,049,093 | | 1,049,093 |
| Mutual funds | | 328,701 | | 328,701 |
| Consolidated Endowment Fund (CEF) | | 11,789,337 | | 11,789,337 |
| Charitable Lead Annuity Trust | | 1,887,771 | | 1,887,771 |
| Total assets at fair value | \$ - | \$ 15,055,480 | \$ - | \$ 15,055,480 |

NOTE 6 – CHARITABLE GIFT ANNUITIES

Certain donors have entered into charitable gift annuity agreements with the Foundation under which the Foundation received certain assets.

In December 2015, the Foundation became a beneficiary of a split interest agreement via a Charitable Lead Annuity Trust (CLAT). The CLAT is a \$5 million trust in which the Foundation is a 50% beneficiary, with the Foundation anticipating \$2.25 million in payments over the life of the agreement. The 15 year annuity pays out is \$300,000 each year of which the Foundation receives 50%. The basis of recognition for the revenue is the present value of the future cash flow for the expected annuity payment. The discount rate applied is 2.61%. At the end of the 15 year period, the donor will receive the remaining balance of the trust.

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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The Charitable Lead Annuity Trust present value at June 30 is as follows:

| | <u>2017</u> |
|---------------------------|---------------------|
| Due in less than one year | \$ 150,000 |
| Due in one to five years | 750,000 |
| Due in five years or more | 1,196,301 |
| Discount | <u>(313,174)</u> |
| | <u>\$ 1,783,127</u> |

The Foundation is beneficiary of another split-interest agreement which was entered into in a prior year and is still active as of June 30, 2017. 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 annual installment payments totaled \$3,035 and \$3,035 respectively for the years ended June 30, 2017 and 2016.

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 donor discounted at the applicable rate as specified in the agreements. The charitable gift annuity obligation totaled \$10,036 and \$10,596 as of June 30, 2017 and 2016, respectively.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Foundation provided grants to the College totaling \$1,529,628 and \$182,800 for the years ended June 30, 2017 and 2016. During the years ended June 30, 2017 and 2016, the Foundation also provided \$482,065 and \$501,462 to the College for student scholarships and fellowships. These amounts are listed as grants and allocations on the statements of functional expenses.

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.

Amounts payable to the college were \$314,670 and \$155,023 as of June 30, 2017 and 2016, respectively.

NOTE 8 – RELEASE OF NET ASSETS

Net assets of \$2,502,192 and \$1,222,689 were released from donor restrictions for the years ended June 30, 2017 and 2016, respectively, by incurring expenses satisfying the restricted purposes or by the occurrences of other events specified by the donors.

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for programs and scholarships and totaled \$8,565,556 and \$7,125,997 at June 30, 2017 and 2016, respectively.

| | <u>2017</u> | | <u>2016</u> |
|--|---------------------|-----------|------------------|
| Academic Support and Research | \$ 3,802,041 | \$ | 3,209,521 |
| Other College Support | 946,581 | | 1,071,437 |
| Public Service Centers | 75,414 | | 29,838 |
| Student Aid | 3,741,520 | | 2,815,201 |
| Total Temporarily Restricted Net Assets | \$ 8,565,556 | \$ | 7,125,997 |

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

| | <u>2017</u> | | <u>2016</u> |
|--|---------------------|-----------|------------------|
| Academic Support and Research | \$ 1,733,696 | \$ | 1,728,297 |
| Other College Support | 115,875 | | 115,875 |
| Public Service Centers | - | | - |
| Student Aid | 7,263,725 | | 6,976,738 |
| Total Permanently Restricted Net Assets | \$ 9,113,296 | \$ | 8,820,910 |

NOTE 10 – CONCENTRATIONS

Major Donors

For the year ended June 30, 2017, the Foundation received contributions from eight sources that comprised approximately 62% of total contribution revenue. For the year ended June 30, 2016, the Foundation received contributions from six sources that comprised approximately 72% of total contribution revenue.

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.

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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Donated materials and services are as follows for the years ended June 30:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------------|-------------------------|
| <u>From individual and corporate donors:</u> | | |
| Stock | \$ 79,305 | \$ 196,297 |
| Art work | 10,450 | 10,695 |
| Materials | <u>23,263</u> | <u>12,582</u> |
| Total in-kind support from individuals and corporate donors | \$ 113,018 | \$ 219,574 |
| <u>From the College</u> | | |
| Management services | \$ 967,713 | \$ 1,055,705 |
| Rent | 24,706 | 29,176 |
| Supplies and equipment usage | <u>314,717</u> | <u>222,664</u> |
| Total in-kind support from the College | 1,307,136 | 1,307,545 |
| Total in-kind support | <u>\$ 1,420,154</u> | <u>\$ 1,527,119</u> |

NOTE 12 – LEASES

In May 2014, the Foundation entered into a new long-term operating lease for a vehicle which was renewed in April 2017 and will expire in April, 2020. Lease expense totaled \$5,727 and \$4,762 for the years ended June 30, 2017 and 2016 respectively. Minimum required annual lease payments thru 2018 are \$6,857.

NOTE 13 – ADMINISTRATIVE FEES

The Foundation charges a 5% administrative fee to restricted, and some unrestricted, funds and transfers this amount to unrestricted net assets to cover funds management, fundraising expenses, and administration expenses. The Foundation charged \$79,538 and \$125,200 in administrative fees for the years ended June 30, 2017 and 2016, respectively.

NOTE 14 – SCHOLARSHIPS FOR FUTURE PERIODS

In April, May and June of each year, students receive notice of their scholarship awards for the following academic year. These scholarship funds remain in the Foundation until August or September. The scholarships are reclassified into their own internal account for tracking purposes. In August or September, the Foundation transfers the funds to the College and then the College applies the funds to the student accounts. The amount and number of scholarships varies from year to year. The annual scholarship amount and number of scholarships to be awarded is determined by the following:

1. Donor intent as defined in gift agreement
2. Foundation spending policy
3. For unrestricted scholarships, determined by the board
4. Number of awards from larger scholarship funds is determined by judgment of college staff if donor does not express a preference (i.e. is it better to have two \$1,000 scholarships or one \$2,000 scholarship)

**THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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As of June 30, 2017, the Foundation was holding funds earmarked for academic year 2017-2018 scholarships in the amount of \$713,689 and as of June 30, 2016, the amount held for academic year 2016-2017 was \$607,020. Of those amounts, \$351,000 and \$315,175 was available for endowment based scholarships, and \$362,689 and \$291,845 was available for one-time scholarships on June 30, 2017 and 2016, respectively.

Though the entire amount of the funds held are available for scholarships, not all of the scholarship offers are accepted. Additionally, there are times when students accept their scholarship offer but end up not being enrolled in the new academic year or are no longer qualified for the scholarship when classes begin; thereby leaving the scholarship unused. Any unused scholarship funds are returned to the Foundation and are held for future scholarships in the following academic year.

NOTE 15 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 22, 2018, the date on which the financial statements were available to be issued.



The Evergreen State College Foundation is a 501(c)(3) nonprofit organization dedicated to building an outstanding future for The Evergreen State College. Since 1976, the foundation has supported this goal by raising private gifts from our generous donors. Donations ensure access for students who may not be able to afford the cost of attendance, support faculty research, facilitate work led by the college's public service centers, and much more. The Evergreen State College Foundation I 2700 Evergreen Parkway NW, Olympia, WA 98505 I evergreen.edu/foundation (360) 867-6300



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