

WASHINGTON STATE  
**OPPORTUNITY**  
SCHOLARSHIP

**BOARD MEETING AGENDA**  
**MONDAY, APRIL 16, 2018 | 1:00-3:00 P.M.**  
**MICROSOFT CAMPUS, BUILDING 34**

**CONFERENCE CALL DIAL IN #: 425-616-0754 / PASSCODE: 75176914**

I. Meeting Called to Order		<b>Mack Hogans</b> WSOS Board Member	1:00p
II. Approval of Minutes from January 8, 2018 Meeting	[Tab A]	<b>Mack Hogans</b>	1:00-1:05p
III. New Board Member Welcome	[Tab B]	<b>Mack Hogans</b>	1:05-1:15p
IV. Scholar Spotlight		TBD	1:15-1:20p
V. Cohort 7 Applications & Selection Board Action: Approval of Selection Criteria	[Tab C]	<b>Kimber Connors</b> WSOS Sr. Director of Strategy & Programs  <b>Reiko Kono</b> WSOS Director of Scholar Awards	1:20-2:00p
VI. 2018 Legislative Session Update & Discussion of Expansion Exploration Planning Process	[Tab D]	<b>Jessica Monger</b> Director of External Affairs  <b>Naria K. Santa Lucia</b> WSOS Executive Director	2:00-2:35p
VI. Program Update	[Tab E]	<b>Naria K. Santa Lucia</b>	2:35-2:45p
VII. Finance and Program Administrator Update	[Tab F]	<b>Mack Hogans</b> F&I Committee Chair  <b>Cindy Gustafson</b> CFO, Washington STEM	2:45-2:55p
IX. Closing		<b>Mack Hogans</b>	2:55-3:00p

**Important Upcoming Dates**

**2018 Board Meetings - all meetings at Microsoft campus at 1-3p**

- Tuesday, September 25<sup>th</sup>
- Monday, December 10<sup>th</sup>

**OpportunityTalks, November 1, 2018 at the Sheraton Seattle**

# **Tab A**

**Minutes from the January 8, 2018 Board Meeting**

**WASHINGTON STATE OPPORTUNITY SCHOLARSHIP BOARD MEETING  
MONDAY, JANUARY 8, 2018, 1-3 PM, MICROSOFT CAMPUS**

**MEETING MINUTES**

The Board of Directors of the Washington State Opportunity Scholarship (WSOS) met on January 8, 2018 at the Microsoft headquarters in Redmond, Washington.

Board members: Brad Smith (Board Chair), Diane Cecchetti, Antony Chiang, Mack Hogans, Jane Park, Gary Rubens, and Jim Sinegal, and Mike Wilson present; Miller Adams by phone

Additional attendees: Naria Santa Lucia, Erin Ashley, Klondy Canales, Meg Chambers, Kimber Connors, Karyl Gregory, Cindy Gustafson, Caroline King, Reiko Kono, Jessica Monger, Patrick Okocha, Dave Stoller and Sam Whiting present; Terrie Ashby-Scott, Theresa Britschgi, Jane Broom, and Jenna Magnotti by phone

**Meeting Called to Order**

Brad Smith, Board Chair of WSOS, called the Board Meeting to order at 1:03 pm.

**Scholar Spotlight**

Naria Santa Lucia introduced WSOS Scholar Tziporah Olivencia-Christensen, a freshman at Pierce College. Olivencia-Christensen shared her career path and educational goals. She also expressed appreciation for the WSOS scholarship, the ongoing support from her WSOS Program Officer, Klondy Canales, as well as all she gained from attending the Opportunity Launch conference last August.

**Approval of Minutes**

Brad Smith confirmed a quorum at 1:08 pm and asked each person on the phone to introduce themselves. Mack Hogans moved that the minutes of the October 2, 2017 meeting be approved. Diane Cecchetti seconded the motion. The motion carried unanimously.

**2017 Legislative Report**

Kimber Connors, Senior Director of Strategy & Programs, presented highlights of the 2017 WSOS Legislative Report which features Cohort 6.

Jane Broom recommended that a committee be formed to choose key messages to include in next year's Legislative Report. Connors reported that the next Legislative Report will be available in hard copy form and online as well.

**WSOS Growth Options Presentation**

Santa Lucia reported on the implementation of the WSOS growth options to improve Scholar retention and extend the scholarship through fall start 2025 (Cohort 14). Santa Lucia presented a new organization structure which will more effectively support all intended impacts for Scholar-facing services and capacity-building activities. Eight new staff will be needed by year end on the Scholar Services team.

Santa Lucia presented a proposed 2018 budget to cover additional scholarship expenses, additional salaries and benefits for more staff members, an increase in the administrative fee paid to Washington STEM for the additional staff, and an allocation to pay a stipend to the Near Peer Mentors.

Mack Hogans made a motion to accept the proposed 2018 budget. Mike Wilson seconded the motion and it carried unanimously.

Diane Cecchettini suggested that an update be provided in 3-6 months regarding the new organization structure.

#### **WSOS Activities Update**

Santa Lucia reported that the WSOS Activities update is available in the pre-read materials.

#### **Finance & Program Administrator Update**

Hogans reported on the performance of WSOS funds. Hogans further reported that the Finance & Investment Committee is reviewing the performance of the current manager of WSOS' investment funds. The Committee noted that, while the Washington State Investment Board (WSIB) has performed well, engaging in an RFP process would be a best practice and measure of Committee diligence. A working group has been formed to conduct the review and they will convene in early 2018.

Hogans reported that the Committee has identified a strong candidate, Manish Jain, to join the Committee. Hogans further reported that the normal process is to bring the candidate first to the Committee and then to the Board for approval. On behalf of the Committee, Hogans is requesting conditional approval to bring on Jain now so he can be part of the RFP process.

Brad Smith made a motion to delegate the approval of Jain to the Committee. Antony Chiang seconded the motion and it carried unanimously.

Cindy Gustafson reported on the program administrator update. Gustafson also reported that Washington STEM has submitted two bodies of requests to the Washington Student Achievement Council. Gustafson further reported that WSAC is still pending review of \$2.8M and will complete that review by January 31.

Gustafson additionally reported that Clark Nuber performed interim audit work in December on the WSOS program transition from CSF and related matters which will enable the consolidated audit report to be completed by March 31.

Gustafson reported that the return on investments via Key Bank is 1.5%.

The meeting went into Executive Session at 2:40 pm to review the performance of the WSOS Executive, Naria K. Santa Lucia and to review the performance of Program Administrator Washington STEM.

The Board reconvened in open session at 3:00 pm.

Following the Executive Session, Board member Mack Hogans moved to recommend that Program Administrator Washington STEM increase compensation for the WSOS Executive Director. The motion was seconded by Jane Park and it carried unanimously.

Board member Mack Hogans moved to authorize the WSOS Executive Director to enter into discussions with Washington STEM concerning continuation of the program administrator relationship and renewal of the contract.

Respectfully submitted,  
Karyl Gregory



## **Tab B**

**New Board Member**



**Joelle Denney**

Vice President of Human Resources  
Boeing Commercial Airplanes

Joelle Denney has been vice president of the Boeing Commercial Airplanes Human Resources organization since June 2015. She reports to Kevin McAllister, president and CEO of Boeing Commercial Airplanes, and Heidi Capozzi, senior vice president of Human Resources for The Boeing Company.

Denney previously served as vice president of Employee Relations for The Boeing Company, named to the position in April 2014. Denney led an organization of geographically dispersed Employee Relations professionals who partner with Boeing business units and functions to implement the company's collective bargaining strategies for approximately 40 unions. Employee Relations is also responsible for developing strategies, tools and processes to support managers and HR professionals in their employee engagement efforts.

Earlier, Denney was the director of Human Resources for Boeing Commercial Airplanes Supply Chain Management and Operations. She also served as director of Human Resources for several other organizations within Boeing Commercial Airplanes, including Sales and Marketing, Finance, Contracts and Program Management Office, Communications, Government and Community Relations, and Information Systems.

Denney joined Boeing in 1989, serving in finance positions that included Estimating, Business Management and Cost Management. She was senior manager of Human Resources for Boeing Commercial Engineering and managed the Boeing Workforce organization responsible for company-wide processes in staffing, workforce planning and employee retention.

Denney earned a Master of Business Administration degree from Seattle University and a bachelor's degree in economics from Whitman College in Walla Walla, Washington.

# **Tab C**

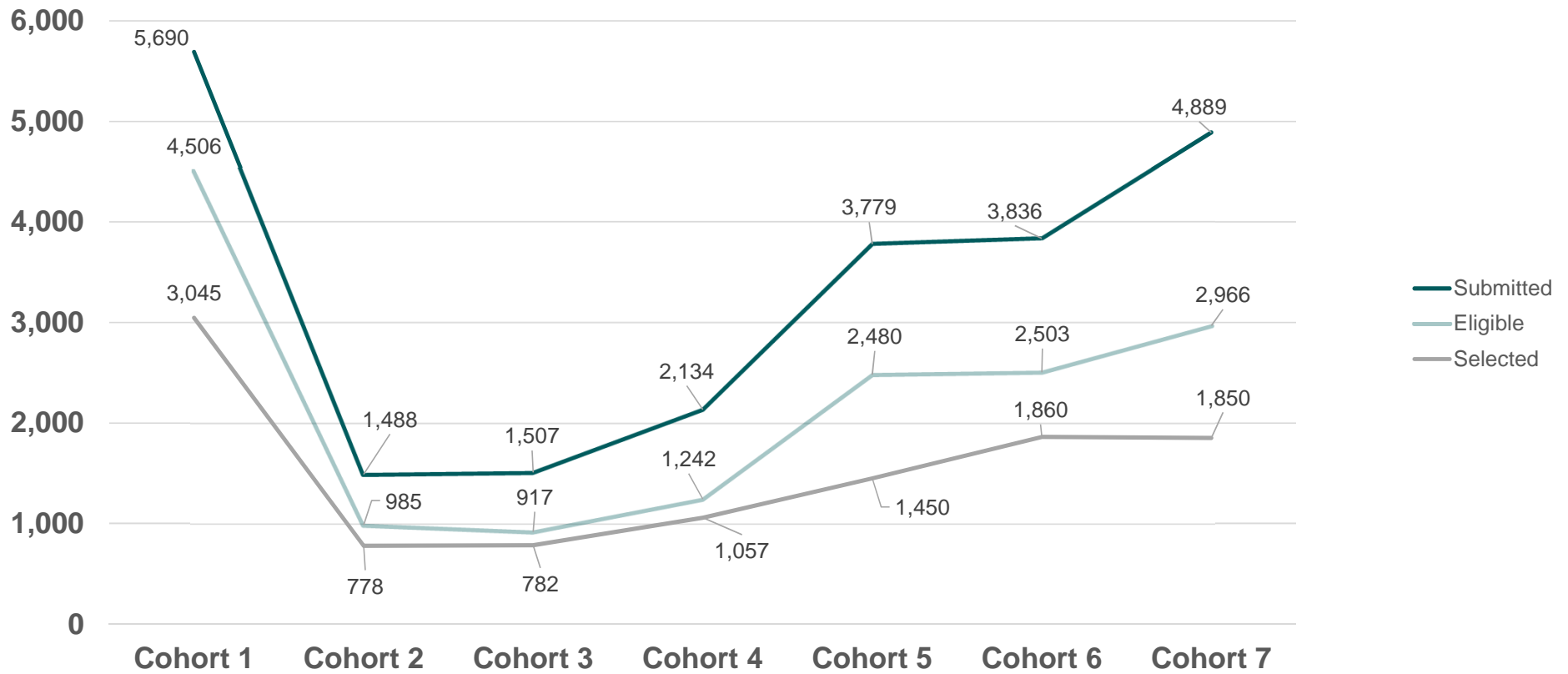
## **Cohort 7 Applications & Selection**

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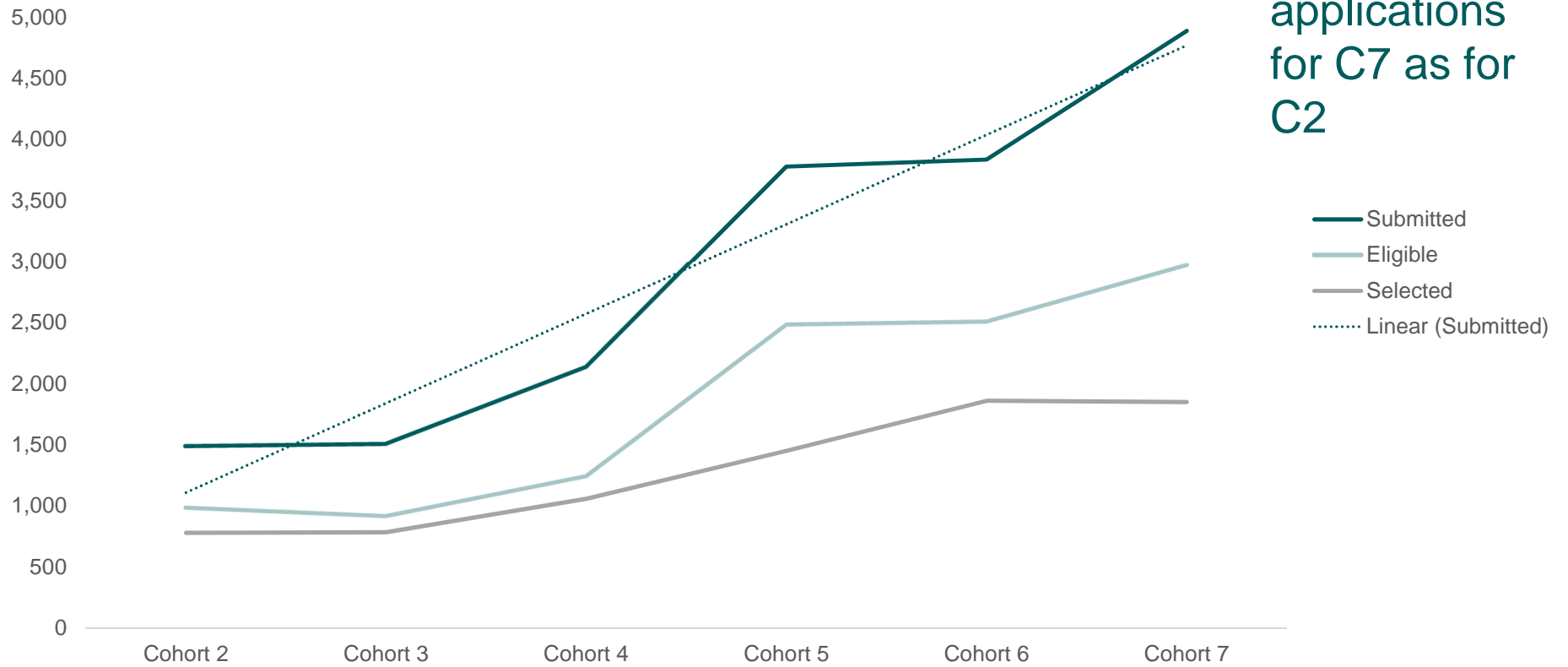


# Cohort 7 Proposed Selection Model

# Applicants Over Time

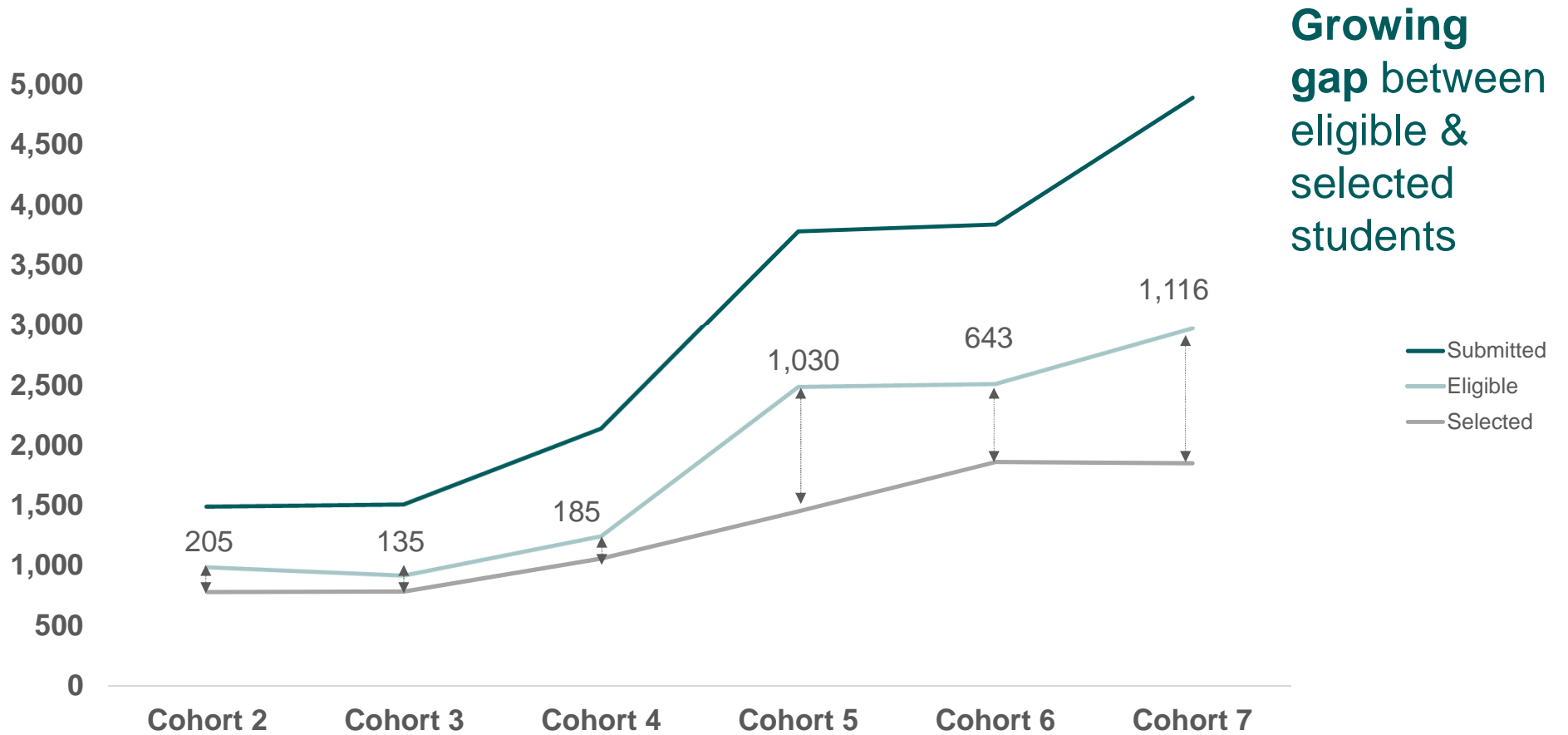


# Applicants Over Time

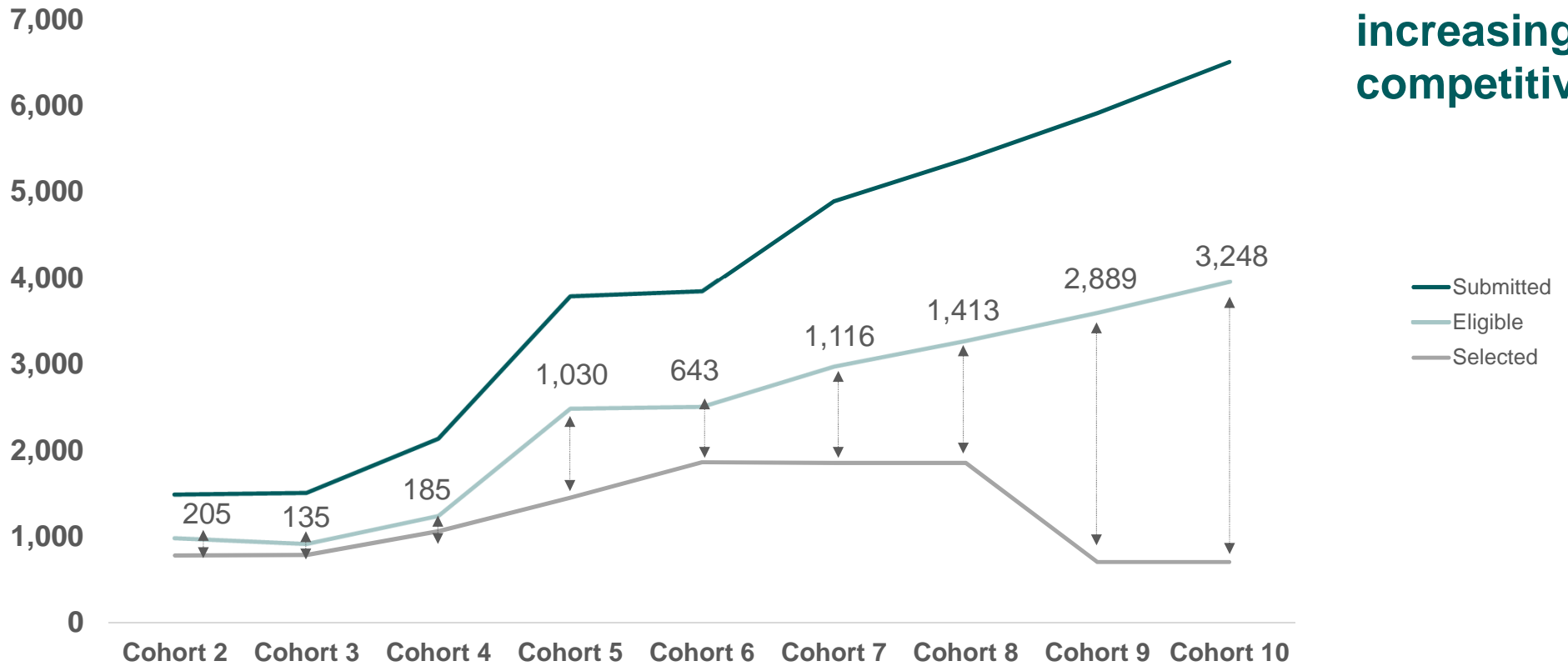


**3.3X** the applications for C7 as for C2

# Applicants Over Time



# Applicants Over Time



WSOS will become increasingly competitive

Assumes 10% growth year-over-year for C8 and beyond based on C7 submitted and preliminary eligibility numbers.



# Selection Model Evolution

- **Cohorts 1 – 4**

- Most eligible applicants selected
- Simple selection model (*GPA + first generation status*)

- **Cohorts 4 – 8**

- Around two thirds eligible applicants selected
- Expanded selection model with refinement each year

- **Cohorts 9 and beyond**

- Smaller cohort sizes; more competitive selection expected
- Likely revisit and refine model

# Proposed Selection Model Factors

## **FACTORS**

1. Intended Major of Study
2. GPA
3. Family Income
4. First Generation Status
5. Home County
6. Essay
7. Extenuating Circumstances

# Proposed Selection Model Factors

## FACTOR

1. Intended Major of Study
2. GPA
3. Family Income
4. First Generation Status
5. Home County
6. Essay
7. Extenuating Circumstances

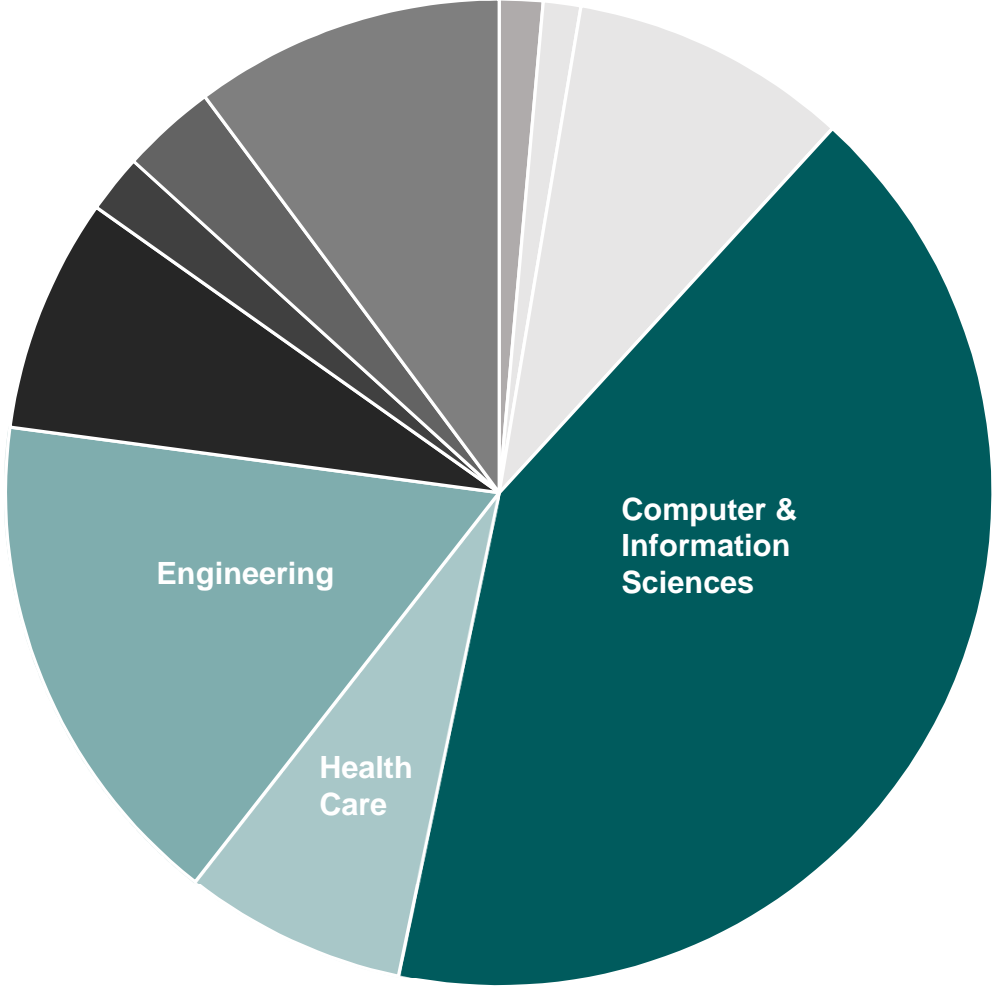
## MEASURE

1. Job openings 2020-2025
2. GPA on 4.00 scale
3. Income decile by family size
4. Yes/No
5. Unemployment Dec. 2017
6. Scored writing & content
7. Yes/No

# Weighting Intended Major of Study

1. Estimate demand via projected **job openings**.
  - Projected job openings 2020-2025 updated in December 2017 by the [Employment Security Department](#) (by work sector).
2. Relate **work sectors to majors** of study.
  - Connect majors of study (CIP classifications) to where graduates may find employment in given work sectors (SOC classifications) from [National Student Clearinghouse](#) data.
3. Estimate **economic opportunity** by major.
  - Sum all job openings expected available to graduates within certain majors and rank order eligible majors from most- to least-in-demand.

# Relative Access to Projected Job Openings



### Top Ten Counties: Highest Unemployment

County	Unemployment Rate
Ferry	14.1%
Okanogan	8.2%
Yakima	8.2%
Grant	8.1%
Franklin	8%
Pend Oreille	7.9%
Stevens	7.9%
Adams	7.8%
Pacific	7.4%
Grays Harbor	7.2%

### Bottom Ten Counties: Lowest Unemployment

County	Unemployment Rate
King	3.6%
Snohomish	4%
Whitman	4.4%
San Juan	4.5%
Asotin	4.5%
Whatcom	5%
Thurston	5%
Kitsap	5%
Clark	5%
Walla Walla	5.4%

Data Source (as of December 2017): [Employment Security Department](#)

## All Counties: Unemployment

Data Source (as of December 2017): [Employment Security Department](#)

County	Unemployment Rate
Ferry	14.1%
Okanogan	8.2%
Yakima	8.2%
Grant	8.1%
Franklin	8%
Pend Oreille	7.9%
Stevens	7.9%
Adams	7.8%
Pacific	7.4%
Grays Harbor	7.2%
Clallam	7%
Garfield	6.9%
Lewis	6.7%

County	Unemployment Rate
Mason	6.7%
Douglas	6.6%
Skamania	6.5%
Wahkiakum	6.5%
Cowlitz	6.3%
Klickitat	6.3%
Jefferson	6.2%
Benton	6.1%
Columbia	5.9%
Skagit	5.8%
Kittitas	5.7%
Spokane	5.7%
Chelan	5.6%

County	Unemployment Rate
Lincoln	5.6%
Island	5.5%
Pierce	5.4%
Walla Walla	5.4%
Clark	5%
Kitsap	5%
Thurston	5%
Whatcom	5%
Asotin	4.5%
San Juan	4.5%
Whitman	4.4%
Snohomish	4%
King	3.6%

# Proposed Changes: C6 to C7

- **Refreshed job openings** as they relate to specific majors
- **Family income by decile** rather than quartile for greater granularity
- Addition of **home county**
- **Reading every essay**
- Adding an accommodation for **extenuating circumstances**



# Proposed Changes: C6 to C7

Factor	Cohorts 5 & 6 Weight	Cohort 7 Proposed Weight
Intended Major of Study	36%	30%
GPA	29%	25%
Family Income	21%	20%
First Generation Status	14%	12%
Home County	N/A	8%
Essay	Made available +7%	5%
Extenuating Circumstances	N/A	Makes available +5%

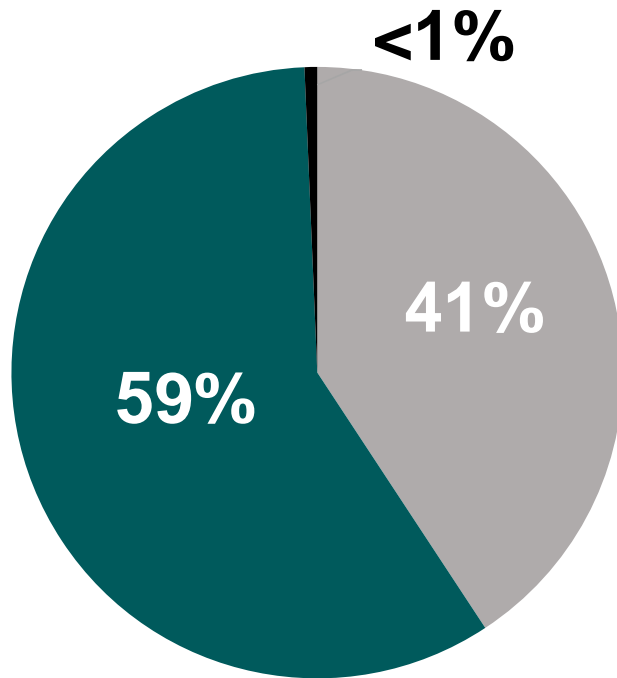
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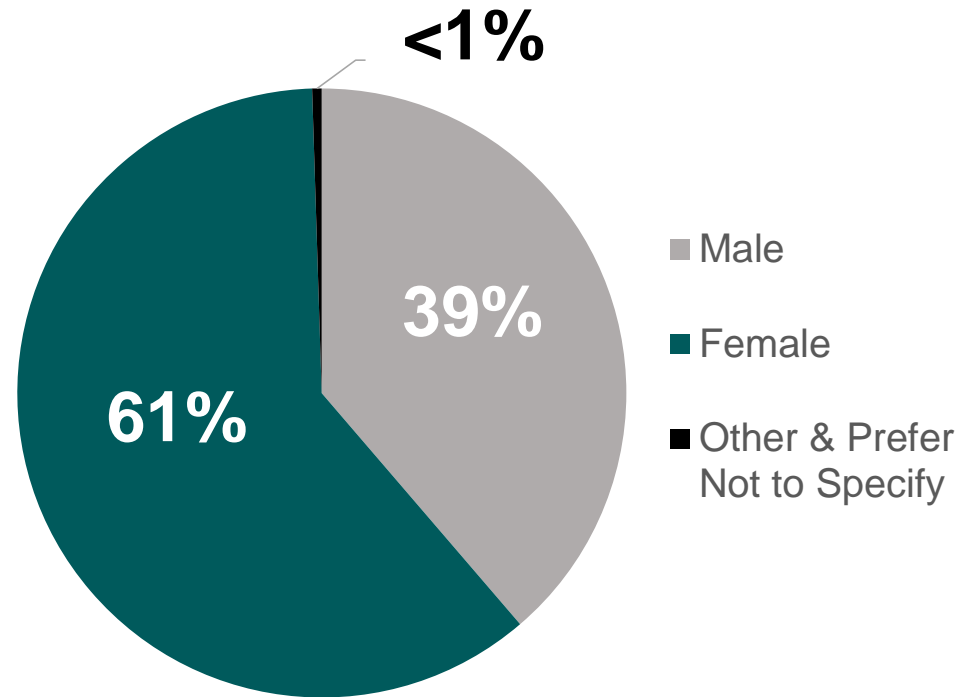
15 **Cohort 7 Preliminary Selection Outcomes**

# Preliminary Outcomes: Gender

## C7 Eligible Applicants



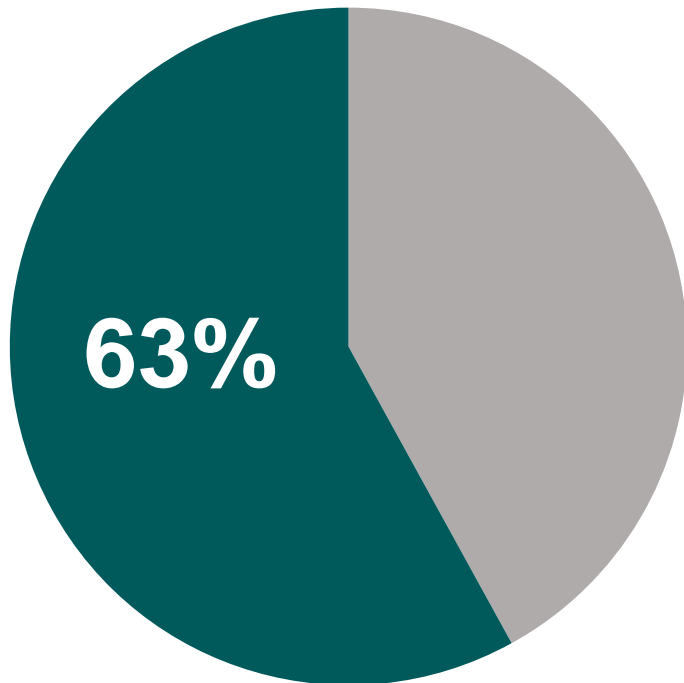
## C7 Preliminary Selects



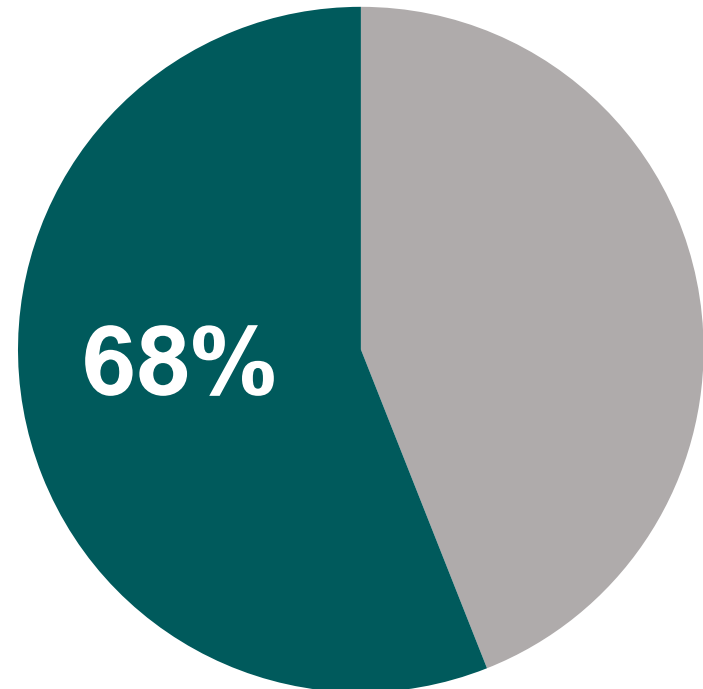
- Male
- Female
- Other & Prefer Not to Specify

# Preliminary Outcomes: Students of Color

C7 Eligible Applicants

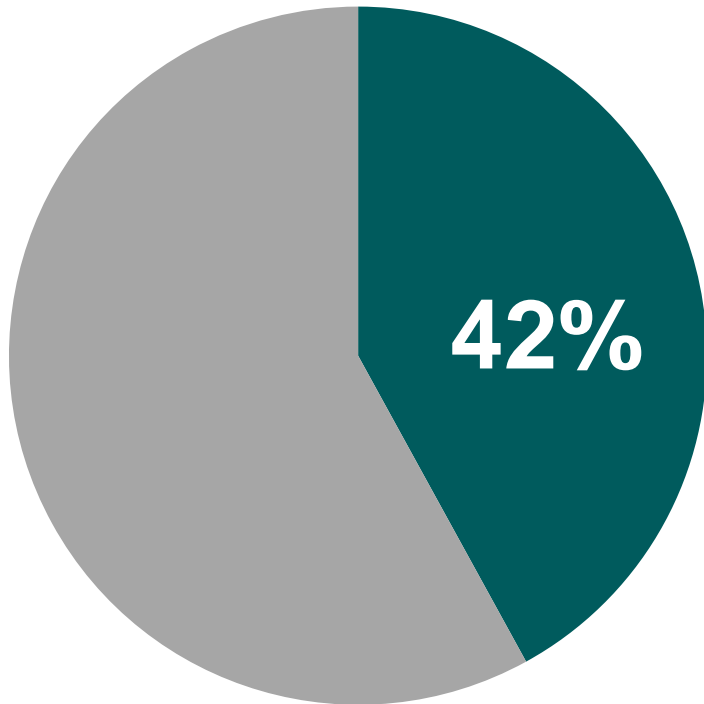


C7 Preliminary Selects

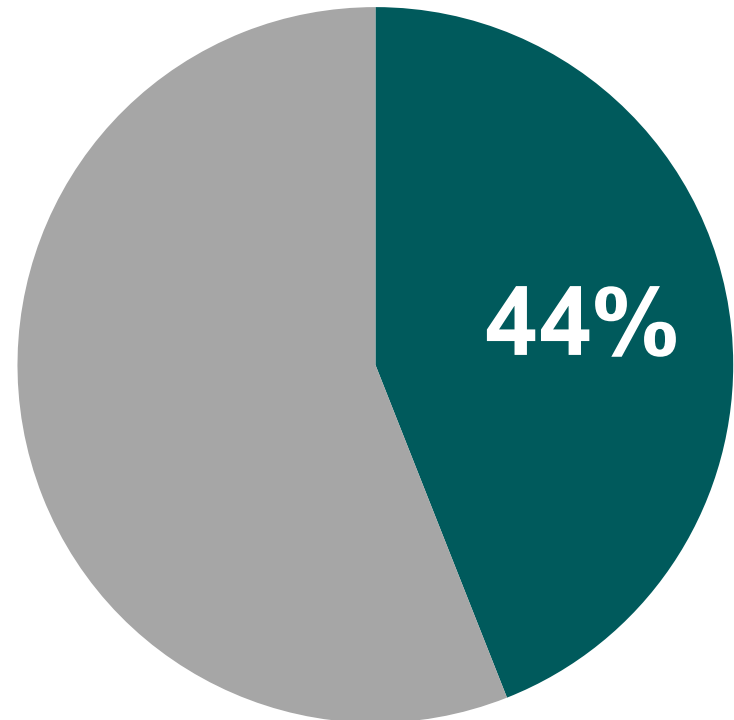


# Preliminary Outcomes: Under-Represented Minorities in STEM Fields

C7 Eligible Applicants



C7 Preliminary Selects

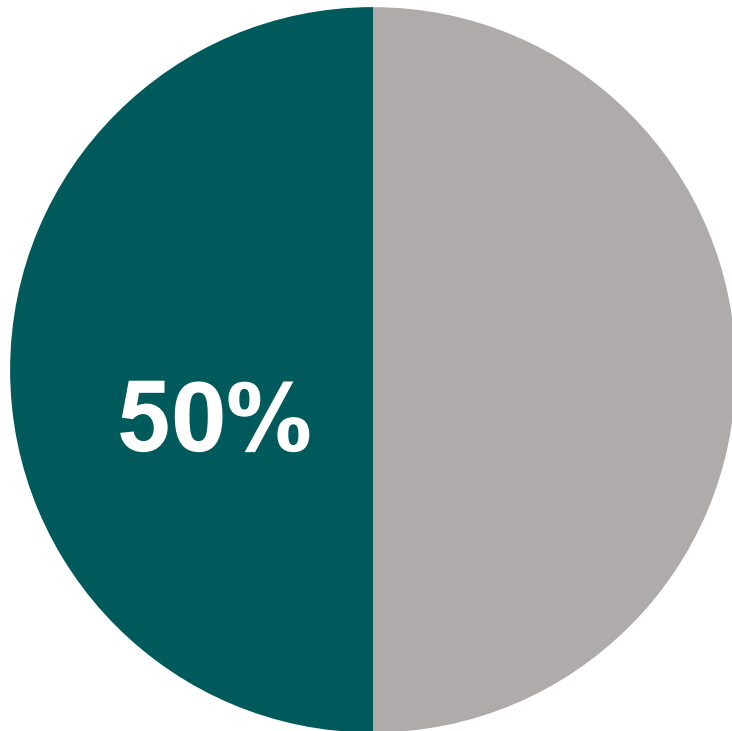


# Preliminary Outcomes: Race or Ethnicity

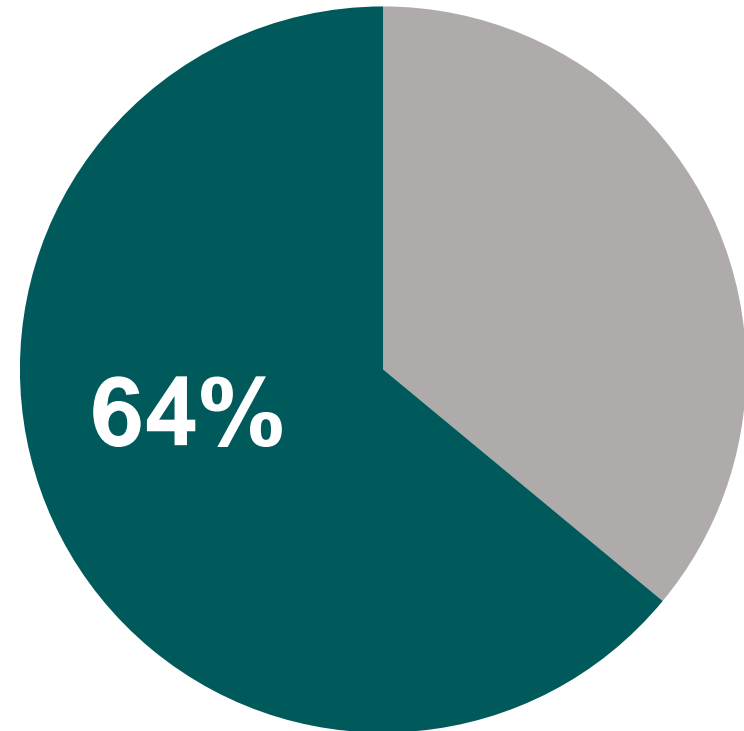
<b>Race or Ethnicity</b>	<b># Eligible Applicants (%)</b>	<b># Preliminary Selects (%)</b>
American Indian or Alaska Native	<1%	<1%
Asian	21%	23%
Black or African American	8%	8%
Hispanic or Latino	25%	28%
Native Hawaiian or Other Pacific Islander	1%	<1%
Two or More Races	7%	6%
White	37%	32%

# Preliminary Outcomes: First Generation

C7 Eligible Applicants



C7 Preliminary Selects



# Preliminary Outcomes: Family Income

## C7 Eligible Applicants

- **Mean Family Income:**
  - \$54,196
- **Median Family Income:**
  - \$52,073

## C7 Preliminary Selects

- **Mean Family Income:**
  - \$46,139
- **Median Family Income:**
  - \$41,504



# Preliminary Outcomes: Home County

37 out of 39 Counties Represented in Eligible Students

## Skamania County

- Population: 12,000
- Previously Selected Students
  - Five students
- Stevenson High School
  - ~75 graduating seniors
- 2018 Applications
  - One started
  - Zero submitted

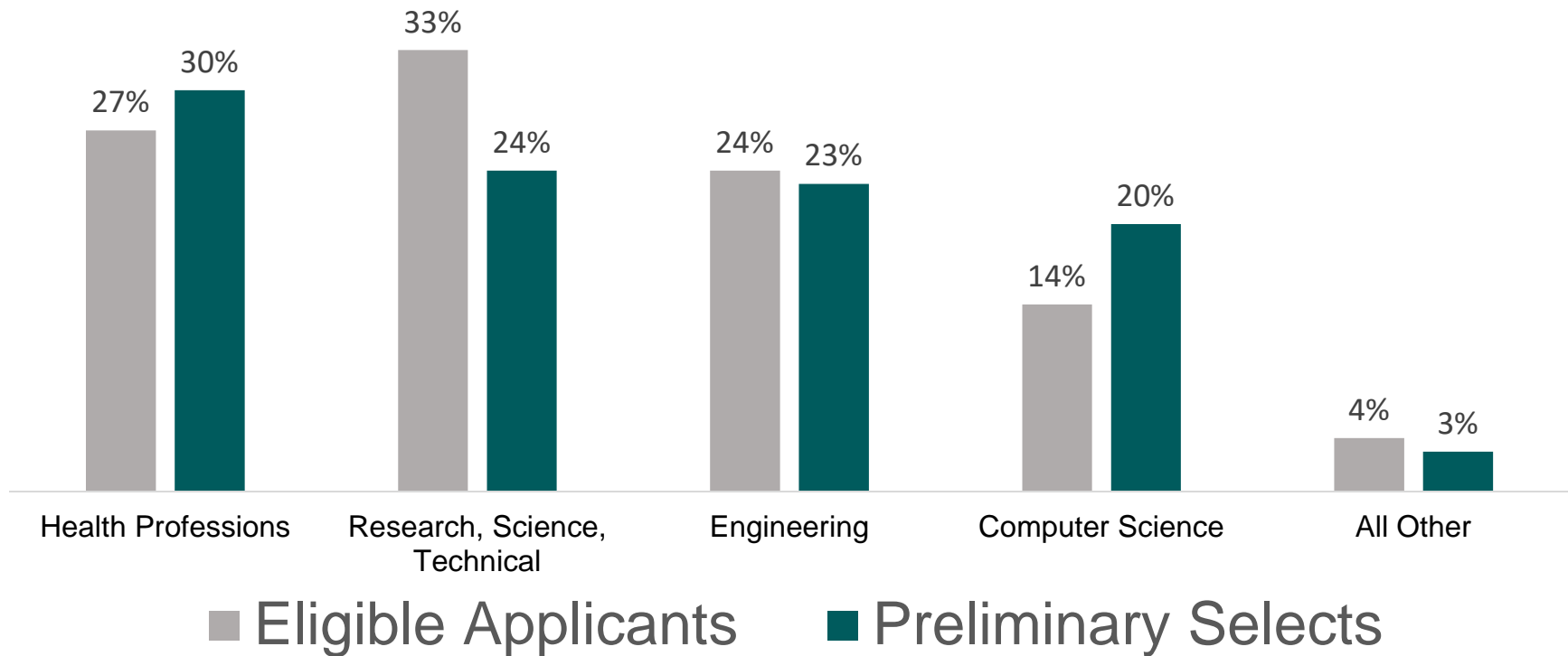
## Wahkiakum County

- Population: 4,000
- Previously Selected Students
  - Five students
- Wahkiakum High School
  - ~40 graduating seniors
- 2018 Applications
  - One started
  - Zero submitted

# Preliminary Outcomes: Home County

- **Ferry County Update**
  - Targeted **visit** in collaboration with the school
  - **5** out of **6** eligible applicants in preliminary selection

# Preliminary Outcomes: Major Categories



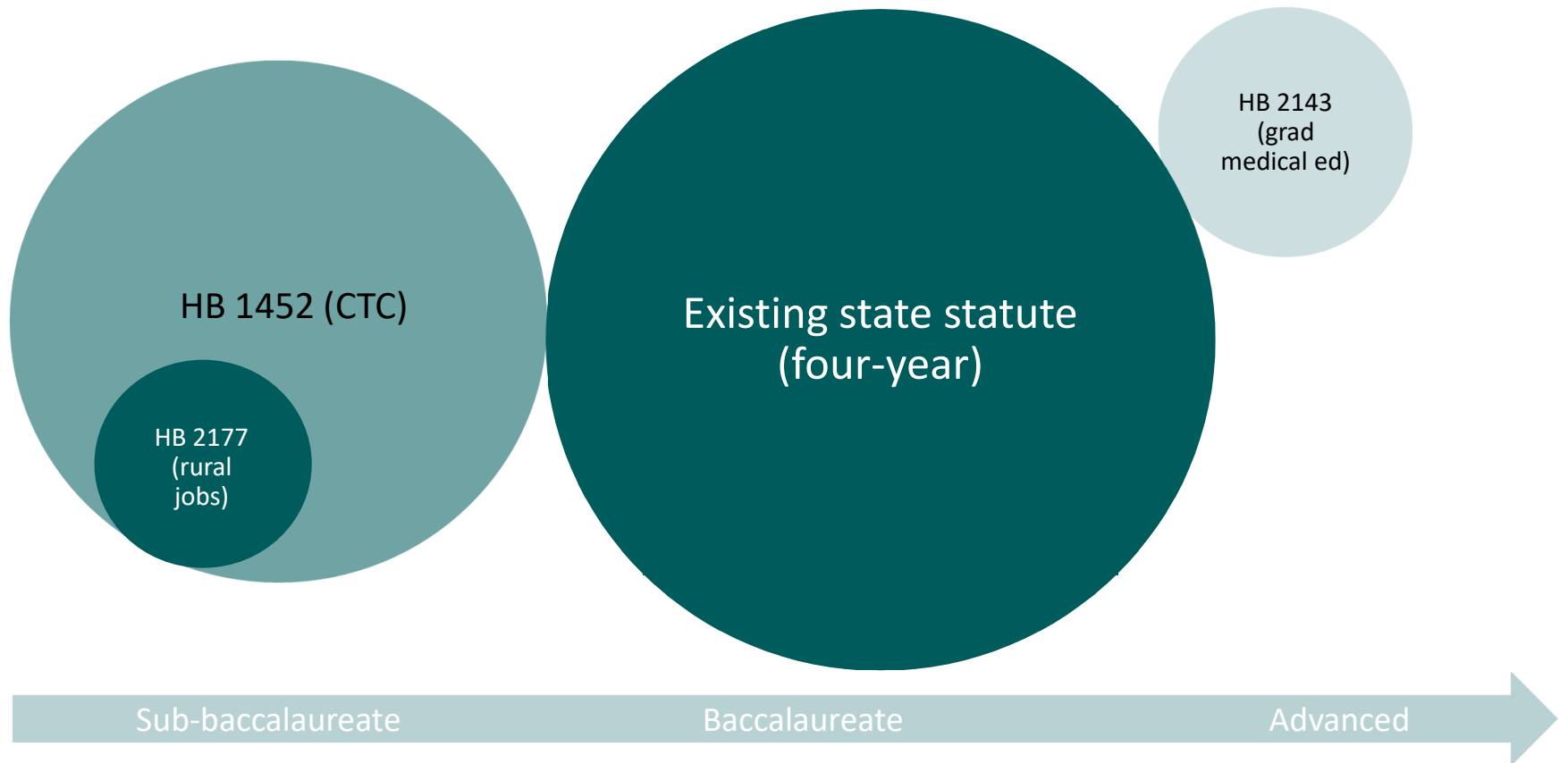
# Requested Approval: C7 Selection Formula

Factor	Cohorts 5 & 6 Weight	Cohort 7 Proposed Weight
Intended Major of Study	36%	30%
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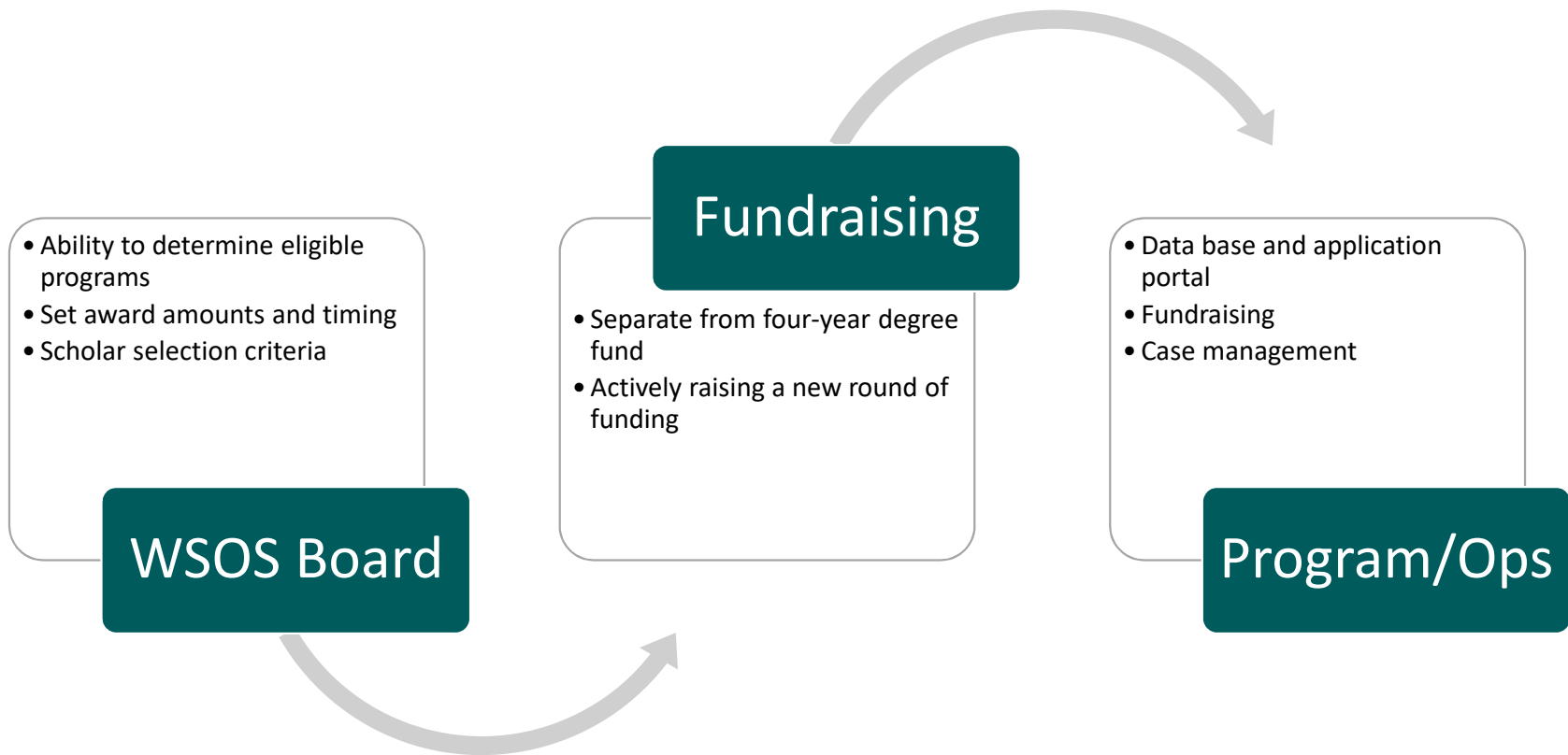
# **Tab D**

## **2018 Legislative Session Update & Expansion Exploration Planning Process**

# Legislative Update: Bill Passage



# Implications



## WSOS FUND MANAGER REVIEW WORKING GROUP MEETING MINUTES | TUESDAY, FEBRUARY 13, 2018, 3:00-4:00P

**Members present:** Bob Moser (Working Group Chair), Manish Jain, DeShay McCluskey, George Zinn;  
via teleconference: Beau Damon and Peter Harvey

Others present: Cindy Gustafson (Washington STEM), Mack Hogans (Ex Officio), Naria K. Santa Lucia  
(WSOS Executive Director) and Dave Stolier (Attorney General's Office)

Bob Moser called the meeting to order at 3:00 pm.

Moser provided a historical overview of process by which the WSOS Finance & Investment Committee selected the Washington State Investment Board (WSIB) as WSOS' fund manager. Using a memo drafted and provided to the group by Mack Hogans, WSOS Board Member and Finance & Investment Committee Chair, Moser provided the working group with notable dates and actions taken from 2014 to the present. Dave Stolier, Senior Assistant Attorney for the WA Attorney General's Office, provided the group with a brief overview of the nature of the public-private nature of WSOS.

The working group engaged in a conversation to review the performance of the Washington State Investment Board as the WSOS fund manager. After concluding the discussion, members of the working group expressed confidence in WSIB, noting that WSIB's passive fund performance was exactly what the committee had expected. Working group members specifically noted the low-fee, cost-effective nature of WSIB's management of WSOS funds.

It was also agreed that the working group, via the WSOS staff, would seek answers to the following:

- Examine WSOS' fixed income approach and determine what products, if any, WSIB can offer beyond cash;
- Seek guidance from the WSOS Board of Directors on future plans for the endowment account; and
- Discuss with the WSOS Finance & Investment Committee the current equity/fixed income allocation of the scholarship account.

Respectfully submitted,  
Naria K. Santa Lucia



# The Seattle Times

## Opportunity scholarships expanded to include technical and community colleges

Originally published March 22, 2018 at 6:00 am

**A generous state scholarship program that helps pay college tuition at four-year schools will soon expand to help students earn professional technical degrees at community and technical colleges.**

By [Katherine Long](#)

*Seattle Times higher education reporter*

A seven-year-old state scholarship program that has helped more than 2,000 students earn a bachelor's degree will soon offer the same type of generous aid to students who want to gain technical skills at community and technical colleges.

It's part of a growing emphasis on encouraging more students to earn technical degrees and credentials after they graduate from high school — and a recognition that a four-year college degree doesn't work for everyone.

On Wednesday, Gov. Jay Inslee signed a bill that makes a major change to the Washington State Opportunity Scholarship (WSOS), a \$200 million public-private scholarship fund that began in 2011 as a way to help low- and middle-income students earning bachelor's degrees in science, technology, engineering and math (STEM) and health care.

Under the change, Washington high-school grads will be able to get WSOS scholarships to help pay for short-term certificates and other professional technical degrees offered at the state's community and technical colleges.

The scholarships might also be offered to adult students.

"There is a resurgence of valuing technical education, and I see this as part of that pendulum swinging a little more," said Amy Morrison Goings, president of Lake Washington Institute of Technology.

The Kirkland school is one of the state's five technical colleges.

Microsoft President Brad Smith, who chairs the WSOS board of directors, said the new law shines a light on the growing number of one- and two-year certificate programs that provide grads with a good income.

Smith also recently [co-chaired a task force created by Inslee](#) to examine ways to more closely connect education to career skills.

The awards likely won't begin until 2019, and the scholarship board will also need to decide which fields will qualify for scholarship aid, said Naria Santa Lucia, WSOS executive director.

But the aim is to pick fields where there's a gap in the workforce, and the list will likely include health care, aerospace and shipbuilding, she said.

Smith said the WSOS scholarship success paved the way for it to be offered for professional technical degrees.

Currently, WSOS helps students whose families make up to 125 percent of the state median family income, or \$110,000 for a family of four.

That's an unusually high level for scholarship money, and it was set at that level to aid middle-class families that miss the cutoff for federal aid but still find college is a financial stretch.

The new professional technical scholarships will have a similar income cutoff, Santa Lucia said.

The bachelor's degree scholarship provides up to \$22,500 in tuition aid, and supports students for up to five years of study. For professional technical degrees, the scholarship amounts will be less because tuition for those degrees is lower, Santa Lucia said.

The scholarship has been awarded to 6,700 students since 2011, and, "It's become one of the larger scholarship programs in the country, when you think about it in terms of number of people involved," Smith said.

It has expanded to include support services for students, including mentorships and other assistance in college.

It's also helping low-income students climb the income ladder. A 2016 study showed that the scholarship winners who graduated and found jobs were [making as much as or more than their parents made](#) — and they were reaching that level of income in the first year out of college.

The award winners are a diverse group of students, Smith said. Last year, more than half the recipients were women. Seventy-two percent were first-generation college students, and 73 percent were students of color.

"The success of the program has, in many ways, exceeded our expectations," Smith said. "We're reaching people of lower means, we're reaching people of color, women as well as men, people who have never been to college ... the opportunity to take this kind of formula and apply to other postsecondary credentials is not only exciting but important for the state."

The state has set a goal of getting 70 percent of its high-school graduates to earn a postsecondary credential — some type of career training or a college degree — by 2030.

Today, only about 31 percent do so, Smith said.

For the state to more than double the amount of students who get extra training after high school, "we've got to create additional pathways and additional funding, to provide the means to get credentials," Smith said.

"A four-year university is not for everyone," said Morrison Goings, of Lake Washington Tech. "It's really important that we provide different opportunities for young people."

The idea of expanding the scholarship to include professional technical degrees came from the state Legislature, said Smith, perhaps because the program has drawn strong support from private donors.

In all, WSOS has raised nearly \$100 million privately, an amount that's been matched by the state. It has raised enough to support 16,000 students by 2025.

# **Tab E**

## **Program Update**

## PROGRAM UPDATE | APRIL 2018

### GROWTH OPTIONS UPDATE

The WSOS team has been working collaboratively and diligently to implement the WSOS Board-approved Growth Options strategy.

Key activities include:

#### **A. Managing Staff Development and Organizational Growth**

Since the January 2018 WSOS Board meeting, the WSOS team has been engaged in a number of tactics and strategies to develop operational efficiencies, onboard new team members, identify organizational goals and core competencies, and most importantly, design programs and metrics to successfully launch the new near-peer leader and industry mentorship programs for fall 2018.

#### **B. Development of Near Peer Leader Strategy**

The Scholar Success team has been busy working to develop the curriculum and deliverables for our pilot near-peer leadership cohort.

Specifically, we are working to recruit 225 current WSOS Scholars in their second, third or fourth year of college to assist the WSOS Scholar Success Team in supporting newly-selected WSOS Scholars in their first and second year of college. Selected candidates, upon acceptance, will become a Scholar Lead at the institution they attend; some Scholar Leads may also support students at nearby colleges and universities through remote methods. Each Scholar Lead will be responsible for mentoring 10 to 15 younger WSOS Scholars with the supervision and support of a WSOS Success Advisor. This position is not available for credit but includes a stipend of \$1,800. The stipend will be paid in three equal parts over the course of the academic year pending satisfactory completion of required activities and reports.

Responsibilities of Scholar Leads will include:

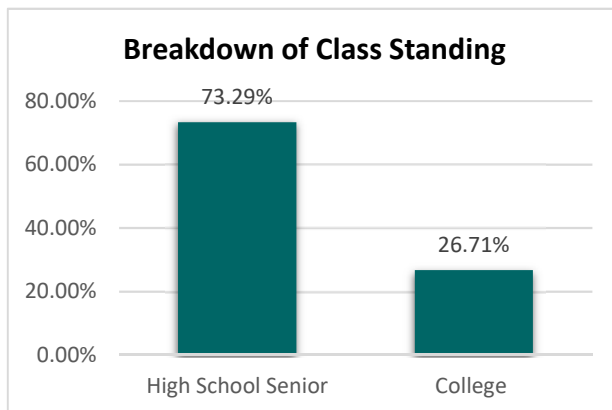
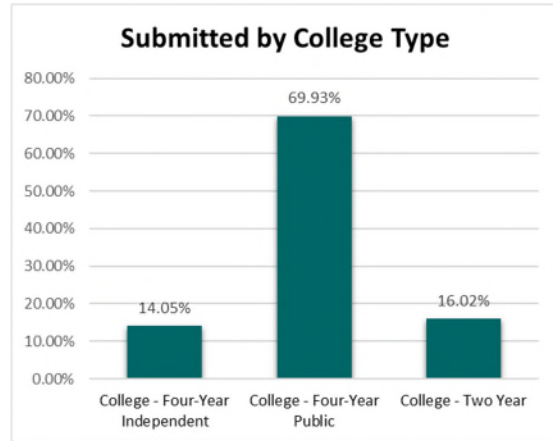
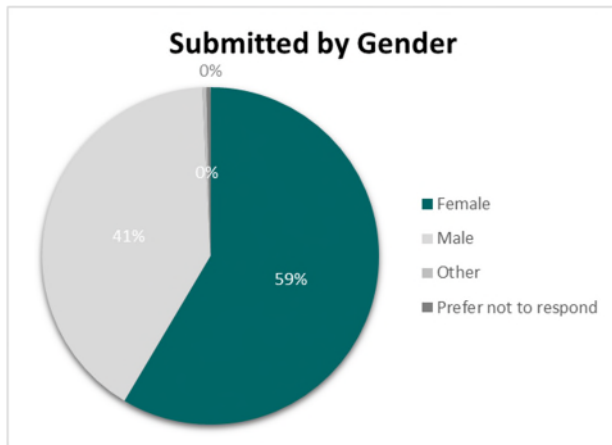
- Serving as an enthusiastic, positive and energetic WSOS role model to new WSOS Scholars
- Developing and maintaining relationships with new WSOS Scholars by providing support and assistance as they learn to navigate college and the WSOS experience
- Serving as a campus orientation and academic support resource to new WSOS Scholars
- Assisting new WSOS Scholars to familiarize themselves with campus and other resources to support their discipline trajectory
- Attending an already-scheduled, on-campus event and invite all assigned WSOS Scholars to join twice per year (once in fall, once in spring)
- Contacting new WSOS Scholars four times a year (twice in the fall, twice in the spring) via phone, text or email to do a “check in”
- Checking in with assigned WSOS Success Advisor (supervisor) as needed

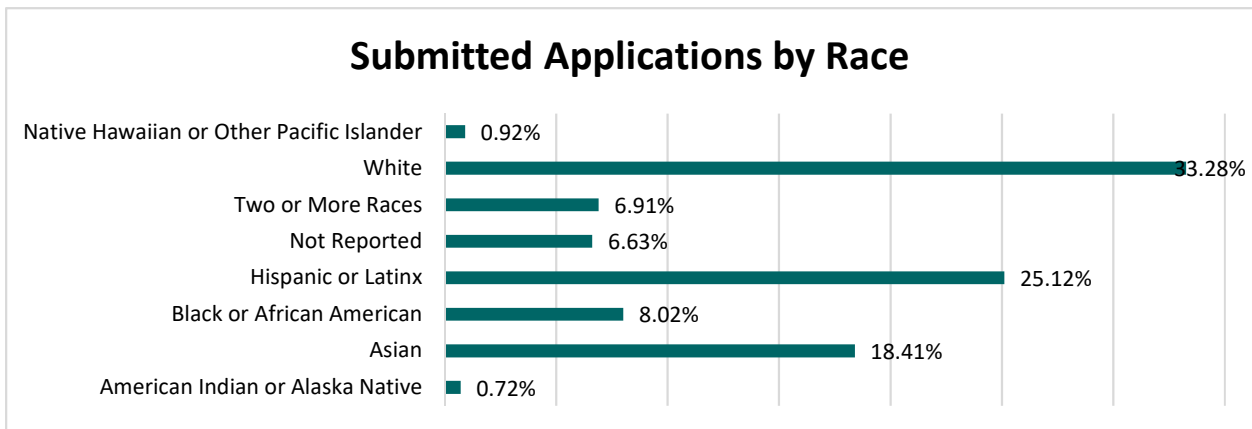
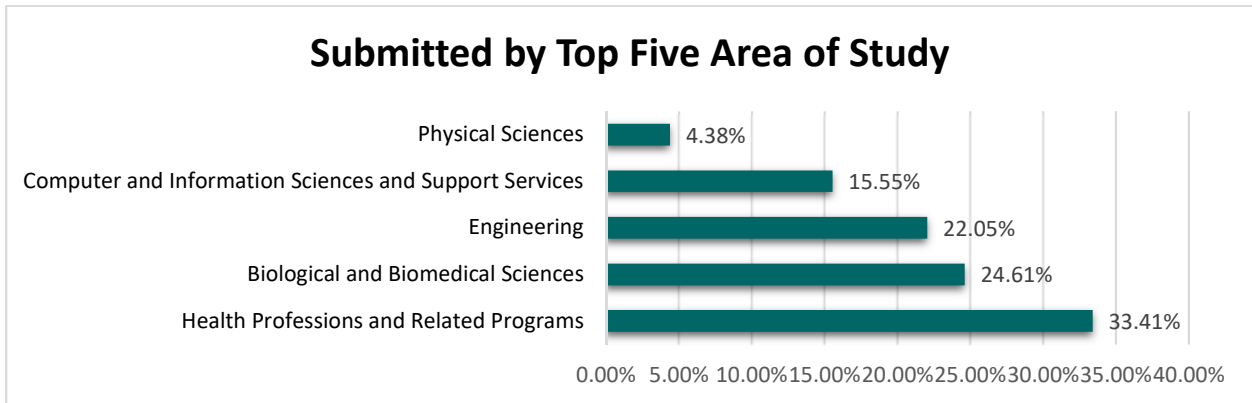
We are so excited to launch this innovative new model, and will continue to provide the Board with updates on the development of the program.

### COHORT 7 SCHOLARSHIP PROMOTION

Through our amazing staff and partners, we closed out another highly successful year of scholarship promotion recruiting a record number of applicants for the WSOS Scholarship - **4,889 applications received in total!** That is an increase of 1,118 applications from last year. Moreover, the percentage of male and female submissions matches that of last year's application cycle at 41% and 59% respectively. Further, 33.3% of students self-identify as white, while the balance self-identify as students of color. As further discussed below, we believe that our success has been achieved through our targeted outreach, mailing campaign, and partnerships.

#### A. SNAPSHOT OF COHORT 7 APPLICANTS





**B. NEW PROMOTION STRATEGIES FOR COHORT 7**

This year, WSOS implemented various new strategies and tactics which we believe assisted in increasing the number of qualified applicants across Washington State. The strategies include:

**1.) WSOS AND COLLEGE BOARD PARTNERSHIP**

College Board is an organization that recognizes the uniqueness of organizations which support high-achieving, underserved students. This year, WSOS and the College Board formed a new partnership that meets the needs of the specific demographic of our students that we serve.

When students take the PSAT/NMSQT or the PSAT 10 assessments, they have the option to opt in to the Student Search Service, a free program that connects students with scholarships as well as colleges and universities across the country.

Per the new partnership, WSOS used PSAT/NMSQT and PSAT 10 data to identify and promote to students who opt in to Student Search. We had the ability to filter this data to find students who meet the

demographic and eligibility criteria to qualify for our scholarship. The search attribute provided a subset of students that included major of interest, graduation date, geography (narrowing down on counties in WA state), demographics, GPA, intended major, high school courses and activities.

WSOS then sent information about our scholarship to the appropriate demographic of PSAT 10 and/or PSAT/NMSQT test takers, encouraging them to apply for our scholarship and inviting students to apply!

College Board also increased awareness of our scholarship through promotion on their website and social media as well as through their regular outreach to educators. Over 22,000 high school counselors received information about our scholarship program helping to connect eligible students to our program.

## **2.) COLLEGE ADMISSIONS PARTNER STRATEGY**

WSOS proudly continued its longstanding relationship with our Washington colleges and universities. This year, we developed a new strategic partnership with agreement to promote our scholarship to students at their campus who have indicated an interest in a STEM/Health care degree program. The advantage is a unique collaboration between WSOS and our college partners in multiple ways that targets their efforts to students to advance into their college career with the financial assistance needed to obtain their educational goals.

## **3.) IDENTIFYING KEY PARTNERS**

WSOS also continued to expand our partnerships with various organizations and community groups to primarily focus on promotion to students. The collaborators in this effort included career pipeline connections, friend-building service providers, educational institutions, corporations, and organizations. We worked directly with partner organizations, educational institutions, high schools and others to promote the scholarship social media, e-newsletters and direct email campaigns to their constituents.

We also identified organizations working directly with underrepresented students to share promotional materials including the Breakfast Group (African American mentorship group), YearUp, The Brotherhood Initiative, Washington CAN, Code.org, Project Lead the Way and many others.

## **SCHOLAR PROGRAMMING**

2018 has fostered a myriad of connections and events for our WSOS scholars.

This year 199 Scholars are participating in the Skills that Shine (StS) program. Program Advisor Joanna Moznette painstakingly matched industry partner volunteers with Scholars based upon field of study, regional location and other factors. With mentors' assistance, Scholars are refining their resumes, enhancing their networking skills and mastering the art of the interview. In February and March, we

witnessed the rising skills of some of our enrolled Scholars during networking events hosted by McKinstry, Boeing, the Infectious Disease Research Institute and Life Sciences Washington.

McKinstry provides a great example of corporate engagement with WSOS Scholars. This firm has provided 27 Skills That Shine mentors this year as well as hosting a reception with a panel discussion for all interested WSOS students across a broad range of engineering majors. Last year McKinstry matched employee hours with a financial donation to WSOS as well.

We invite board members to engage with our Scholars during our upcoming Skills that Shine networking event on April 17<sup>th</sup> at 415 Westlake in Seattle. Professional/student pairs will participate in a speed networking activity and enjoy a team trivia contest. A photographer will be present to take photos for LinkedIn profiles.

As we close out this year's StS program, we are planning for the coming years. Over the next six months we are revamping our program platform, redesigning modules and adding new talent to better support future mentors and mentees. We are especially grateful for the design contributions of WSOS alum Tuyen Truong. Her insights as a Scholar and her formal training in UX design has propelled our thinking and enthusiasm for the next chapter of Skills that Shine!

## **2018 OPPORTUNITYTALKS BREAKFAST**

The 4th annual OpportunityTalks Breakfast will take place at the Sheraton Seattle Hotel on Thursday November 1, 2018 from 7:30 – 9:00 am. Staff are seeking commitment renewal from Executive Leadership Committee members, table hosts and sponsors. Additionally, the search is on for an outstanding keynote speaker on a topic relevant to our corporate audience. Our featured Scholar speaker is beginning her training with a public speaking coach as well. Please preserve this date on your calendar as the presence of our board members is highly impactful. You are our best corporate ambassadors!

## **MEDIA & ADVOCACY**

### **A. Media coverage**

WSOS enjoyed strong media coverage through the 2018 legislative session and our 2018-19 scholarship application cycle. The statewide earned media coverage in the months spanning January through March helped spread awareness of our scholarship program and celebrate our expansion into funding high-demand professional and technical degree and certificate programs.

Coverage summary:

- State scholarship opportunities for DACA recipients | KUNS-TV, Univision Affiliate, January 19



WASHINGTON STATE  
**OPPORTUNITY**  
SCHOLARSHIP

- Education Focus: Bill would extend reach of scholarship program | Skagit Valley Herald, February 19
- Opportunity scholarships expanded to include technical and community colleges | Seattle Times, March 19
- State wisely expands its scholarships for technical fields | Walla Walla Union Bulletin, March 23
- Here's how the legislature made it easier for Washington students to go to college | Bellingham Herald, March 29

**B. Social Media Impressions**

Social engagement was strong over the course of the scholarship promotion period spanning January thru February and continued with the news of our historic legislative expansion in March.

**Twitter**

- » 1,668 followers Dec. 18, 2017
- » 1,740 followers March 31, 2018 (+4%)
- » Total impressions (paid & organic): **119,400**

**Facebook**

- » 3,338 page likes Dec. 18, 2017
- » 3,454 page likes March 31, 2018 (+3%)
- » Total impressions (paid & organic): **101,840**

**Post with the highest engagement:**

**WA Opp Scholarship** @OppScholarship · Mar 21  
Today, we celebrated the signing of HB 1452 with Scholars, partners, board and community members and staff! We're excited for this new journey and continuing to support #WaState students!



2 11 34

### **C. Advocacy Update**

The 2018 supplemental session resulted in a historic expansion of the WSOS baccalaureate scholarship program thanks to the leadership of the Board, advocacy from a broad base of partners and near unanimous, bipartisan support from the Legislature.

Collectively, this legislation will expand WSOS to two new populations of students who are ready to fill our workforce talent gaps:

- Students pursuing sub-baccalaureate professional and technical degree and certification programs offered at our state's 34 community and technical colleges through SHB 1452 and E2SHB 2177
- Students pursuing high-demand graduate medical education programs who complete a service obligation in rural or underserved communities through E2SHB 2143

### **D. Next Steps for the Professional/Technical Degree Expansion**

WSOS made every effort to ensure the bill language aligns with our existing state statute and the vision laid out by the Board. In the coming months, we will convene a visioning process through which a committee of thought-leaders, partners and higher education stakeholders will inform the expansion plan development. Concurrently, staff will also engage in research and a landscape analysis including local, national and international best practices around professional/technical degrees and workforce development. The recommendations brought forward through the committee will be submitted to the Board for consideration in September.

## **Tab F**

### **Finance & Program Administrator Update**

## Agenda

### **WSOS Investment & Finance Committee Meeting**

*April 5, 2018, 1:00pm - 2:00 pm*

Call-in: 800-582-3014 – PIN: 13389906  
Washington STEM Discovery Conference Room

- |    |   |            |          |
|----|---|------------|----------|
| 1. | Call to Order & Introductions           | Mack H.    |          |
| 2. | Approval of December 15, 2017 Minutes   | Mack H.    |          |
| 3. | 2017 Audit Report and Financial Results | Cindy G.   | (10 min) |
| 4. | Program Administrator Report            | Cindy G.   | (5 min)  |
| 5. | WSIB Presentation                       |            | (35 min) |
|    | a. Investment Update                    | Chris P.   |          |
|    | b. Asset Allocation Review              | Patrick M. |          |
| 6. | RFP Working Group                       | Bob M.     | (5 min)  |
| 7. | Legislative Update                      | Naria S.L. | (5 min)  |
| 8. | Other Business                          | Mack H.    |          |
| 9. | Executive Session                       | Mack H.    |          |

**2018 MEETINGS:**

**Monday, September 17<sup>th</sup> at 1-2 pm**

**Monday, December 3<sup>rd</sup> at 1-2 pm**

## FINANCE & INVESTMENT COMMITTEE MEETING MINUTES | FRIDAY, DECEMBER 15, 2017

**Members present:** Mack Hogans (Committee Chair), Gary Rubens and Bob Moser; via teleconference: (Beau Damon (Microsoft), Peter Harvey, DeShay McCluskey and Elizabeth Tinkham (Washington STEM Board))

Others present: Naria Santa Lucia (WSOS Executive Director), Cindy Gustafson (Washington STEM), Chris Phillips (WSIB) and Karyl Gregory (WSOS staff)

Mack Hogans called the meeting of the Washington State Opportunity Scholarship (WSOS) Finance and Investment Committee to order at 1:00 pm and asked each person to identify themselves.

### **Approval of Minutes from September 29, 2017 Finance and Investment Committee**

Bob Moser made a motion to approve the minutes of the September 29, 2017 meeting. Gary Rubens seconded the motion and it carried unanimously.

### **Financial Statements**

Cindy Gustafson presented the Washington STEM and WSOS financials through September 30, 2017. Gustafson reported that WSOS cash and investments increased by \$14M compared to this time last year (\$125M vs \$111M). Gustafson further reported that the new scholarship liability for Cohort 6 has been recorded. Gustafson additionally reported that there is \$17.3M in short term investments with KeyBank.

It was suggested that future reporting only include WSOS financials rather than both organizations.

Santa Lucia reported that the State was invoiced for the state match for the period February 1, 2017 through September 30, 2017 in the amount of \$8.4M and it was accepted. Santa Lucia further reported that the State is working through a submission for state match totaling \$2.8M for private gifts received by the College Success Foundation prior to February 1, 2017.

Committee members expressed their confidence in Gustafson's report of the Financial Statements.

### **WSOS Growth Options**

Naria Santa Lucia expressed appreciation to Cindy Gustafson and her team for the large lift involved with converting to the new Washington STEM Accounting system, MIP.

Santa Lucia reported that a fresh look at the scholarship model based on the most current data together with a program cash forecast through 2026 revealed a projected total of \$51M in uncommitted funds using current program assumptions. The Board asked WSOS to research best options to maximize these funds. Santa Lucia reported that four options were presented to the Board who voted to approve two of the four options: improve retention through programmatic expansion (estimated cost of \$22.4M to retain 2,250 more students) and extend the program duration (estimated cost of \$28.7M to serve 2,200

more students) – both options through 2025/Cohort 14. Santa Lucia further reported plans for the formation of three new teams (Awards, Retention and Placement) in 2018 comprised of current program staff plus additional staff to be hired. Scholars will be given full-cycle support because their needs vary year by year. Scholars in their first and second year will receive targeted support by WSOS Retention Program Officers as well as mentoring by upper class Scholars as Near Peer Leaders who will receive a stipend. Scholars in their third and fourth years will be supported by WSOS Placement Program Officers and mentored by an industry professional. Santa Lucia reported that both investments may flex and will result in a projected 2,582 additional graduates employed in STEM/Healthcare (\$19,800 per graduate) – a cost savings of \$2,700 per successful graduate. Santa Lucia further reported that retention is hovering at 50% and our goal is to increase it to 60%.

Placement services for Scholars will include counseling, employment coaching and internships at gold sponsor companies.

The Committee engaged in a dialogue around the new growth plan for WSOS and expressed confidence with the emphasis on increased support services for students.

### **Legislative Update**

Santa Lucia reported that the Governor approved \$12.8M for state match funds in the supplemental budget.

Santa Lucia further reported that people are needed to testify for HB 1452. This \$1M bill would expand the WSOS program to include eligible students who have been accepted into a professional-technical certificate or degree program approved by the State Board of Community and Technical Colleges and offered at a WA public institution of higher education.

Santa Lucia also presented the 2018 WSOS Legislative Report and encouraged members to review the data and impact of the program.

### **WSIB Report**

Chris Phillips provided a performance review of WSOS funds invested through September 30, 2017. Phillips reported that the Scholarship Fund holds \$64.3M in total assets and \$10.4M cash was received in September in the Private Scholarship Fund. Phillips further reported that the Endowment Fund holds \$28.3M in total assets and \$2.5M cash was received in September in state match funds.

As requested by Bob Moser, Phillips will send characteristics of the Washington State Bond Fund to the Committee.

### **Scope of Work for RFP Working Group**

Bob Moser reported that best fiduciary practices suggest a periodic review and evaluation of fund managers. Moser further reported that a WSOS Finance & Investment Committee Working Group has been formed to assess the need and, if necessary, to develop a process to solicit and evaluate proposals from qualified investment fund managers for WSOS funds. If the Working Group recommends an RFP process, the timeline will culminate with a recommendation to the WSOS Board of Directors at their June 2018 meeting.

The Committee went into Executive Session at 2:05 pm, had a brief discussion, and adjourned.

Respectfully submitted,  
Karyl Gregory



## **Beau Damon**

### **Microsoft, Chief Investment Officer**

Beau is responsible for Microsoft's Treasury Capital Markets group, including management of the \$100B cash portfolio, \$20B in revenue and balance sheet foreign exchange hedging program and the funding and repatriation of global cash throughout Microsoft's subsidiaries. Within the investment portfolio, he oversees the allocation of a globally diversified portfolio of fixed income, equities and alternatives with the goal of obtaining superior risk adjusted performance. In addition, the Capital Markets team acts as a trusted advisor across the company, providing financial expertise and building relationships with Microsoft's financial services partners.

He joined the firm eighteen years ago after having managed fixed income funds for Payden & Rygel and trading fixed income securities for UBS and Kidder Peabody. He holds a bachelor's degree in Economics from Trinity College and an MBA in Finance from the University of Chicago. He is a holder of the CFA charter.

Beau enjoys horseback riding with his family.

# WASHINGTON STEM

## 2017 FINANCIAL RESULTS

### Legal Entity and Financial and Tax Reporting

Washington STEM is not-for-profit 501(c)3 corporation dedicated to advancing equity and innovation in STEM education. Washington State Opportunity Scholarship (WSOS) is a public-private partnership established by the Washington State Legislature to increase access to high-demand four-year degrees in STEM majors for low- and middle-income students through scholarships. The WSOS program needs to be housed within a not-for-profit corporation that can accept private donations on its behalf. Washington STEM, as fiscal sponsor for WSOS, provides that legal entity for the WSOS programs.

For financial reporting and federal income tax reporting purposes, there is only one audit report and one Form 990 filing which includes all programs under the Washington STEM not-for-profit corporation. It is important for users of the financial statements to be able to read and understand the financial results of each program separately. There are also inter-fund transactions that must be eliminated, such as the administration fee that is charged to WSOS (program expense) by Washington STEM (contract revenue).

Therefore, the audited financial statements for 2017 have been prepared showing results by program and combined on the face of the statements. All footnote disclosures report the relevant information both separately by program and combined. Supplementary schedules report the functional expenses by program as well. We believe this reporting, while optional and not required, will serve users of the financial statements most effectively.

### Overview by Program

For Washington STEM, all programs combined, 2017 revenues were \$30.7 million with an increase in Net Assets of \$4.9 million before transfer of the WSOS program. When the transfer of the WSOS program at \$106.1 million, which occurred as of February 1, 2017, is added, the total increase in Net Assets for 2017 was \$111.0 million.

Each of the programs report strong financial performance for 2017.

- **Washington STEM:** Revenues of \$7.5 million for 2017 were up 27 percent, which is record revenue since the organization's founding. The growth came in corporations, thanks to a multi-year pledge from Microsoft, and from foundations thanks to grants from JPMorgan Chase and Murdock Charitable Trust of \$1 million and \$250,000, respectively. Contract revenue also grew to over \$1 million due to the addition of the WSOS Program Administration contract. Expenses went down to \$5.3 million in 2017 because out-going grants decreased by \$803,000 from 2016. Washington STEM began the year with cash and pledges and contracts receivable totaling \$7.3 million and ended the year with cash and pledges of \$9.0 million.
- **Washington State Opportunity Scholarship:** Program results are reported for the eleven months ending December 31, 2017, which is the period that Washington STEM was fiscal sponsor for the program. Revenues for that period were \$21.8 million, which includes \$11.6 million in state match, \$8.0 million in investment returns, and \$2.2 million in private contributions. Washington STEM implemented an accounting policy to recognize the state match revenue once the conditions have been met, which resulted in recognition of \$3.2 million in state match revenue in December. Scholarship expenses were \$16.8 million in 2017 and other program expenses were \$3.2 million, which included transition costs from the previous administrator.



WSOS had total assets of \$134.9 million as of December 31, 2017, including \$17.0 million in pledges and state match receivables and \$117.8 million in cash and investments. Investments are primarily held at the Washington State Investment Board with short term investments held at Key Bank.

- **Project Pilgrimage:** This program came to Washington STEM in late 2016 out of the University of Washington Department of Communications with which there have been numerous collaborations around learning tours, intern programs, and so on. By mutual agreement, the fiscal sponsor agreement will be terminated as of April 30, 2018. The program and all its assets, liabilities, and net assets as of that date will be transferred to a new fiscal sponsor. For the year ending December 31, 2017, Project Pilgrimage had revenues of \$1.8 million and expenses of \$.4 million.

Congratulations to all programs for such positive financial results in 2017.

Prepared by Cindy Gustafson  
March 2018



Financial Statements

For the Years Ended December 31, 2017 and 2016

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## **Independent Auditor's Report**

**To the Board of Directors  
Washington STEM  
Seattle, Washington**

We have audited the accompanying financial statements of Washington STEM (the Organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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



T: 425-454-4919  
T: 800-504-8747  
F: 425-454-4620

10900 NE 4th St  
Suite 1400  
Bellevue WA  
98004

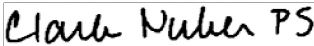
[clarknuber.com](http://clarknuber.com)

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017 and 2016, activities and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The program-level information included in the statements of financial position, statements of activities and changes in net assets, and statements of cash flows on pages 3 through 8, as well as the accompanying schedules of functional expenses shown on pages 20 through 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Certified Public Accountants  
March 23, 2018

**WASHINGTON STEM**

**Statement of Financial Position  
December 31, 2017**

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

See accompanying notes.

WASHINGTON STEM

Statement of Financial Position  
December 31, 2016

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

See accompanying notes.

**WASHINGTON STEM**

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

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

See accompanying notes.



**WASHINGTON STEM**

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

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

See accompanying notes.

**WASHINGTON STEM**

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

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

See accompanying notes.

**WASHINGTON STEM**

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

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

See accompanying notes.

## WASHINGTON STEM

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

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#### Note 1 - Significant Accounting Policies

**Organization** - Washington STEM (WA STEM) is a nonprofit organization dedicated to advancing innovation, equity, and excellence in science, technology, engineering, and mathematics (STEM) education. WA STEM mobilizes education, business, and civic leaders to fulfill their shared responsibility to accelerate improvements in STEM instruction throughout the State of Washington and dramatically improve learning outcomes for all students.

As a nonprofit venture fund, WA STEM makes investments to test and validate scalable approaches for improving STEM teaching. WA STEM spurs and supports the delivery of effective real-world STEM learning opportunities to students in and out of school. WA STEM also identifies and generates knowledge, tools and resources to build capacity in the field and fuel advocacy efforts. All of its efforts are designed to increase student performance, college readiness and success, and the pursuit of STEM degrees and careers, including STEM teaching. Program services reflect the grants and investments made directly to tax-exempt organizations, as well as in-kind support provided, to support the generation, capture, sharing and application of promising practices to improve STEM teaching and learning at scale. This nonprofit venture model will dramatically expand the reach and impact of the Organization's strategy across the state and nation.

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

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

Project Pilgrimage - In September 2016, WA STEM entered into an agreement to serve as a fiscal sponsor for Project Pilgrimage. Project Pilgrimage works to enhance equity through access to education. Revenue from this program consists of purpose restricted contributions. As WA STEM is a fiscal sponsor of the Project Pilgrimage program, all balances and activity of Project Pilgrimage are included in these financial statements.

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

**Basis of Presentation** - The financial statements of the Organization are presented on the accrual basis of accounting. Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions and unrestricted net assets designated by the Organization for various purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or passage of time. Temporarily restricted net assets were time and purpose restricted at December 31, 2017 and 2016.

## WASHINGTON STEM

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

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#### Note 1 - Continued

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

#### Revenue Recognition -

Contributions - Cash contributions are recorded as revenue in the period received, in accordance with donor restrictions. Unconditional promises to give (pledges) are recorded at fair value in the period the promise is received, in accordance with donor-imposed restrictions. In-kind contributions, including donated goods and certain services, are recognized at their fair values on the date received or pledged. Program grants are recorded as purpose-restricted revenue with release of restrictions upon incurring related expenses.

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

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

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

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

## WASHINGTON STEM

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

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#### Note 1 - Continued

**Pledges Receivable** - Pledges receivable, unconditional promises to give, that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in revenue and support in the statements of activities and changes in net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no outstanding conditional pledges at December 31, 2017 and 2016.

Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

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

**Furniture, Fixtures and Equipment** - The Organization capitalizes furniture, fixtures and equipment with a value greater than \$1,000, at cost, or at fair value on the date received if donated. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, ranging from four to seven years. Leasehold improvements are depreciated over the shorter of their useful life or the lease term.

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

**Grant and Investment Expense** - The Organization awards cash and in-kind grants and contributions in the form of professional services and expertise to tax-exempt organizations to accelerate and support STEM education throughout Washington State. Grant and investment expense is recognized on the statements of activities and changes in net assets as program expense at the time committed by the Organization. For in-kind grants, the Organization recognizes as expense the value of granted goods and services at their fair values at the time the grant was made. Grants payable over more than one year are recorded at their discounted present value using a risk-adjusted rate of return. Changes in discounts are recognized over the period of the promise as adjustments to grant expense.

**Vulnerability From Certain Concentrations** - Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents. Cash and cash equivalents and investments held at financial institutions exceeded federally insured limits at times during the years ended December 31, 2017 and 2016, respectively.

For the Organization as a whole, during the year ended December 31, 2017, 58% of contribution revenue was from three donors and 93% of its pledges receivable were from three donors. For the year ended December 31, 2016, 71% of the Organization's revenue was from two donors and 83% of its pledges receivable were from three donors.

## WASHINGTON STEM

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

#### Note 1 - Continued

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

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

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

**Federal Income Tax Status** - The Internal Revenue Service has determined the Organization to be a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax has been made in these financial statements.

**Functional Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among program, management and general, and fundraising categories based on the benefits derived.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results may differ from such estimates.

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

#### Note 2 - Pledges Receivable

Pledges receivable were as follows at December 31:

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

## WASHINGTON STEM

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

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#### Note 2 - Continued

Pledges receivable with due dates extending beyond one year were discounted using discount rates based on risk adjusted rates of return between 0.12% and 1.2% at December 31, 2017. An allowance for uncollectible pledges was not considered necessary at December 31, 2017 and 2016.

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

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

#### Note 3 - Investments - WSOS

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

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

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

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

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

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



## WASHINGTON STEM

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

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#### Note 4 - Fair Value Measurements

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

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

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

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

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

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

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

## WASHINGTON STEM

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

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#### Note 4 - Continued

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

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

#### Note 5 - Furniture, Fixtures and Equipment

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

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

#### Note 6 - Scholarship Commitments Liability

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

Expected to be paid in:

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

## WASHINGTON STEM

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

#### Note 7 - Temporarily Restricted Net Assets

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

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

#### Note 8 - Permanently Restricted Net Assets - WSOS Endowment

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

**Interpretation of Relevant Law** - The Board of Directors of the Organization has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of original gifts to the endowment as of the gift date, absent explicit donor stipulations to the contrary. As a result of this determination, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- The investment policies of the Organization.

## WASHINGTON STEM

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

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#### Note 8 - Continued

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

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

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

**Return Objectives and Risk Parameters** - The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, and guided by various state policies that govern investment of state funds, the endowment assets are invested in permissible funds to produce results that are measured against standard benchmarks while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5.5% annually. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

## WASHINGTON STEM

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

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#### Note 9 - Office Space Agreements

In July 2010, the Organization entered into a commercial office license agreement for its office facilities with a related party. The original license agreement was for five years and has been subsequently amended several times. As of December 31, 2017, the agreement extends through September 30, 2018, plus two options to extend for one additional year each. Subsequent to year end, the Organization notified the lessor of its intent to exercise the first of the two available extension options, which extends the term through September 30, 2019 and adds additional office space.

Effective February 1, 2017, the Organization leased office space for the WSOS program. Rent expense under the terms of the lease is approximately \$50,000 per year and will increase by 4% per year through the five-year term of the lease. These amounts are included in the total minimum payments shown below.

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

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

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

#### Note 10 - Retirement Plan

The Organization sponsors a 401(k) employee benefit retirement plan (the Plan) covering all full-time employees who have completed one month of service. Participating employees may make voluntary contributions, and the Organization makes matching contributions equal to 100% on the first 3% of an employee's elective salary deferral, and then 50% on the elective salary deferral in excess of 3% to a maximum of 5%, for a total possible match of 4%. These matching contributions vest immediately. The Organization may also elect to make discretionary contributions to participants pending board approval; however, no such contributions were made for the years ended December 31, 2017 or 2016.

## WASHINGTON STEM

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

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#### Note 10 - Continued

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

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

#### Note 11 - Washington State Opportunity Scholarship Program

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

<b>Assets:</b>	
Cash	\$ 11,860,622
Investments	74,278,010
Other assets	24,378
Pledges and grants receivable	<u>41,782,734</u>
<b>Total Assets</b>	<b><u><u>\$ 127,945,744</u></u></b>
<b>Liabilities:</b>	
Scholarship liabilities	\$ 21,790,028
Other liabilities	<u>70,197</u>
<b>Total Liabilities</b>	<b>21,860,225</b>
<b>Net Assets:</b>	
Temporarily restricted net assets	81,085,519
Permanently restricted net assets	<u>25,000,000</u>
<b>Total Net Assets</b>	<b><u><u>106,085,519</u></u></b>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 127,945,744</u></u></b>

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

#### Note 12 - Subsequent Events

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

**SUPPLEMENTARY INFORMATION**

**WASHINGTON STEM**

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

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

See independent auditor's report.



WASHINGTON STEM

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

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

WASHINGTON STEM

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

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

# Presentation to the Finance Committee of



March 23, 2018

Deby MacLeod, CPA, CGMA  
Shareholder  
DMacLeod@clarknuber.com  
425.635.4567

Victoria Kitts, CPA, CFE  
Senior Manager  
VKitts@clarknuber.com  
425.709.6227

## Service Scope & Deliverables

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- **Financial statement audit**
  - Unmodified opinion
    - Indicates the financial statements are materially correct and we did not find any reason to modify our opinion
  - Two sponsored programs are included for 2017, including the WSOS program
- **Letter of comments to those charged with governance**
  - No material weaknesses noted
- **Preparation of Form 990 tax return**
- **Other services**
  - Preparation of draft financial statements in conjunction with the audit
  - Implementation of new general ledger system (Abila MIP)
  - Routine accounting and tax consulting, as requested

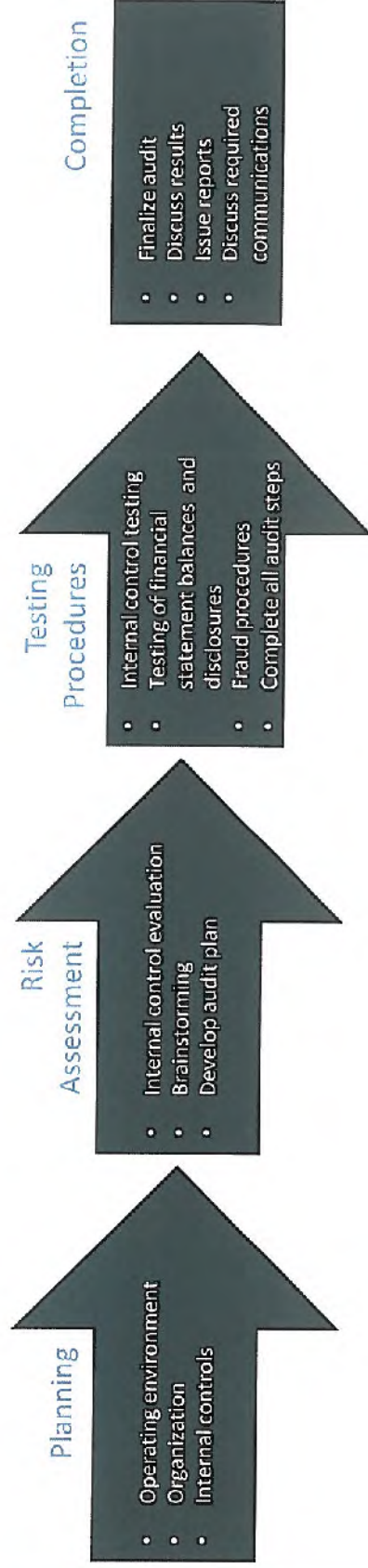
## Financial Statement Audit

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### Purpose

- Issue an opinion (“*audit report*”) that accompanies your annual financial statements
- Gives assurance to users of the financial statements (*lenders, funders, Board of Directors, etc.*) that the information you have reported in the financial statements is materially correct

### Process





## Areas of Financial Statement Audit Emphasis

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### Critical Audit Areas

- Revenue recognition
  - Contributions: Restrictions, releases and net assets
  - Contracts with Washington State: recognition of revenue as earned
- Incorporation of the WSOS program
- Expense recognition and liability accrual for WSOS scholarships
- Expense recognition for grants and investments made by WA STEM

### Financial Statement Estimates

- Valuation of WSOS scholarship liability
- Valuation and collectability of receivables
- Fixed assets lives
- Functional allocation of expenses

### Internal Controls in the Following Areas

- Revenue, receivables, and cash receipts
- Grants, accounts payable, payroll, and related disbursements
- Scholarship liability and related disbursements
- Investments and earnings
- Information technology
- Financial reporting and closing
- Entity level controls

## Comments and Recommendations

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### Observations and Recommendations

- There were no audit adjustments noted during the audit.
- Extensive testing and evaluation of WSOS balances and activity were performed by the WA STEM team.
- Requested items for the audit were complete and were reviewed internally before providing them to Clark Nuber.
- There was one unadjusted difference noted during the audit.
  - Formula error in the calculation of the WSOS scholarship liability. The proposed adjustment would increase the liability and expense by \$59,800.
- The accounting system was converted during 2017.
  - We noted no variances or issues with the conversion.
  - As a best practice, we recommend an IT system “check up” be performed in the future to ensure system controls are set up and performing as intended.

### Follow up on Prior Year Comments

- The present value discount on pledges had been updated each year. GAAP treatment requires that the discount rate used during the year the pledge is received is used consistently throughout the life of the pledge. Differences between the two methods are currently immaterial.
  - Not repeated this year.



## Other Required Communications

Professional standards established by the AICPA require independent auditors to communicate certain matters directly to those charged with governance. This report presents a brief explanation of each of the communication requirements and our response as it relates to your organization.

Items to be Communicated	Auditor's Response
Auditor's responsibility under U.S. Auditing Standards.	Communicated in engagement letter.
Representations requested from management.	Communicated in representation letter.
Significant difficulties encountered during audit.	None.
Disagreements with management.	None.
Major issues discussed prior to retention.	None.
Consultation with other accountants.	None of which we are aware.
Fraud or noncompliance with laws and regulations.	No such matters came to our attention.
Consideration of entity's ability to continue as a going concern.	No such matters require disclosure.
Other information in documents containing audited financial statements.	We are aware that financial results are included in the Organization's annual report. We review the financial information each year before it is published.
Qualitative aspects of accounting practices.	Policies and procedures and estimates are consistent with prior years and with practices we see at similar organizations.
Significant audit issues.	No matters were discussed.



# Not-For-Profit Financial Reporting Standard (ASU 2016-14)

## EFFECTIVE FOR CALENDAR YEARS 2018 AND FISCAL YEARS 2019

### Net Asset Classifications

- 2 classes of net assets – net assets with donor restrictions and net assets without donor restrictions
- New disclosure about board and management designations on net assets
- Changes to accounting and disclosures for underwater endowments
- Required to use the placed-in-service approach for accounting for donor restrictions on gifts of/for property and equipment

### Liquidity and Availability Disclosures

- New disclosures about managing liquidity and the availability of financial assets

### Reporting Expenses

- Required disclosure and analysis of expenses by function and nature
- Required disclosure about methods used to allocate expenses on a functional basis

### Investment Return

- Investment return required to be reported net of related external and direct internal expenses
- No longer required to disclose components of investment return

### Statement of Cash Flows

- No longer required to present indirect reconciliation if direct method is used to report operating cash flows

Revenue Recognition – effective calendar year ending 2019 (FY 2020)

- Applies to contracts with customers
- Recognizes revenue when (or as) the entity satisfies a performance obligation in the contract

Leases – effective calendar year ending 2020 (FY 2021)

- Elimination of operating type leases. All but short-term leases will be recorded on the balance sheet.



## Tax Reform for Tax Exempt Organizations

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- **Changes to Unrelated Business Income**
  - Corporate tax rate on UBI is now a flat 21% on all taxable income.
  - UBI from each “business activity” is segregated.
  - Net operating losses (NOL) may only offset 80% of taxable income.
  - NOL may not be carried back but those created after 2017 can be carried forward with no expiration.
- **Change to Employee Compensation and Benefits**
  - Transportation fringe benefits (parking, transit pass, van pool, etc.) must be treated as UBI to remain tax free to the employee.
  - Qualified bicycle commuting reimbursements are taxable fringe benefits.
  - Moving expense reimbursements are taxable regardless of the type of moving expense.

## Opportunities for Continuing Education

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We offer external educational opportunities, including a variety of events and training sessions that can provide added benefit to you.



### Upcoming Events

- Not-For-Profit Financial Statements Client Workshop: May 3, 2018
- Not-For Profit Basics (for accountants): July 16 -18, 2018
- Not-For-Profit Board Essentials (for board members): Fall 2018
- Not-For-Profit Update (Audit, Tax, and SALT): Fall 2018
- Governance and Leadership Summit: Fall 2018

For more information visit [www.clarknuber.com/news](http://www.clarknuber.com/news)

## About Clark Nuber



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**Serve:** Not-for-Profit & Public Sector, Privately Held & Family Owned Businesses, and High Net Worth Individuals





# Finance & Program Administrator Update December 31, 2017

# WSOS Balance Sheet

## Comparative Balance Sheets December 31, 2017

	Comparison to Prior Quarter			Notes	Comparison to Same Period LFY		
	9/30/17	% Change	12/31/17		12/31/16	% Change	12/31/17
<b>Assets</b>	-				-		
Cash	2,140,890	-25%	1,606,525	1	11,862,719	-86%	1,606,525
Investments	109,879,985	6%	116,241,586	2	72,628,321	60%	116,241,586
Accounts Receivable	39,725	54%	61,008		755,031	-92%	61,008
Pledges and Grants Receivable	13,154,779	7%	14,073,312	3	20,971,280	-33%	14,073,312
State match receivable, net	-		2,886,686	4	-		2,886,686
Prepaid Expenses	74,392	-44%	42,027		13,614	209%	42,027
Property and equipment, net	24,302	-16%	20,344		-		20,344
<b>Total Assets</b>	<b>125,314,073</b>	<b>8%</b>	<b>134,931,488</b>		<b>106,230,965</b>		<b>134,931,488</b>
<b>Liabilities and Net Assets</b>	-				-		
Accounts Payable	61,521	-2%	60,170		784,086	-92%	60,170
Payroll Related Liabilities	5,335	2373%	131,913		118,013	12%	131,913
Scholarship Commitments, net	30,290,993	-12%	26,792,579	5	29,089,179	-8%	26,792,579
<b>Total Liabilities</b>	<b>30,357,849</b>	<b>-11%</b>	<b>26,984,662</b>		<b>29,991,278</b>	<b>-10%</b>	<b>26,984,662</b>
<b>Net Assets</b>	-				-		
Temporarily Restricted Net Assets	69,956,224	19%	82,946,826		51,239,687	62%	82,946,826
Permanently Restricted Net Assets	25,000,000	0%	25,000,000		25,000,000	0%	25,000,000
<b>Total Net Assets</b>	<b>94,956,224</b>	<b>14%</b>	<b>107,946,826</b>		<b>76,239,687</b>	<b>42%</b>	<b>107,946,826</b>
<b>Total Liabilities and Net Assets</b>	<b>125,314,073</b>	<b>8%</b>	<b>134,931,488</b>		<b>106,230,965</b>	<b>27%</b>	<b>134,931,488</b>

# WSOS Balance Sheet

## Notes:

1. Decrease in Cash due to excess cash invested with KeyBank Capital and WSIB during Q4 2017 to earn higher returns. All investments were made per investment policy.
2. Investments balance as of 12/31/17 includes WSIB Scholarship \$66M, WSIB Endowment \$29.2M and KeyBank Capital \$21.1M.
3. WSOS received pledge payments of \$97,677 during Q4 2017. Total pledge receivable balance increased for the quarter. See Note 1 on income statement regarding discount of pledge receivable.
4. WSOS adopted a change in accounting policy for State Match Revenue in 2017. The revenue for state match will be accrued in the same period that the private donations are received. Pre-2/1/17 State Match revenue of \$2,804,502 was resubmitted to WSAC for processing with a 10% allowance. Q4 State Match accrual is \$423K.
5. Scholarship Commitment liabilities increased due to revised scholarship model developed and used to calculate scholarship liability plus accrual of the scholarship liability for Cohort 6 (academic start Fall 2017).



# WSOS Income Statement

## Actual vs. Budget

Eleven Months Ending December 31, 2017

	Eleven Months Ended December 31, 2017			Notes	December 31, 2017
	Actual	Budget	Variance Fav (Unfav)		Annual Budget
<b>Revenue</b>					
Private	2,169,052	3,000,000	(830,948)	1	3,000,000
Public	11,649,095	7,000,000	4,649,095	2	7,000,000
Investment Income	8,019,988	-	8,019,988	3	-
<b>Total Revenue</b>	<b>21,838,135</b>	<b>10,000,000</b>	<b>11,838,135</b>		<b>10,000,000</b>
<b>Program Expense</b>					
Salaries and Benefits	1,312,212	1,224,570	(87,642)		1,224,570
Professional Fees - Program Admin fees	394,357	427,230	32,873	4	427,230
Professional Fees - Contractors & Lobbying	525,107	274,526	(250,581)	5	274,526
Conferences, Conventions & Meetings	288,391	179,500	(108,891)		179,500
Operating Expenses	670,109	285,831	(384,278)	6	285,831
	<b>3,190,176</b>	<b>2,391,657</b>	<b>(305,350)</b>		<b>2,391,657</b>
<b>Income (Loss) before Scholarship Exp</b>	<b>18,647,959</b>	<b>7,608,343</b>	<b>11,532,785</b>		<b>7,608,343</b>
<b>Scholarship Expense</b>	<b>16,786,652</b>	<b>21,247,310</b>	<b>4,460,658</b>	7	<b>21,247,310</b>
<b>Net Income (Loss)</b>	<b>1,861,307</b>	<b>(13,638,967)</b>	<b>15,500,274</b>		<b>(13,638,967)</b>

# WSOS Income Statement

## Notes:

1. Revenue Private: Q4 2017 Contributions Revenue includes additional \$1.02M resulting from policy change in rates used to discount long-term pledge receivable plus \$290K from Opportunity Talks Event.
2. Revenue Public: Includes receipt from WSAC of \$8.42M match for private donations received during February – September 2017. It also includes accrual of state match receivable for pre-2/1/17 revenue of \$2.8M. The support for this was resubmitted to WSAC for processing. Accrual of state match on Q4 2017 private revenue of \$423K was also accrued, another accounting policy change for 2017.
3. Investment income: Actual-to-date includes \$7.53M in unrealized gains; budget was zero.
4. Salaries and benefits; Variance relates to year-end payroll accruals. Expense at budget for the year excluding the accounting adjustments which are timing only.
5. Program admin fees include \$360K for Washington STEM and \$35K for CSF for transition fees. Under budget due to credit of \$40K from WASTEM resulting from cost savings from contract.
6. Professional Fees – Expense of \$525K includes non-recurring transition costs of about \$200K for change in program administrator, new scholarship and accounting systems and all data migrations. Also includes research and evaluation support for STS Mentoring Program, Post-Graduate survey, and Program Growth Options project.
7. Operating Expenses – Actual expenses include non-recurring and unbudgeted \$343K in bad debt expense of which \$281K relates to the pre-2/1/17 State Match due to documentation concerns and \$60K related to a past due pledge. Normal operating expenses were \$327K which is \$41K over budget.
8. Scholarship Expense based on updated scholarship model which has been reconciled to the data validated in the new scholarship system plus accrual for Cohort 6 2017.



# WSOS Cash Flow

## Notes:

1. Cash Inflow: Other Private – Cash receipts totaled \$427K in Q4 2017 (Opp Talks-\$290K and \$100K pledge payment).
2. Cash Inflow: State Match - \$8.4M received from WSAC in November based on private donations received during February – September 2017.
3. Investment Income - Includes net unrealized gains from inception of \$8.85M (Scholarship \$6.15M and Endowment \$2.7M).
4. Scholarship disbursements were \$4.94M during Q4 2017 and scholarship refunds totaled \$167K.
5. WSOS Cash in KeyBank – Cash projections continuously monitored in order to fund operations while maximizing balance in investments in accordance with new ST Investment Policy and guidance from the Finance Committee.

# Washington State Opportunity Scholarship Program Administration

## Executive Summary Update for the Washington STEM Board and WSOS Board March 2018

### BACKGROUND AND OVERVIEW

Washington State Opportunity Scholarship (WSOS) is a public-private partnership established by the Legislature in 2011 (28B.145 RCW Opportunity Scholarship Act) to increase access to high-demand STEM and health care majors for low- and middle-income students through scholarships and academic supports. The program is funded by a 1:1 match of state funds with private donations and has raised nearly \$200 million in total. The legislation describes the program design and how the program is to be funded and administered. The bill calls for a full program review by the state in 2018; however, the agency delayed this to 2019. For more information, see the program website: <https://waopportunityscholarship.org/>. The annual report to the Legislature can also be found on the website. Ninety percent of program graduates who seek work were employed in their field of study in Washington within nine months of graduation (73 percent seek work and 24 percent go on to graduate school).

College Success Foundation (CSF) served as program administrator from WSOS's inception in 2012 until January 31, 2017, via an interagency contract with the State of Washington-Washington Student Achievement Council (WSAC) and the WSOS Board.

Effective February 1, 2017, the Washington STEM Board and the WSOS Board approved a three-way agency agreement for professional services whereby Washington STEM, under contract to WSAC and the WSOS Board, serves as program administrator to the WSOS program. The contract term ends June 30, 2018, with an option to extend in two-year increments for up to ten years. The WSOS Board authorized renewal of the contract for the two years starting July 1, 2018, at its January 2017 meeting. We look forward to working with WSOS on the renewal and continuing the teamwork established this past year.

During the 2018 legislative session, two new programs were approved and will be added to the WSOS program; they are: scholarships for two-year and technical degrees in high-demand and healthcare fields and scholarships for graduate medical degrees for high-need rural areas.

### STATUS OF TRANSITION

Transition from prior the program administrator has been substantially completed at this time. Washington STEM has worked with the WSOS program team on the following significant matters during recent months:

- **State match - pre-February 1, 2017, gifts (CSF transition):** Based on Washington STEM's review of the records, there was \$2.8 million in private gifts eligible for state match but unpaid as of January 31, 2017. Most of that was submitted by CSF prior to the transition, along with the other private gifts, which resulted in the match payment of \$21 million received in April. The state rejected \$759K of private gifts for matching with state funds due to lack of adequate documentation. Washington STEM worked with CSF financial staff and WSOS development staff to research and obtain the necessary documentation and re-submitted the entire amount to the state, requesting appropriated matching funds. The primary risk of state acceptance was with the individual credit card gifts and aggregated giving, such as Benevity fund, which were deposited first into the CSF bank account and later transferred to the WSOS bank accounts but not in discreet amounts that could be matched directly with the individual gifts. After extensive work over five months, Washington STEM submitted a large volume of organized documentation which we hope will meet state requirements. The state is still in the process of their review which they hope to complete by the end of April 2018. This \$2.8 million was accrued as revenue receivable in 2017, and while we believe

it is all valid and documented, we have also recorded an allowance of 10 percent for potential disallowance by the state due to concerns about the level of documentation provided by the prior administrator.

- Audit of balances transferred by Clark Nuber: Clark Nuber performed interim audit work on the WSOS program transition from CSF and related matters, and the accounting system conversion, during the week of December 11, 2017. This work was completed without any significant issues raised by the auditors. Completion of the audit report is pending at this time, but we have not been made aware of any exceptions or matters of concern.
- Final settlement of open items: A final reconciliation between the two entities yielded an agreement resulting in a payment to WSOS by the former administrator of less than \$5,000. No further transactions are expected, and the transition is considered complete.

Washington STEM has completed all the required milestones for the first year of the contract, including the system conversions. It has been a privilege to work with the WSOS Board and WSAC and especially the WSOS team through this past year.

## UPDATE ON SIGNIFICANT MATTERS

Highlights of significant work during the past quarter include:

- State match
  - From February 1, 2017 – September 30, 2017: Invoice for state match and supporting documentation was submitted to the state on November 1 in the amount of \$8.4 million, and the funds were received from the state for the match in the full amount in December. Under the short-term investment policy, the funds were promptly invested at KeyBank in accordance with policy-based instructions.
  - From October 1, 2017 – December 31, 2017: State match estimated at \$422,000 was accrued in December 2017. This represents a change in accounting policy from the previous administrator, which was accepted by the auditors. All conditions have been met by WSOS, and the match is deemed to be owed by the state in accordance with the statute. The invoice will be submitted to WSAC this month, and future invoices on a quarterly basis thereafter.
- Scholarships: The Washington STEM finance team and the WSOS program teams continue regular work together to ensure the most accurate possible projections for program planning and for the accounting for future scholarship liabilities. The accounting entries to update the liability and expense accounts were updated in the December financial statements. The 2018 budget includes scholarship expense based on the current scholarship model.
- Program cash projections: The cash forecasting using both annual and quarterly increments has been updated using the approved 2018 budget expenses and most current cash and revenue balances. The projections were used to provide information to state budget offices in support of the mid-term appropriation request related to the remaining matching funds.
- Investments returns for all funds have been positive. The report on investments via KeyBank have been provided along with the report from WSIB.
- Investment management and allocations: A task force comprised of certain WSOS Finance and Investment Committee members met on February 13, 2018, to discuss matters related to the management of WSOS program funds held with the WSIB. Following a thorough discussion of the background, current status, and the long-term program cash projections, the task force recommended that the staff meet with WSIB to review with them the most current long-term program cash projections

and discuss a review of the investment allocations to best match the plans. This meeting will be set up within the next 30 days or so.

- Audit: This was the first audit of Washington STEM that included the WSOS program, which substantially changed the scope of work and the content of the audited financial statements and accompanying footnotes. Washington STEM has, in past years, received the final audit report by the end of March. We worked with Clark Nuber to meet that schedule again this year and are pleased to note that the report will be issued this month. Some changes the reader may expect this year are:
  - Financial statements present each of the programs separately and combined so the reader can easily discern the results of the operations and financial position of Washington STEM and WSOS as separate programs.
  - Statements of Functional Expenses are provided as supporting schedules for each of the programs separately so that the functional expense percentages are available by program.
  - Footnotes will include disclosures by program so that readers can readily determine the separate amounts for each program.
- Renewal of liability, D&O, and cyber insurance: This renewal, as of February 1, 2018, was completed at or below prices last year, with the most significant savings in the cyber liability policy which is required by the state under the contract.

HR and other matters: Supported the WSOS team in various matters, including year-end reviews and salary administration, executive director compensation administration, new hires and onboarding, computer set-ups, and benefits administration.

## LOOKING AHEAD

After the first year of the contract, much of the baseline work has become well established. Following the audit and Form 990 filing, Washington STEM expects to move into projects related to the investments, overall analyses of revenue and spending, and providing program financial projections as needed by WSOS management for decision support.

We look forward to the following work in the next few months:

- CFO transition: Washington STEM announced my retirement in early February and is currently recruiting a new CFO and Program Administrator. I will be on board through April and will be available to assist in transition needs. A strong team was built over the past year, and I am confident the transition will be positive and well-supported.
- Program administrator contract renewal: Estimates of monthly fees for program administration were provided for the 2018 budget process. A fee schedule will be provided in the next month for use in the contract renewal. The addition of the new programs established by the legislature this month will be considered in the fee and are likely to result in additional costs because these will be new program funds.
- Design plan for program administrative support for the new programs which were adopted by the legislature in March for two-year and technical degrees and graduate medical degrees for high-need rural areas; this will be incorporated into the contract renewal discussions.
- Payment system for near peer mentors: Develop plan for these new payments.

- State match: Work with the WSAC finance team to support their review of the revenue submitted for pre-February 1, 2017, and bring this matter to closure.
- 2017 Form 990: Timely completion of the schedules required by Clark Nuber and provide return before filing to both the WSOS Board and the Washington STEM Board.
- Cybersecurity review: This has been deferred pending the CFO transition. We recommend this review (see SOW) be completed during the summer months to document a review of the IT environment and all new systems, with emphasis around the controls over storage and transfer and safeguards of personal information. We felt it would be an important step related to the implementation of and procedures used with new systems; it must also include a review of all contracts with the organization's cloud-based software providers and the cyber liability and privacy breach insurance which was purchased as required by this contract.
- JLARC program audit; Under direction of WSOS executive director, support planning for this work, which we understand will occur in the next contract period.

Prepared by Cindy J. Gustafson  
March 14, 2018



**WASHINGTON STEM  
CYBER SECURITY REVIEW -SAFEGUARDING PERSONAL INFORMATION  
PROPOSED SCOPE OF WORK**

**BACKGROUND:**

The Washington STEM Center is a Not-for-Profit Entity established in 2011 in the state of Washington. Washington State Opportunity Scholarship (WSOS) is a program administered by the Washington STEM Center beginning February 1, 2017; previously WSOS was administered by the College Success Foundation (CSF). WSOS is a public-private partnership that provides scholarships for four-year STEM and health care degrees in the state of Washington and related support services designed to increasing access to Washington State’s low- and middle-income children to postsecondary education. Washington STEM also administers Project Pilgrimage beginning September 1, 2016. Project Pilgrimage focuses on civil rights and equity. All programs are supported by fundraising efforts.

Transition of WSOS from CSF to Washington STEM required the implementation of information systems for accounting and reporting, scholarship administration and management, and donor management. The systems used and their function to be included in this review are:

- **WizeHive (Zengine):** Student data management and scholarship service administration
  - *Migration was complete by Q3-2017. WSOS Scholars and school partners were granted access to specifically designed portals during Q4-2017. The next cohort (Cohort 7) of Scholars will begin entering data directly into the scholarship system portal in Q1-2018 with the new application.*
- **Donor Perfect:** Prospect, donor and partner management; includes tracking of financial gifts, volunteer interest, and partner possibilities
  - *Migration was complete by Q2-2017. The system is being used regularly but further leveraging of the tools available in the new system have yet to be explored.*
- **Abila MIP:** Accounting and financial management
  - *Migration was complete by the “go-live” date of July 1, 2017.*
- **Box:** File storage, sharing and management
  - *Migration was complete by Q1-2017. Currently, the structure and sharing settings for WSOS Box is being reviewed by an internal team.*
- **True North:** Technology support
- **Reconciliation and disbursement processes:** Internal procedures

These systems have been in the implementation stages during 2017 and various functions continue to be added over the course of several months.

Washington STEM operates entirely in a cloud-based environment. All the systems used are hosted systems with vendor contracts for each application. An outside contractor, True North, is used for infrastructure management.

**OBJECTIVES**

Ensure that best practices for the protection of personal data (primarily students, donors and employees) are present in both the overall control environment for IT infrastructure and data management, as well as the operating procedures for each of the new systems and the storage and

**WASHINGTON STEM  
CYBER SECURITY REVIEW -SAFEGUARDING PERSONAL INFORMATION  
PROPOSED SCOPE OF WORK**

transfer of such information. Ensure that current documentation exists for each system along with operating procedures. Implement a data management system and train all employees around same.

**SCOPE OF WORK**

Perform a Data Governance Review of the overall IT environment and the three new systems: WizeHive (Zengine), Donor Perfect and Abila MIP. We believe this is the ideal time for an internal review because the systems are new and functioning, but still at early stage of use and written procedures are yet to be developed. Now is the time to make changes if anything important comes to light, and potential other changes can be prioritized for future periods. Once the systems have been fully implemented and procedures are in place, we will consider engaging an outside consultant to perform a review and make recommendations as needed to ensure best practices.

The aims of the project are to document the environment and controls, capture the flows of data and produce a data management policy with an emphasis on security of personal information.

We envision doing this work in several phases:

- Internal review and documentation of controls and procedures
- Draft data management policy
- Consider review by outside consultant once procedures have been established

The American Institute of CPA's has recently issued a cybersecurity reporting framework and has other tools that may be useful in performing this work. The technical support teams for our IT infrastructure and for each of the hosted systems will also be important resources to this work.

The project team will be:

Cindy Gustafson  
Matt Poth  
Kimber Connors  
Christina Khatri  
Jenna Magnotti

Other resources:

True North technical support  
WizeHive implementation consultant  
Abila MIP implementation consultant  
Donor Perfect technical support  
Box technical support

**WASHINGTON STEM  
CYBER SECURITY REVIEW -SAFEGUARDING PERSONAL INFORMATION  
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**POTENTIAL TIMELINE FOR WORK**

<b>Action</b>	<b>Target Date</b>
Develop workplan and approach	December 2017
Review contracts for each hosted system; obtain SOC 2 reports for each system	December 2017-January 2018
Prepare or update, as appropriate, the accounting and operational procedures for each system	December 2017-January 2018; on-going
Implement Governance module for Box	January 2018
Document the data environment and controls	Q1-2018
Draft data management policy	Q2-2018
Employee communications	Q2-2018 and on-going
Other steps as needed	
Consider review by outside consultant (Clark Nuber?)	Q2-2018
Report to Finance Committees of both WASTEM and WSOS	June 2018

Prepared by Cindy J Gustafson and Kimber Connors  
December 7, 2017

## **WSOS PROFESSIONAL/TECHNICAL DEGREE EXPANSION VISIONING SESSION**

### **CONTEXT**

Washington State Opportunity Scholarship (WSOS) fuels Washington's future economy by providing scholarships and a continuum of support services to low- and middle-income undergraduates pursuing high-demand science, technology, engineering, math (STEM) and health care bachelor degrees in Washington state. This first-of-its-kind partnership was created by the Washington Legislature in 2011.

By harnessing public investment and private sector support, WSOS helps fill critical talent gaps by creating pathways into STEM and health care fields for traditionally underrepresented students. This unique model works: 92% of our Scholars are employed in their field of study or in graduate school within nine months of completing their bachelor degree programs.

WSOS has launched more than 8,400 Scholars into Washington's STEM and health care industries since 2011, yet our workforce shortages loom large. A recent Technology Alliance report found that Washington will fill just 27 percent of the total STEM job openings in our state through 2025 if we continue to graduate students at the same rate we are today.

In response to this continuing crisis, during the 2018 Legislative Session, WSOS successfully amended its state statute to create the "Opportunity Pathways Scholarship" expanding the scholarship model to fund students pursuing high-demand, professional and technical certificates at Washington state community and technical colleges.

To successfully implement the rollout of the WSOS expansion, WSOS will engage in the following robust planning and program development process:

- Conduct national and local best practices research on professional/technical degree scholarships (WSOS Staff);
- Engage in a facilitated "visioning" process with thought-leaders, industry professionals, students, philanthropists, etc.; and
- Develop recommendations to the WSOS Board at the September 17, 2018 WSOS Board meeting.

### **DESCRIPTION OF VISIONING PROCESS**

WSOS will convene a select group of WSOS Board members, workforce and higher education thought leaders, corporate partners and philanthropists to engage in a visioning session to launch the new Opportunity Pathways Scholarship. The goals of this visioning session will be to:

- Provide insight into the growing workforce needs of Washington state;
- Engage in blue-sky thinking around the next phase of WSOS, particularly related to the imminent professional and technical degree expansion; and
- Generate ideas and connections for potential strategic partnerships.

**DESCRIPTION OF WORKING GROUP**

A small, core working group will be convened to combine the ideas generated in the visioning session with national and local best practices research to develop program recommendations to the WSOS Board. These recommendations will include:

- A rubric by which to select a list of eligible, high-demand professional or technical degree/certification programs at Washington’s Community & Technical Colleges;
- Amounts and timing of award to students; and
- Selection criteria for potential Opportunity Pathways Scholarship recipients.

**PROPOSED TIMELINE**

Action Item	To Do Date
Recruitment of thought leaders for WSOS Expansion Visioning Session	May/June, 2018
Research on best practices by WSOS staff on professional/technical degrees	June 15, 2018
Expansion Visioning Session	June/July 2018
Present recommendations to WSOS Board of Directors	September 25, 2018