

THE EVERGREEN STATE
COLLEGE FOUNDATION

FINANCIAL REPORT

JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Governors
The Evergreen State College Foundation
Olympia, Washington

We have audited the accompanying statements of financial position of The Evergreen State College Foundation (a nonprofit corporation) as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Foundation's 2011 financial statements and in our report dated February 8, 2012, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Evergreen State College Foundation as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Olympia, Washington
February 22, 2013

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THE EVERGREEN STATE COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 2,721,629	\$ 2,357,883
Investments	350,891	1,109,902
Unconditional promises to give, current	965,366	837,068
Other current assets	<u>4,200</u>	<u>1,698</u>
Total current assets	<u>4,042,086</u>	<u>4,306,551</u>
Other Assets		
Investments	5,386,927	4,246,921
Long-term unconditional promises to give, net	<u>566,844</u>	<u>915,134</u>
Total other assets	<u>5,953,771</u>	<u>5,162,055</u>
Total assets	<u>\$ 9,995,857</u>	<u>\$ 9,468,606</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 14,349	\$ 13,890
Payable to College	<u>243,419</u>	<u>274,694</u>
Total current liabilities	257,768	288,584
Annuity Payment Liability	<u>13,058</u>	<u>13,717</u>
Total liabilities	<u>270,826</u>	<u>302,301</u>
Net Assets		
Unrestricted	1,042,955	1,126,786
Temporarily restricted	4,832,392	4,777,992
Permanently restricted	<u>3,849,684</u>	<u>3,261,527</u>
Total net assets	<u>9,725,031</u>	<u>9,166,305</u>
Total liabilities and net assets	<u>\$ 9,995,857</u>	<u>\$ 9,468,606</u>

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

THE EVERGREEN STATE COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Totals</u>	<u>2011 Totals</u>
Support and Revenues					
Gifts and contributions	\$ 376,692	\$ 1,202,474	\$ 1,046,782	\$ 2,625,948	\$ 3,037,247
In-kind support from College	1,266,294	-	-	1,266,294	897,139
Investment income (loss)	6,325	(54,408)	-	(48,083)	582,984
Change in value of split interest agreement	-	(2,376)	-	(2,376)	(2,368)
Gift fees	42,105	-	-	42,105	17,791
Net assets released from restrictions	<u>1,549,915</u>	<u>(1,091,290)</u>	<u>(458,625)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>3,241,331</u>	<u>54,400</u>	<u>588,157</u>	<u>3,883,888</u>	<u>4,532,793</u>
Expenses					
Program services:					
Grants and scholarships	1,387,237	-	-	1,387,237	1,099,554
Other College support	<u>639,036</u>	<u>-</u>	<u>-</u>	<u>639,036</u>	<u>254,020</u>
Total program services	<u>2,026,273</u>	<u>-</u>	<u>-</u>	<u>2,026,273</u>	<u>1,353,574</u>
Support services:					
Management and general	411,070	-	-	411,070	282,618
Fundraising	<u>887,819</u>	<u>-</u>	<u>-</u>	<u>887,819</u>	<u>635,939</u>
Total support services	<u>1,298,889</u>	<u>-</u>	<u>-</u>	<u>1,298,889</u>	<u>918,557</u>
Total expenses	<u>3,325,162</u>	<u>-</u>	<u>-</u>	<u>3,325,162</u>	<u>2,272,131</u>
Increase (decrease) in net assets	(83,831)	54,400	588,157	558,726	2,260,662
NET ASSETS					
Beginning of year	<u>1,126,786</u>	<u>4,777,992</u>	<u>3,261,527</u>	<u>9,166,305</u>	<u>6,905,643</u>
End of year	<u>\$ 1,042,955</u>	<u>\$ 4,832,392</u>	<u>\$ 3,849,684</u>	<u>\$ 9,725,031</u>	<u>\$ 9,166,305</u>

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

THE EVERGREEN STATE COLLEGE FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

	Program Services			Support Services			Total Support Services	2012 Totals	2011 Totals
	Grants and Scholarships	Other College Support	Total Programs	Management and General	Fundraising	Total			
Grants and allocations	\$ 1,387,237	-	\$ 1,387,237	\$ -	\$ -	\$ -	-	\$ 1,387,237	\$ 1,099,554
In-kind management services	-	128,321	128,321	218,598	761,595	980,193	980,193	1,108,514	776,035
In-kind supplies and equipment use	-	12,803	12,803	12,803	102,428	115,231	115,231	128,034	109,764
Food	-	72,721	72,721	64,105	-	64,105	64,105	136,826	80,079
Purchased services	-	19,640	19,640	14,782	-	14,782	14,782	34,422	19,775
Accounting	-	-	-	17,000	-	17,000	17,000	17,000	17,000
Printing and publications	-	8,775	8,775	7,885	-	7,885	7,885	16,660	7,769
Supplies	-	126,353	126,353	5,596	-	5,596	5,596	131,949	22,473
Travel	-	14,927	14,927	13,424	-	13,424	13,424	28,351	53,387
In-kind rent	-	2,975	2,975	2,975	23,796	26,771	26,771	29,746	11,340
Salaries, wages and benefits	-	197,844	197,844	-	-	-	-	197,844	4,123
Rental and fees	-	7,943	7,943	28,357	-	28,357	28,357	36,300	9,382
Postage and shipping	-	3,077	3,077	1,041	-	1,041	1,041	4,118	1,783
Miscellaneous	-	43,657	43,657	24,504	-	24,504	24,504	68,161	59,667
	<u>\$ 1,387,237</u>	<u>\$ 639,036</u>	<u>\$ 2,026,273</u>	<u>\$ 411,070</u>	<u>\$ 887,819</u>	<u>\$ 1,298,889</u>	<u>\$ 1,298,889</u>	<u>\$ 3,325,162</u>	<u>\$ 2,272,131</u>

THE EVERGREEN STATE COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 558,726	\$ 2,260,662
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for long-term purposes	(588,157)	(167,058)
Donated marketable securities	(29,445)	(76,553)
Investment income added to investments	(210,703)	(185,974)
Unrealized (gain) loss on investments and change in value of split interest agreements	269,104	(361,727)
(Increase) decrease in unconditional promises to give	219,992	(1,285,432)
(Increase) decrease in other current assets	(2,502)	26,541
Decrease in accounts payable	459	11,567
Increase (decrease) in payable to College and employees	<u>(31,275)</u>	<u>272,195</u>
Net cash provided by operating activities	<u>186,199</u>	<u>494,221</u>
Cash Flows From Investing Activities		
Proceeds from investment	261,794	1,280,271
Proceeds from sale of donated stock	28,631	76,082
Purchases of investments	<u>(698,000)</u>	<u>(400,000)</u>
Net cash provided by (used in) investing activities	<u>(407,575)</u>	<u>956,353</u>
Cash Flows From Financing Activities		
Contributions restricted for long-term purposes	588,157	167,058
Payment of annuity obligations	<u>(3,035)</u>	<u>(3,035)</u>
Net cash provided by financing activities	<u>585,122</u>	<u>164,023</u>
Net increase in cash and cash equivalents	363,746	1,614,597
Cash and Cash Equivalents		
Beginning of year	<u>2,357,883</u>	<u>743,286</u>
End of year	<u>\$ 2,721,629</u>	<u>\$ 2,357,883</u>

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

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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

Nature of Activities

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

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

Basis of Presentation

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

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

Contributions

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

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Contributions (concluded)

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

Unconditional Promises to Give

Contributions, including unconditional promises to give (pledges), less an allowance for uncollectible amounts, are recognized as revenues in the period received. Unconditional promises to give due in the next year are reported at their net realizable value. Unconditional promises to give, due in subsequent years are reported on the present value of their net realizable value, using an appropriate discount rate. Amortization of discounts is included in contribution revenue.

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

Donated Materials and Services

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

Cash and Cash Equivalents

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

Investments

The Foundation maintains most of its investments in a pooled fund managed by the University of Washington in its Consolidated Endowment Fund (CEF). The CEF includes investments in foreign and domestic equities and debt securities, along with alternative investments such as real assets absolute return opportunistic funds. Investments also include domestic and foreign cash and cash equivalents. The Foundation also has time certificates of \$250,000 or less at various local banks and credit unions. Interest-bearing deposits and investments in the CEF are carried at market value with the annual change in market value recorded as "Investment income" in the Statements of Activities.

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Investments (concluded)

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

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels. The three levels of the fair value hierarchy are defined as follows:

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

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

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

Credit Risk

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

Market Risk

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

Split-Interest Agreements

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

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Federal Income Taxes

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

Financial Statement Estimates

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

Allocation of Functional Expenses

In order to provide information in regard to service efforts, the cost of providing each of the Foundation's programs has been presented on a functional basis. In order to provide this presentation, certain costs were required to be allocated among programs and supporting services benefited. The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities and in more detail in the schedule of functional expenses which is included as supplemental information within this report. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Related Parties

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

Fund-Raising

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

Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(concluded)Reclassifications

Certain items on the June 30, 2011 Statements of Financial Position and Statements of Cash Flows were reclassified to conform to current year presentation. There was no impact to net assets.

Subsequent Events

The Foundation has evaluated subsequent events through February 22, 2013, the date on which the financial statements were available to be issued.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 965,366	\$ 837,068
Receivable in one to five years	<u>566,844</u>	<u>915,134</u>
Total unconditional promises to give	<u>\$1,532,210</u>	<u>\$1,752,202</u>

At June 30, 2012 and 2011 the discount to net realizable value of the unconditional promises to give was not significant.

NOTE 3 – INVESTMENTS

Investments are as follows at June 30:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 851,065	\$1,109,902
Investment in the University of Washington's Consolidated Endowment Fund	<u>4,886,753</u>	<u>4,246,921</u>
Total investments	<u>\$5,737,818</u>	<u>\$5,356,823</u>

Certificates of deposit mature as follows as of June 30:

2013	\$ 350,891
2014	<u>500,174</u>
	<u>\$ 851,065</u>

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENTS (concluded)

The University of Washington Consolidated Endowment Fund had a fair value of \$2,111,332,331 as of June 30, 2012 consisting of 28,061,512.73 units valued at \$75.40 per unit. Asset allocation of the CEF at June 30, 2012 was as follows:

Emerging markets equity	18%
Developed market equity	41
Fixed income	11
Alternative investments:	
Absolute return **	17
Real assets **	8
Opportunistic **	5

** Investment type includes private and other illiquid investments

The fair value of the CEF is based on a per unit valuation, which is based on the estimated fair value of the underlying investments. The fair value of debt and equity securities with a readily determinable fair value is based on quotations from national securities exchanges. The alternative investments, which are not readily marketable, are carried at the estimate fair values provided by the investment managers. The estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed.

Purchases are based on a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held.

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

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 218,645	\$ 218,889
Net unrealized gains (losses) on investments	<u>(266,728)</u>	<u>364,095</u>
Total investment income (loss)	<u>\$ (48,083)</u>	<u>\$ 582,984</u>

NOTE 4 – ENDOWMENTS

The net asset classification of donor restricted endowment funds for a non-for-profit is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Disclosures about endowment funds, both donor-restricted and board designated endowment funds is required.

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

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – ENDOWMENTS (continued)

The Foundation has interpreted the enacted version of UPMIFA for Washington State and determined that requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, is appropriate. As a result of this interpretation, the Foundation classifies as permanently restricted net assets, a) the original value of the gifts donated to the permanent endowment, b) the original value of subsequent gifts, if any, to the permanent endowment, and c) accumulations to the permanent endowment, as applicable, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ --	\$946,616	\$3,849,684	\$4,796,300

Changes in endowment net assets for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ --	\$1,523,000	\$3,261,527	\$4,784,527
Investment return				
Investment income	--	210,659	--	210,659
Net depreciation	--	(265,914)	--	(265,914)
	--	(55,255)	--	(55,255)
Contributions, net of transfers	--	(57,743)	1,046,782	989,039
Correction of classification		(137,905)	(458,625)	(596,530)
Net assets released	--	(183,283)	--	(183,283)
Future disbursements set aside	--	(142,198)	--	(142,198)
Endowment net assets, June 30, 2012	\$ --	\$946,616	\$3,849,684	\$4,796,300

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – ENDOWMENTS (continued)

Endowment net asset composition by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u> --</u>	\$ <u>1,523,000</u>	\$ <u>3,261,527</u>	\$ <u>4,784,527</u>

Changes in endowment net assets for the year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2010	\$ <u> --</u>	\$ <u>1,140,345</u>	\$ <u>3,094,469</u>	\$ <u>4,234,814</u>
Investment return				
Investment income	--	179,392	-	179,392
Net appreciation	<u> --</u>	<u>364,566</u>	<u> --</u>	<u>364,566</u>
	<u> --</u>	<u>543,958</u>	<u> --</u>	<u>543,958</u>
Contributions, net of transfers	<u> --</u>	<u>532</u>	<u>167,058</u>	<u>167,590</u>
Net assets released	<u> --</u>	<u>(161,835)</u>	<u> --</u>	<u>(161,835)</u>
Endowment net assets, June 30, 2011	\$ <u> --</u>	\$ <u>1,523,000</u>	\$ <u>3,261,527</u>	\$ <u>4,784,527</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are required to be reported in unrestricted net assets. Deficiencies of this nature were \$3,356 and \$0 as of June 30, 2012 and 2011, respectively. The current year deficiency resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

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

(continued)

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – ENDOWMENTS (concluded)

Strategies Employed for Achieving Objectives

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

Investment Strategy	Long-term Target	Policy Range
Emerging Markets Equity	17%	
Developed Markets Equity	36%	
Real Assets	11%	
Opportunistic	6%	
CAPITAL APPRECIATION FUND	70%	55%-85%
Absolute Return	15%	
Fixed Income	15%	
CAPITAL PRESERVATION FUND	30%	15%-45%

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

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

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

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – FAIR VALUE OF FINANCIAL MEASUREMENTS

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

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

	<u>Year Ended June 30, 2012</u>			
	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
Certificates of deposit	\$ --	\$ 851,065	\$ --	\$ 851,065
Investment in the University of Washington's Consolidated Endowment Fund	--	--	4,886,753	4,886,753
Total investments	<u>\$ --</u>	<u>\$ 851,065</u>	<u>\$ 4,886,753</u>	<u>\$ 5,737,818</u>

	<u>Year Ended June 30, 2011</u>			
	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
Certificates of deposit	\$ --	\$ 1,109,902	\$ --	\$ 1,109,902
Investment in the University of Washington's Consolidated Endowment Fund	--	--	4,246,921	4,246,921
Total investments	<u>\$ --</u>	<u>\$ 1,109,902</u>	<u>\$ 4,246,921</u>	<u>\$ 5,356,823</u>

The following table summarizes the activity for the investment using Level 3 fair value measurements:

	<u>2012</u>	<u>2011</u>
Estimated fair value, July 1	\$ 4,246,921	\$ 3,316,408
Unrealized gains (losses)	(265,914)	364,566
Additions	<u>905,746</u>	<u>565,947</u>
Estimated fair value, June 30	<u>\$ 4,886,753</u>	<u>\$ 4,246,921</u>

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CHARITABLE GIFT ANNUITIES

Certain donors have entered into charitable gift annuity agreements with the Foundation under which the Foundation received certain assets. The assets were recorded at their fair market value on the date of receipt and are included in the general investments of the Foundation. In consideration of the assets received, the Foundation is required to pay quarterly installments to the donor over the donor's life. These installment payments totaled \$3,035 for the year ended June 30, 2012 and \$3,035 for the year ended June 30, 2011. The charitable gift annuity obligation is recorded at the present value of the future cash flows expected to be paid based on the life expectancy of the donors discounted at the applicable rate as specified in the agreements. The charitable gift annuity obligation totaled \$13,058 and \$13,717 as of June 30, 2012 and 2011, respectively. In 2009, the Foundation purchased a certificate of deposit with a face value of \$100,000 for the purpose of satisfying the requirement to pledge assets for its annuity obligation. This certificate is renewed annually.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Foundation owed the College \$243,419 and \$274,694 as of June 30, 2012 and 2011, respectively. The majority of the amount due is related to pass-thru grants.

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

NOTE 8 – RELEASE OF NET ASSETS

Net assets of \$1,549,915 and \$860,218 were released from donor restrictions for the years ended June 30, 2012 and 2011, respectively, by incurring expenses satisfying the restricted purposes or by the occurrences of other events specified by the donors. Permanently restricted net assets of \$458,625 were reclassified to temporarily restricted net assets based on donor documentation at June 30, 2012.

NOTE 9 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for programs and scholarships at June 30, 2012 and 2011 and total \$4,832,392 and \$4,777,992, respectively.

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

	<u>2012</u>	<u>2011</u>
Programs and scholarships	\$3,735,494	\$3,147,337
Library	<u>114,190</u>	<u>114,190</u>
Total permanently restricted net assets	<u>\$3,849,684</u>	<u>\$3,261,527</u>

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – CONCENTRATIONS

Cash and Cash Equivalents

The Foundation maintains its cash balances in several financial institutions. The balances of the major accounts are insured by the Securities Investor Protection Corporation up to \$500,000. At June 30, 2012, the amount in excess of the insured amount was \$0. The Foundation maintains its main account at the Bank of America in a noninterest bearing account that is fully insured by FDIC due to the temporary unlimited deposit insurance coverage that is effective until December 31, 2012.

Major Donor

During the years ended June 30, 2012 and 2011, 37% and 50%, respectively, of total gifts and contributions were from one donor.

NOTE 11 – IN-KIND SUPPORT

In addition, to the support received from the College as discussed in Note 7, the Foundation receives in-kind donations from individuals and corporations, which are included in gifts and contributions and also as expenses on the Statements of Activities.

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

	<u>2012</u>	<u>2011</u>
From individual and corporate donors:		
Artwork	\$ 24,384	\$ 21,285
Materials	<u>6,896</u>	<u>8,287</u>
Total in-kind support from individual and corporate donors	<u>31,280</u>	<u>29,572</u>
From the College:		
Management services	1,108,514	776,035
Rent	29,746	11,340
Supplies and equipment usage	<u>128,034</u>	<u>109,764</u>
Total in-kind support from the College	<u>1,266,294</u>	<u>897,139</u>
Total in-kind support	<u>\$1,297,574</u>	<u>\$ 926,711</u>

NOTE 12 – LEASES

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