

The Evergreen State College



2012 Annual Financial Report

The Evergreen State College *Annual Financial Report for June 30, 2012*

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**Washington State Auditor
Troy Kelley**

INDEPENDENT AUDITOR'S REPORT

April 10, 2013

The Evergreen State College
Olympia, Washington

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The Evergreen State College, Thurston County, Washington, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of The Evergreen State College Foundation, which represents 100 percent, of the assets, net assets and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Evergreen State College Foundation, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the report of the other auditors provide a reasonable basis for our opinions.

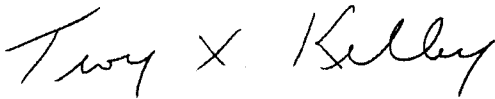
As discussed in Note 1, the financial statements of The Evergreen State College are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the state of Washington that is attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of the State of Washington as of June 30, 2012 and 2011, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the

business-type activities and the discretely presented component unit of The Evergreen State College, Washington, as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR

Management's Discussion and Analysis

The Evergreen State College

The following discussion and analysis provides an overview of the financial position and activities of The Evergreen State College (the College) for the fiscal year ended June 30, 2012 with comparative 2011 and 2010 financial information. This MD&A provides the readers an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes.

Reporting Entity

The Evergreen State College is one of six state-assisted public institutes of higher education in the state of Washington, providing baccalaureate and graduate educational programs to approximately 4,500 students. The College was established in 1967 and its primary purpose is to prepare individuals for successful contributions to society through their careers and in their leadership roles as citizens.

The College's campus is located in Olympia, Washington, a community of about 46,800 residents. The College also has operations in Tacoma and along the Olympic Peninsula on the Quinault Indian Reservation. The College is governed by an eight member Board of Trustees appointed by the governor of the state with the consent of the state Senate. One of the members is a full-time student of the College. By statute, the Board of Trustees has full control of the College and its property of various kinds, except as otherwise provided by law.

Using the Financial Statements

The College reports as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended. Under this model, the financial report consists of three financial statements, the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires a college to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under this requirement, the Evergreen State College Foundation is a component unit of the College and their financial statements are incorporated into this financial report.

Reclassifications

Certain reclassifications, if any, which do not affect total net assets have been made to 2010 and 2011 amounts in order to conform to the 2012 presentation.

Statements of Net Assets

The Statements of Net Assets provide information about the College's financial position, and presents the College's assets, liabilities, and net assets at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statements of Net Assets as of June 30, 2012, 2011 and 2010, follows:

Condensed Statements of Net Assets					
As of June 30 (in thousands)	2012		2011		2010
ASSETS					
Current assets	\$	49,414	\$	46,114	\$ 51,306
Capital, net		179,592		175,758	167,162
Other non-current assets		5,189		5,379	5,119
Total assets		234,195		227,251	223,587

Management's Discussion and Analysis

LIABILITIES			
Current liabilities	14,779	13,969	13,226
Other non-current liabilities	19,411	19,806	20,224
Total liabilities	34,190	33,775	33,450
NET ASSETS	\$ 200,005	\$ 193,476	\$ 190,137

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The modest increase of current assets in 2012 can be attributed to the replenishment of the College's Normal School Permanent Fund. In the prior year the state's Legislative required the College to fund its facilities maintenance and operations by using the Normal School Permanent Fund dollars, instead of operating budget dollars, described in greater detail in Note 3 of the notes to the financial statements. This resulted in an erosion of the balance in the Normal School Permanent Fund. Capital assets increased by a net of \$3.8 million from 2011 to 2012. After taking into consideration current depreciation expense of \$7.8 million, the majority of this increase is the result of the renovation of the College's Communications Building which is expected to be completed in 2013. This is discussed further in Note 10 to the financial statements.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, bond debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on receipt of vendor invoices and timing of vendor payments, especially in the area of capital asset improvements. The slight change in current liabilities from 2010 to 2011 is the increase in deferred revenues. The modest decrease in non-current liabilities over the years is the result of payment of long-term debt. The College's supplemental benefit pension liability continues to increase by about \$400,000 annually in 2012. All state funded institutions of higher education have this liability. In 2012, the College started making its first payments to beneficiaries of The Evergreen State College Retirement Plan (TESCRP). In an effort to control this growing liability, new employees hired on or after July 1, 2011, are no longer offered this supplemental component benefit. In addition, the state has established a new dedicated account in the state treasury to begin to address this unfunded liability. Beginning on January 1, 2012, the college began paying into this account that is intended to fully fund this outstanding liability over time. In the mean time the college will continue to make the current payments to the beneficiaries on a 'pay as you go' basis.

Net assets represent the difference between the College's assets after liabilities are deducted. The College reports its net assets in four categories:

- **Invested in Capital Assets (Net of Related Debt)** – The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets.
- **Restricted Net Assets:**
 - **Expendable** – resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties that have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are student loans, capital project funds and the expendable portion of endowments.
 - **Non Expendable** – consists of funds in which the donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only.
- **Unrestricted Net Assets** – These are all the other funds available to the College for the general and educational obligations to meet current expenses for any lawful purpose. Unrestricted net assets are not subject to externally imposed stipulations; however, the College has designated the majority of unrestricted net assets for various academic and college support functions.

Management's Discussion and Analysis

Condensed Net Assets

As of June 30 (in thousands)

	2012	2011	2010
Invested in capital assets, net of related debt	\$ 162,451	\$ 157,811	\$ 151,629
Restricted:			
Non-expendable	2,211	2,222	2,203
Expendable	9,022	7,472	10,478
Unrestricted	26,321	25,971	25,827
Total net assets	\$ 200,005	\$ 193,476	\$ 190,137

Total net assets increased by \$6.5 million during 2012 for a total of \$200 million. The largest item is invested in capital assets, net of related debt which totals \$162.5 million, a net increase of \$4.7 million. After factoring in \$7.9 million in depreciation expense for 2012, the College spent \$11.7 million in capital asset acquisitions. The decrease of \$3 million in expendable restricted net assets from 2010 to 2011 was primarily the result of a legislative mandate requiring the College to spend Normal School Permanent Fund dollars to fund facilities operations and maintenance. Normally these costs would have been funded by operating (unrestricted) dollars appropriated and funded by the State. This legislative mandate was not in effect for 2012. Though not subject to external imposed stipulations, the College has designated the majority of unrestricted net assets for various academic and administrative programs, in addition to auxiliary enterprises. A prudent and conservative measure of unrestricted net assets is to have at least 60 to 90 days to cover operating expenses. After subtracting depreciation and amortization expense, the College has over 100 days of unrestricted net assets (reserves) to cover operating expenses.

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets present the detail of the changes of total net assets for the College. The objective of the statements are to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College. Generally, operating revenues are revenues earned by the College in exchange for providing goods and services. Operating expenses are defined as expenses incurred in the normal operation of the College, including a provision for allowance of depreciation on property and equipment assets. The difference between operating revenues and operating expenses is the operating loss. The College will always be expected to show an operating loss since state appropriation are shown as non-operating revenues as required by the Governmental Accounting Standards Board (GASB), the rule setting body for accounting standards for the College. A summary of the College's Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2012, 2011 and 2010, follows:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

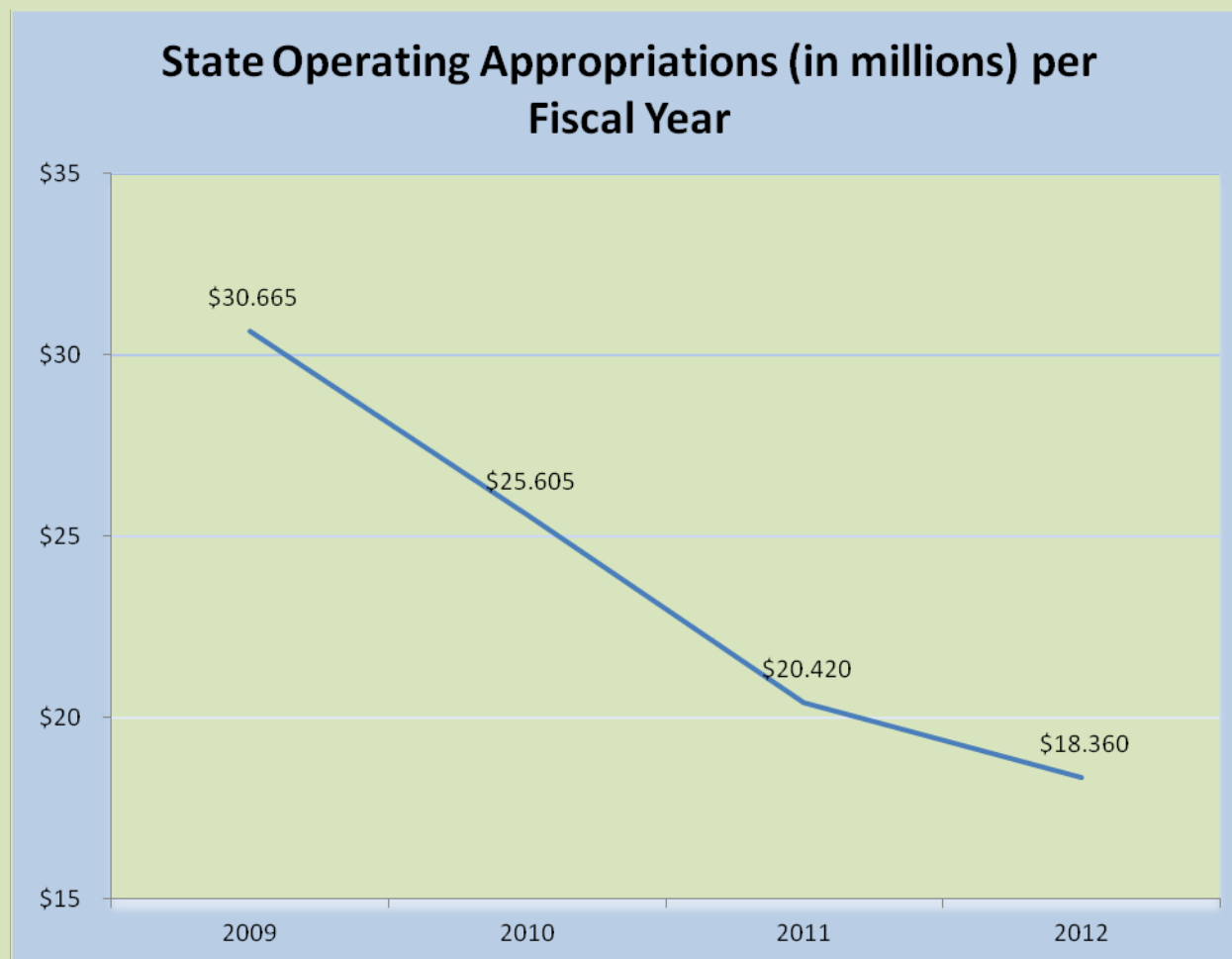
For the years ended June 30 (in thousands)

	2012	2011	2010
Operating revenues	\$ 65,402	\$ 61,016	\$ 58,191
Operating expenses	95,282	98,653	93,639
Net operating loss	(29,880)	(37,637)	(35,448)
Non-operating revenues	29,619	32,757	36,263
Non-operating expenses	794	824	924
Gain (loss) before other revenues	(1,055)	(5,704)	(109)
Other revenues and expenses	7,584	9,043	6,026
Increase net assets	6,529	3,339	5,917
Net assets beginning of year	193,476	190,137	184,220
Net assets end of year	\$ 200,005	\$ 193,476	\$ 190,137

Management's Discussion and Analysis

Operating and Non-operating Revenues

Tuition and fees, net (of scholarship discounts and allowances), and state operating appropriations are the primary sources of funding for the College's academic programs. The decrease in state operating appropriations reflected the continued decline in funding for higher education which is provided through the legislative process. In fiscal year 2010, state operating appropriations include a one-time amount of \$2.66 million of funding from the American Recovery and Reinvestment Act. The continued decline in state support has resulted in double digit annual increases in tuition to make up for this reduction and an overall decrease in total funding available. In actual dollar terms, state support has been reduced by 40% over a four- year period. The students, in order to pay these increased tuition costs, are receiving modestly higher amounts of Federal Pell and State Need grant funds but largely going deeper into debt through the use of student loans, which in the United states has topped \$1 trillion in 2012. For 2012 at the College, the amount of student loans received were \$2.6 million more than 2011 or more than \$25.9 million in new student loans in 2012. In addition, the volatility in the world stock markets and historically low interest rates has dramatically affected endowment income and the scholarships they provide.



The line graph above illustrates the dramatic reduction of state support provided to the College, and is representative of the budget reductions to Higher Education over the last four years. In order to maintain the level of instruction, most students have been subject to annual double digit tuition increases as shown on the table on the next page.

Management's Discussion and Analysis

Higher Tuition Rates needed to offset reduced state support:

Full-Time Quarterly Tuition Rates* (10-18 Credits) with Percentage Increases over Prior Year

Academic Year	Resident Undergraduate	Increase over Prior Year	Resident Graduate	Increase over Prior Year	Nonresident Undergraduate	Increase over Prior Year	Nonresident Graduate	Increase over Prior Year
2011-12	\$ 2,303	13.1%	\$ 2,523	4.9%	\$ 6,030	5.0%	\$ 6,683	0.1%
2010-11	2,036	12.9%	2,405	4.8%	5,745	4.9%	6,677	0.1%
2009-10	1,804	12.8%	2,295	4.8%	5,476	4.9%	6,673	0.1%

*Does not include mandatory and optional fees

The table below shows the reduction of state appropriations, both in actual dollars and in percentages, with increases in tuition rates:

Revenues by Sources (in thousands)

For the years ended June 30

	2012		2011		2010	
Student tuition and fees, net	\$ 35,879	34.9%	\$ 33,423	32.5%	\$ 31,788	31.6%
Grants & contracts	27,379	26.7%	24,974	24.3%	23,504	23.4%
Auxiliary services	10,141	9.9%	10,305	10.0%	9,563	9.5%
State appropriations - operating	18,360	17.9%	20,420	19.9%	25,605	25.5%
State appropriations - capital	7,584	7.4%	9,043	8.8%	6,025	6.0%
Investment income	2,346	2.3%	3,654	3.5%	2,774	2.8%
Other revenues	916	0.9%	997	1.0%	1,221	1.2%
Total revenues	\$102,605	100.0%	\$102,816	100.0%	\$100,480	100.0%

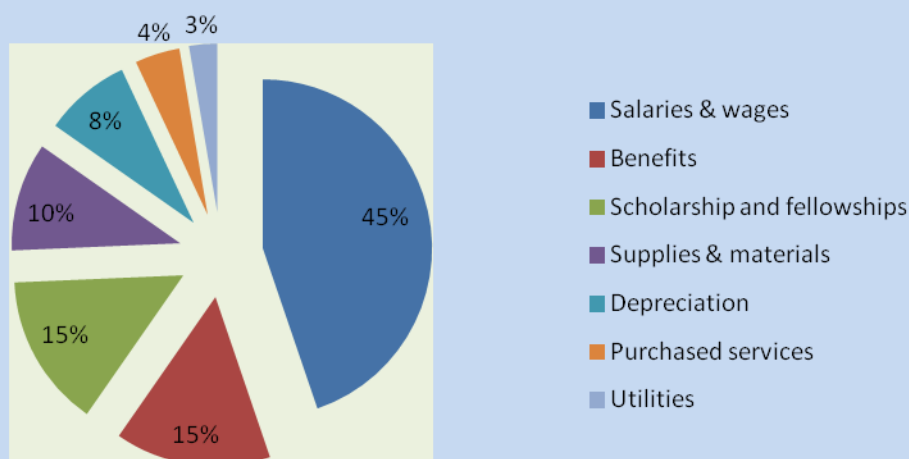
Operating Expenses

In 2012, the College's total operating expenses were down over \$3 million, with many individual components having some significant changes. Personnel costs, comprising salaries and benefits, were down by \$2 million for the year, completely consistent with the trend in state government on reducing personnel costs. Supplies and materials and Purchased services are significantly lower in 2012, this is mainly the result of overall lower capital projects spending in 2012, compared to 2011 as non capitalized facility improvements are not capitalized to an asset. These fluctuations are expected, given a certain percentage of annual capital appropriations expenditures are for routine repairs and maintenance. Scholarships and fellowships to students are higher in 2012, and are used by the College to help offset the costs of higher overall tuition charged to students.

	2012		2011		2010	
Salaries & wages	\$ 42,659	44.8%	\$ 44,223	44.8%	\$ 43,925	46.9%
Benefits	14,205	14.9%	14,740	14.9%	13,243	14.1%
Scholarship and fellowships	13,953	14.6%	13,128	13.3%	12,598	13.5%
Supplies & materials	9,926	10.4%	11,599	11.8%	9,355	10.0%
Depreciation	7,882	8.3%	7,165	7.3%	6,736	7.2%
Purchased services	4,091	4.3%	5,022	5.1%	4,976	5.3%
Utilities	2,566	2.7%	2,776	2.8%	2,806	3.0%
Total expenses	\$ 95,282	100.0%	\$ 98,653	100.0%	\$ 93,639	100.0%

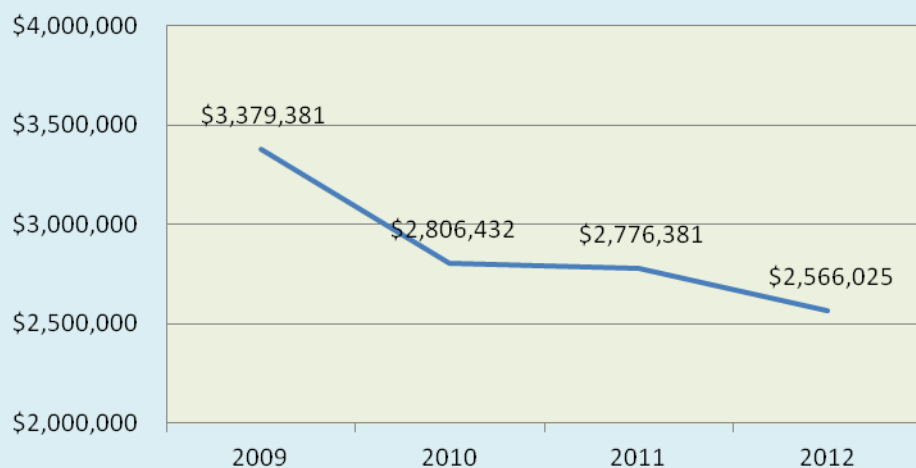
Management's Discussion and Analysis

FY2012 Expenses by Object



The College is a national leader in the area of environmental sustainability, with an institutional goal of being carbon neutral by the year 2020. To achieve this, the students have assessed themselves a fee to purchase green electrical power. In addition, there is a conscious effort to lower utility costs by conservation and other measures, as shown in the chart below. These efforts over the last four years have been very successful:

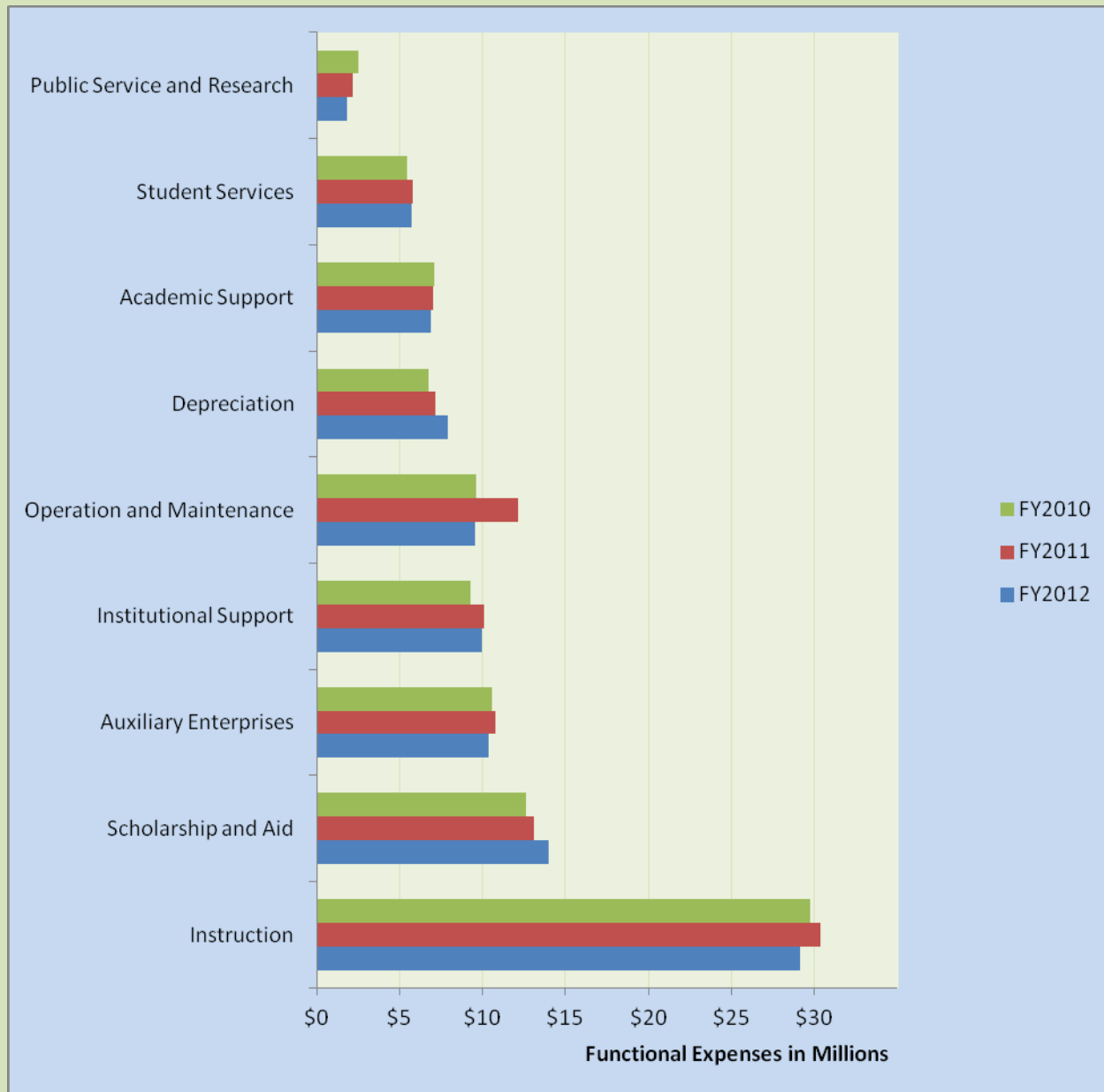
Utility Expenses by Fiscal Year



Comparison of Operating Expenses by Function

The Bar chart on the following page shows the amount, in dollars, for each of the functional areas of operating expenses for the 2012, 2011 and 2010.

Management's Discussion and Analysis



Capital Improvements

The College spent \$11.7 million for capital related purposes in 2012. This continues a decline going back to 2009 when the College spent \$19 million. The level of capital spending should continue to fall as capital projects, primarily funded by state appropriations, will be tempered by state budget shortfalls. Significant capital projects that were in process on June 30, 2012 include the Communications Laboratory building and the Science Lab 1 building renovations.

Financial Summary and Economic Factors That Will Affect the Future

In 2012, the College's state appropriations decreased by \$2,060,000. For 2013, the College's state appropriations were reduced by \$470,000 or 2.5%. Although state revenue is projected to increase by 7.2% in

Management's Discussion and Analysis

2013-15, there is no indication that Higher Education will receive additional funding and could be subject to further reductions. The Governor's priority for new funding, if any, will be for K-12 education.

Most of the state's economic risk factors are from outside the state. These include the European banking and employment crisis, slowing of growth in the Asian sector, unrest in the Middle East, Chinese nationalism in the Pacific and a slow economic recovery in the U.S. The debt crisis and gridlock at the federal level could result in significant reductions in federal student financial aid programs like Pell Grants and other federal funding.

Tuition will increase in 2013, 14% for resident undergraduates and 5% for all other students. Tuition increases in 2013-15 are expected to be in the 3% to 5% range. While enrollment has been steady the last three years, Fall 2012 enrollment is down about 6% which, if this trend continues, will result in a significant reduction in tuition revenue.



The Evergreen State College
Statements of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 32,165,725	\$ 30,633,894
Short-term investments	6,007,102	6,010,042
Due from State Treasurer	1,563,951	2,433,861
Funds held with State Treasurer	3,575,999	1,524,952
Accounts receivable, net	4,812,962	4,364,493
Student loan receivables, net	546,250	499,826
Inventories	742,194	646,818
Total current assets	<u>49,414,183</u>	<u>46,113,886</u>
Non-Current Assets		
Endowment investments	1,651,404	1,604,901
Student loan receivables, net	3,513,484	3,686,755
Bond discounts and issue costs, net of amortization	23,247	87,450
Capital assets, net of depreciation	179,591,969	175,758,293
Total non-current assets	<u>184,780,104</u>	<u>181,137,399</u>
Total assets	<u>234,194,287</u>	<u>227,251,285</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	6,309,059	5,263,571
Unearned revenues	4,980,902	5,103,561
Deposits payable	411,859	524,768
Compensated absences	2,110,711	2,088,368
Net pension obligations, current	66,000	118,788
Current portion of bonds and notes payable	900,000	870,000
Total current liabilities	<u>14,778,531</u>	<u>13,969,056</u>
Non-Current Liabilities		
Compensated absences	822,851	798,908
Net pension obligations	2,323,212	1,842,212
Long-term portion of bonds and notes payable	16,265,000	17,165,000
Total non-current liabilities	<u>19,411,063</u>	<u>19,806,120</u>
Total liabilities	<u>34,189,594</u>	<u>33,775,176</u>
Net Assets		
Invested in capital assets, net of related debt	162,450,216	157,810,744
Restricted for:		
Nonexpendable:		
Scholarships and professorships	2,211,131	2,221,567
Expendable:		
Loans	5,126,723	5,210,957
Endowment earnings	361,905	354,082
Other	3,533,562	1,907,717
Unrestricted	26,321,156	25,971,042
Total net assets	<u>\$ 200,004,693</u>	<u>\$ 193,476,109</u>

The Evergreen State College
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Student tuition and fees	\$ 49,228,567	\$ 45,574,781
Less scholarship discounts and allowances	(13,349,768)	(12,151,383)
Auxiliary enterprise sales, net	9,342,111	9,476,290
State and local grants and contracts	9,637,963	8,609,325
Federal grants and contracts	5,586,070	4,738,167
Nongovernmental grants and contracts	3,241,912	2,942,675
Other operating revenue	856,120	925,276
Sales and services of educational activities	798,747	829,080
Interest on loans to students	59,791	71,720
Total operating revenue	<u>65,401,513</u>	<u>61,015,931</u>
Operating Expenses		
Salaries and wages	42,658,751	44,223,477
Benefits	14,204,922	14,740,036
Scholarships and fellowships	13,953,441	13,128,088
Supplies and materials	9,925,684	11,599,003
Depreciation	7,881,990	7,164,716
Purchased services	4,091,312	5,021,644
Utilities	2,566,025	2,776,381
Total operating expenses	<u>95,282,125</u>	<u>98,653,345</u>
Operating loss	<u>(29,880,612)</u>	<u>(37,637,414)</u>
Non-Operating Revenues (Expenses)		
State appropriations	18,360,000	20,420,000
Federal Pell grant revenue	8,913,086	8,683,299
Investment income, gains and losses	2,345,911	3,654,147
Interest on indebtedness	(794,050)	(823,478)
Net non-operating revenues	<u>28,824,947</u>	<u>31,933,968</u>
Loss before other revenues, expenses, gains or losses	(1,055,665)	(5,703,446)
Capital appropriations	<u>7,584,249</u>	<u>9,042,586</u>
Increase in net assets	6,528,584	3,339,140
Net Assets		
Net assets, beginning of year	<u>193,476,109</u>	<u>190,136,969</u>
Net assets, end of year	<u>\$ 200,004,693</u>	<u>\$ 193,476,109</u>

The Evergreen State College
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Student tuition and fees	\$ 45,221,597	\$ 41,758,769
Grants and contracts	18,465,945	16,264,785
Sales and services of educational activities	798,747	829,080
Auxiliary enterprise sales	9,342,111	9,476,290
Payments to employees	(56,389,175)	(58,307,293)
Payment to vendors	(15,575,684)	(19,856,469)
Payment for scholarships and fellowships	(22,937,518)	(21,086,796)
Net cash used by operating activities	<u>(21,073,977)</u>	<u>(30,921,634)</u>
Cash flows from noncapital financing activities		
State operating appropriations	18,746,000	20,034,000
Direct lending receipts	25,911,057	23,295,936
Direct lending disbursements	(25,911,057)	(23,270,554)
Agency fund receipts	779,871	960,136
Agency fund disbursements	(772,893)	(907,945)
Federal Pell grant receipts	8,913,086	8,683,299
Net cash provided by noncapital financing activities	<u>27,666,064</u>	<u>28,794,872</u>
Cash flows from capital and related financing activities		
Capital appropriations	7,906,369	9,854,992
Certificate of participation proceeds	-	3,254,540
Purchase of capital assets	(11,724,171)	(15,765,227)
Principal paid on capital debt	(870,000)	(840,000)
Interest paid	(794,050)	(823,478)
Net cash used by capital and related financing activities	<u>(5,481,852)</u>	<u>(4,319,173)</u>
Cash flows from investing activities		
Purchase of investments	(6,007,102)	(6,010,042)
Proceeds from sales and maturities of investments	6,010,042	6,020,728
Income from investments, net	418,656	7,234,255
Net cash provided by investing activities	<u>421,596</u>	<u>7,244,941</u>
Increase in cash and cash equivalents	1,531,831	799,006
Cash and cash equivalents at the beginning of the year	<u>30,633,894</u>	<u>29,834,888</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 32,165,725</u></u>	<u><u>\$ 30,633,894</u></u>

The Evergreen State College
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

Reconciliation of Operating Loss to Net Cash used by Operating Activities

	<u>2012</u>	<u>2011</u>
Operating Loss	\$(29,880,612)	\$(37,637,414)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	7,881,990	7,164,716
Changes in assets and liabilities		
Accounts receivable	(448,469)	(1,626,159)
Loans receivable	126,847	195,564
Inventory	(95,376)	(112,177)
Bond discount and issue costs	64,203	5,963
Accounts payable and accrued expenses	1,513,008	277,611
Unearned revenues	(122,659)	895,142
Deposits	(112,909)	(84,880)
Net cash used by operating activities	<u><u>\$(21,073,977)</u></u>	<u><u>\$(30,921,634)</u></u>

Noncash transactions:

Purchase of endowment investments	(1,242,585)	(1,180,767)
Proceeds from sales and maturities of endowment investments	1,224,036	1,180,583
Retirement plan required contribution expense, net	(428,212)	(547,000)



The Evergreen State College Foundation
Statements of Financial Position
June 30, 2012 and 2011

	<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	4,042,086	4,306,551
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	5,953,771	5,162,055
Total Assets	<u>\$ 9,995,857</u>	<u>\$ 9,468,606</u>
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	270,826	302,301
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
For the Years Ended June 30, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012</u>	<u>2011</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	1,549,915	(1,091,290)	(458,625)	-	-
Total support and revenues	3,241,331	54,400	588,157	3,883,888	4,532,793
EXPENSES					
Program services:					
Grants and scholarships	1,387,237	-	-	1,387,237	1,099,554
Other College support	639,036	-	-	639,036	254,020
Total program services	2,026,273	-	-	2,026,273	1,353,574
Support Services:					
Management and General	411,070	-	-	411,070	282,618
Fundraising	887,819	-	-	887,819	635,939
Total support services	1,298,889	-	-	1,298,889	918,557
Total expenses	3,325,162	-	-	3,325,162	2,272,131
Increase (decrease) in net assets	(83,831)	54,400	588,157	558,726	2,260,662
NET ASSETS					
Beginning of year	1,126,786	4,777,992	3,261,527	9,166,305	6,905,643
End of year	\$ 1,042,955	\$ 4,832,392	\$ 3,849,684	\$ 9,725,031	\$ 9,166,305

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

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Evergreen State College (the College) is a comprehensive institution of higher education offering baccalaureate and master's degrees. The College is an agency of the state of Washington, and is governed by an eight-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

Financial Statement Presentation

The financial statements of the College for the years ended June 30, 2012 and 2011 have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted accounting standard setting body for establishing governmental accounting and financial reporting principles. These financial statements have been prepared in accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and GASB No. 37 and No. 38.

The Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amended GASB 14, *The Financial Reporting Entity*. This provides additional guidance to determine whether certain organizations are component units for which the primary government is not financially accountable but should be reported based on the nature and significance of their relationship with the primary government.

Under GASB Statement No. 39 criteria, The Evergreen State College Foundation is considered a legally separate component unit of the College and is discretely presented in the College's financial statements. During the fiscal year ended June 30, 2012, the Foundation distributed approximately \$1 million to the College for restricted and unrestricted purposes. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation.

Basis of Accounting

For financial reporting purposes, the College is considered as a special purpose government engaged in business type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus

and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The College reports capital assets net of accumulated depreciation, and reports depreciation expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

New Accounting Pronouncement, Effective July 1, 2011

The Governmental Accounting Standards Board has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the year ended June 30, 2012. The objective of this statement is to reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This pronouncement required the College to write off bond issuance costs of approximately \$65,000, and rename deferred revenues as unearned revenues to comply with this pronouncement.

The Governmental Accounting Standards Board has issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for the year ended June 30, 2012. The objective of this statement is to amend GASB statement No. 53, and is intended to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and accounting should continue to be applied. The College has no disclosures on this pronouncement.

New Accounting Pronouncements, Effective July 1, 2010

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for the year ended June 30, 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type

definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in government funds. The College has no disclosures on this pronouncement.

The Governmental Accounting Standards Board has issued Statement No. 59, *Financial Instruments Omnibus*, effective for the year ended June 30, 2011. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The College has no disclosures on this pronouncement.

Cash and Cash Equivalents

For the purposes of the statements of cash flow, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Funds invested through the State Treasurer's Local Government Investment Pool are also considered cash equivalents. Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

Investments

The College implemented GASB 40, *Deposit and Investment Risk Disclosure*, which changes the disclosure requirement related to investment risk and which is discussed further in Note 2.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable is recorded net of any estimated uncollectible amount.

Inventories

Inventories consist primarily of merchandise and consumables held by auxiliary and internal service departments. They are valued at cost using the first in, first out method.

Capital Assets

Land, buildings, equipment, and library resources are stated at cost or, if acquired by gift, at fair market

value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized.

The capitalization threshold for intangibles, such as computer software is \$1 million, a \$100,000 or greater threshold for buildings and infrastructure, and \$5,000 or greater for equipment. The purchase of land is capitalized regardless of cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, 15 years for library resources and 5 to 7 years for equipment.

Unearned Revenue

Unearned revenues occur when funds have been collected in advance of an event, such as advance ticket sales, summer quarter tuition, and unspent cash advances on certain grants.

Compensated Absences

College employees accrue annual leave at rates based on length of service and sick leave at the rate of one day (8 hours) per month. Both are recorded as liabilities. Employees are entitled to either the present value of 25% of his/her unused sick leave balance upon retirement or 25% of his/her net accumulation for the year in which it exceeds 480 hours.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

State Appropriations

The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Assets, and recognized as such when the related expenses are incurred.

Operating Revenues/Expenses

Operating revenues consist of tuition and fees, grants and contracts, sales and service of educational activities and auxiliary enterprise revenues.

Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as non-operating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

Net Assets

The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt: This represents the College's total investment in capital assets, less accumulated depreciation, and net of outstanding debt obligations related to capital assets.

Restricted Net Assets – Nonexpendable: This consists of endowment and similar type funds in which the donor or other outside sources have stipulated, as a condition of the gift, that the principal is to be maintained by inviolate and in perpetuity, and invested for the purpose of present and future income, which may be either expended, or added to principal.

Restricted Net Assets – Expendable: Include resources that the College is obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets: Net assets which are not subject to externally imposed restrictions, but which may be designated for specific purposes by management, or the Board of Trustees.

Tax Exemption

The College is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income. The Foundation is exempt from

income taxes under Section 501(c) (3) of the Internal Revenue Code.

Violations

The College does not have any material violations of finance-related legal or contractual provisions.

Reclassifications

Certain reclassifications not affecting total net assets have been made to the 2011 amounts in order to conform to 2012 presentation.

Note 2. Cash and Investments

Cash and cash equivalents include bank demand deposits, an overnight sweep account, petty cash held at the College and unit shares in the Local Government Investment Pool. Except for petty cash held at the College, all others are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments are stated at fair value. They consist of time certificates of deposit in addition to investments in equities and bond funds. Time certificates of deposit have repurchase agreements with the respective financial institutions; investments in equities are subject to loss of all 100% of the balance of investments.

GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The College's policy is to invest in short-term financial instruments with an original maturity of 12 months or less, this in order to maintain the goal of liquidity.

The College, through its investment policy, where applicable, manages its exposure to custodial credit risk, credit risk, concentration of credit risk and interest rate risk.

	June 30, 2012	June 30, 2011
Cash on hand	\$ 19,640	\$ 19,640
Bank demand and time deposits	2,659,424	1,678,118
Local government investment pool	29,486,661	28,936,136
Total cash and cash equivalents	\$ 32,165,725	\$ 30,633,894

Interest Rate Risk

The College manages its exposure to interest rate changes by limiting the duration of investments and structuring the maturities of investments to mature at various points in the year. No investment may exceed 12 months.

Concentration of Credit Risk

The College's Time Certificates of Deposit are insured through either the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the PDPC. The Endowment fund investment policy allows for the investments in equities of domestic publicly listed corporations on national exchanges.

Investments	Fair value	Investment Maturities			
		One year or less	1-5 Years	6-10 Years	10+ Years
Operating Funds					
Time certificate of deposits	\$6,007,102	\$6,007,102	\$ -	\$ -	\$ -
Endowment funds					
Bonds	756,377	39,129	167,452	59,148	490,648
Equities	895,027	n/a	n/a	n/a	n/a
Total investments	<u>\$7,658,506</u>				

At June 30, 2012 and 2011, the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$361,905 and \$354,082, respectively, which is reported as restricted, expendable on the Statements of Net Assets. State law allows for spending of net appreciation on investments of donor-restricted endowments. Accordingly, the income distribution policy is five percent of the three year moving average value of the net assets.

Note 3. Funds with State Treasurer

Funds with the State Treasurer represent the College's share of net earnings of the Normal School Permanent Fund as well as tuition distribution, reduced by expenditures for capital projects and debt service over the years in addition to monies held for the sale of College license plates. The Normal School Permanent Fund, established under RCW 43.79.160 is a permanent endowment fund, which derives its corpus from the sale of state lands and timber. The Washington State Investment Board manages the investing activities of the fund and the State Department of Natural Resources manages the sale of state lands and timber. Interest earned from the investments is either reinvested or used exclusively for the benefits of Central Washington University, Eastern Washington University, The Evergreen State College and Western Washington University.

Note 4. Accounts and Student Loans Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from the federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements.

Accounts receivable at June 30 consisted of the following:

	2012	2011
Student tuition and fees	\$ 3,175,886	\$ 2,356,901
Federal, state and private grants	1,026,389	796,429
State appropriation receivable	1,563,951	2,433,861
Auxiliary enterprises	1,031,892	1,075,269
Other operating activities	226,256	267,153
Subtotal	7,024,374	6,929,613
Allowance for uncollectibles	(647,461)	(131,259)
Net accounts receivable	<u>\$ 6,376,913</u>	<u>\$ 6,798,354</u>

Loans receivable at June 30 consisted primarily of student loan funds as follows:

	2012	2011
Perkins loans	\$ 3,962,045	\$ 4,041,850
Other loans	118,020	155,714
Subtotal	4,080,065	4,197,564
Allowance for uncollectibles	(20,331)	(10,983)
Net student loans receivable	<u>\$ 4,059,734</u>	<u>\$ 4,186,581</u>

Note 5. Inventories

Inventories consist of the following:

Inventories	Balance June 30, 2012	Balance June 30, 2011
Enterprise funds	\$ 620,522	\$ 522,493
Working capital funds	121,672	124,325
Total inventory	<u>\$ 742,194</u>	<u>\$ 646,818</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2012 is summarized as follows:

	Balance June 30, 2011	Additions/ Transfers	Retirements	Balance June 30, 2012
Non-depreciable assets				
Land	\$ 4,997,751	\$ -	\$ -	\$ 4,997,751
Construction in progress	1,703,681	10,128,546	1,576,965	10,255,262
Total non-depreciable assets	<u>6,701,432</u>	<u>10,128,546</u>	<u>1,576,965</u>	<u>15,253,013</u>
Depreciable assets				
Infrastructure	14,889,570	-	-	14,889,570
Buildings	204,754,499	2,155,473	-	206,909,972
Furniture, fixtures and equipment	21,485,848	731,976	46,395	22,171,429
Library resources	18,888,078	285,141	-	19,173,219
Intangibles	836,559	-	-	836,559
Total depreciable assets	<u>260,854,554</u>	<u>3,172,590</u>	<u>46,395</u>	<u>263,980,749</u>
Less accumulated depreciation				
Infrastructure	8,645,244	450,783	-	9,096,027
Buildings	54,576,200	5,423,032	-	59,999,232
Furniture, fixtures and equipment	12,753,571	1,472,696	37,890	14,188,377
Library resources	15,815,707	451,823	-	16,267,530
Intangibles	6,971	83,656	-	90,627
Total accumulated depreciation	<u>91,797,693</u>	<u>7,881,990</u>	<u>37,890</u>	<u>99,641,793</u>
Net capital assets	<u>\$ 175,758,293</u>	<u>\$ 5,419,146</u>	<u>\$ 1,585,470</u>	<u>\$ 179,591,969</u>

Capital asset activity for the year ended June 30, 2011 is summarized as follows:

	Balance June 30, 2010	Additions/ Transfers	Retirements	Balance June 30, 2011
Non-depreciable assets				
Land	\$ 4,997,751	\$ -	\$ -	\$ 4,997,751
Construction in progress	17,050,759	11,804,889	27,151,967	1,703,681
Total non-depreciable assets	22,048,510	11,804,889	27,151,967	6,701,432
Depreciable assets				
Infrastructure	14,478,190	411,380	-	14,889,570
Buildings	178,098,806	26,655,693	-	204,754,499
Furniture, fixtures and equipment	18,791,519	2,838,523	144,194	21,485,848
Library resources	18,517,929	370,149	-	18,888,078
Intangibles	-	836,559	-	836,559
Total depreciable assets	229,886,444	31,112,304	144,194	260,854,554
Less accumulated depreciation				
Infrastructure	8,207,338	437,906	-	8,645,244
Buildings	49,670,401	4,905,799	-	54,576,200
Furniture, fixtures and equipment	11,532,779	1,360,602	139,810	12,753,571
Library resources	15,362,269	453,438	-	15,815,707
Intangibles	-	6,971	-	6,971
Total accumulated depreciation	84,772,787	7,164,716	139,810	91,797,693
Net capital assets	\$167,162,167	\$35,752,477	\$27,156,351	\$175,758,293

Note 7. Accrued Leave Liabilities

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled \$2,110,711 and \$2,088,368 at June 30, 2012 and 2011, respectively and accrued sick leave totaled \$822,851 and \$798,908 at June 30, 2012 and 2011, respectively.

Note 8. Long-Term Liabilities

Following are changes in long-term liabilities for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion	Long-Term Portion
Long-Term Liabilities						
Accrued leave liabilities	\$ 2,887,276	\$ 3,308,155	\$ 3,261,869	\$ 2,933,562	\$ 2,110,711	\$ 822,851
Certificate of Participation	12,280,000	-	475,000	11,805,000	490,000	11,315,000
Pension liability	1,961,000	547,000	118,788	2,389,212	66,000	2,323,212
Bonds payable	5,755,000	-	395,000	5,360,000	410,000	4,950,000
Total	\$ 22,883,276	\$ 3,855,155	\$ 4,250,657	\$ 22,487,774	\$ 3,076,711	\$19,411,063

Following are changes in long-term liabilities for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion	Long-Term Portion
Long-Term Liabilities						
Accrued leave liabilities	\$ 2,758,056	\$ 3,112,962	\$ 2,983,742	\$ 2,887,276	\$ 2,088,368	\$ 798,908
Other liabilities	20,000	-	20,000	-	-	-
Certificate of Participation	12,740,000	-	460,000	12,280,000	475,000	11,805,000
Pension liability	1,414,000	547,000	-	1,961,000	118,788	1,842,212
Bonds payable	6,135,000	-	380,000	5,755,000	395,000	5,360,000
Total	<u>\$ 23,067,056</u>	<u>\$ 3,659,962</u>	<u>\$ 3,843,742</u>	<u>\$ 22,883,276</u>	<u>\$ 3,077,156</u>	<u>\$19,806,120</u>

Note 9. Bonds Payable

In March 2006, the College sold \$7,550,000 in Housing Revenue Bonds, with interest rates ranging from 3.75% to 4.25%. Proceeds of the bond issue went to refund the outstanding Housing Series 1994 Revenue Bonds, and the remaining proceeds were used to construct a Housing Administration Building, and to remodel and refurbish existing housing structures.



For the Year Ended June 30, 2012:

	Interest Rate	Original Issue	Balance June 30, 2012	Balance June 30, 2011
System revenue bonds				
Series 2006	3.75% to 4.25%	\$ 7,550,000	\$ 5,360,000	\$ 5,755,000
Debt Service Requirements				
The scheduled maturities of system revenue bonds are as follows:				
Fiscal Year	Principal	Interest	Total	
2013	\$ 410,000	\$ 214,081	\$ 624,081	
2014	425,000	198,706	623,706	
2015	445,000	182,769	627,769	
2016	460,000	166,081	626,081	
2017	300,000	148,831	448,831	
2018-2022	1,700,000	553,356	2,253,356	
2023-2026	1,620,000	175,263	1,795,263	
	<u>\$ 5,360,000</u>	<u>\$ 1,639,087</u>	<u>\$ 6,999,087</u>	

Note 10. Notes Payable

In June 2009, the College obtained financing in order to renovate and remodel the College Activities Building (CAB) through certificates of participation, issued by the Washington Office of State Treasurer (OST) in the amount of \$13,175,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2006. These fees are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget. The interest rate charged is approximately 5%. The College's debt service requirements for this note agreement for the next five years and thereafter are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 490,000	\$ 555,943	\$ 1,045,943
2014	505,000	540,997	1,045,997
2015	525,000	524,080	1,049,080
2016	540,000	505,180	1,045,180
2017	565,000	484,390	1,049,390
2018-2022	3,200,000	2,037,158	5,237,158
2023-2027	4,050,000	1,187,430	5,237,430
2028-2029	1,930,000	161,120	2,091,120
	<u>\$ 11,805,000</u>	<u>\$ 5,996,298</u>	<u>\$ 17,801,298</u>

Note 11. Lease Obligations

The College has an operating lease rental for the Tacoma program building, along with several photocopier-operating leases.

Operating lease payments for the next five years are as follows:

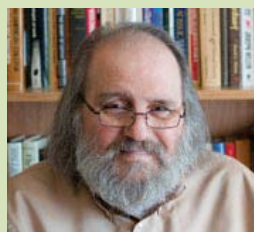
2013	\$ 864,267
2014	816,225
2015	816,225
2016	340,094
2017	-
	<u>\$ 2,836,811</u>

Total operating lease expenses were \$1,137,023 and \$937,114 in 2012 and 2011, respectively.



Note 12. Commitments

Encumbrances for current funds carried forward totaled \$2,332,349 and \$1,672,868 at June 30, 2012 and 2011, respectively. The College does not encumber construction contracts. Remaining construction commitments totaled \$2,316,124 and \$1,191,584 at June 30, 2012 and 2011, respectively.



Note 13. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2012 and 2011 are summarized as follows:

	2012	2011
Instruction	\$29,127,579	\$30,375,963
Scholarship and aid	13,953,441	13,128,088
Auxiliary enterprises	10,378,198	10,760,928
Institutional support	9,945,029	10,070,069
Operation and maintenance	9,544,194	12,169,603
Depreciation	7,881,990	7,164,716
Academic support	6,886,590	7,044,170
Student services	5,701,654	5,781,459
Public service	1,732,781	2,103,116
Research	130,669	55,233
Total operating expenses	<u>\$95,282,125</u>	<u>\$98,653,345</u>

Note 14. Contingencies and Risk Management

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the College.

The College is a party to various litigations and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position of the College.

The College participates in the State of Washington risk management self-insurance program. Premiums are based on actuarially determined projections. The College assumes its potential liability and property losses for all properties except for Housing and the College Activities Building, which were acquired with proceeds of debt issues where the debt agreements requires the College to carry insurance on the properties.

In accordance with State policy, the College self-insures unemployment compensation for all employees. In 2012, the College established an unemployment reserve, funded by charging all labor and wage expenditures, except for work-study, a percentage in order to fund a reserve to pay unemployment claims. Initially set at 0.5%, but was increased to 0.75% at years' end. Prior to 2012 the College was on a pay-as-you-go basis, in which claims are paid in the period incurred.

Unemployment compensation claims paid by the College were \$247,266 and \$183,498 for 2012 and 2011, respectively.

Note 15. Other Post Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the year ending June 30, 2008. This pronouncement requires the recording of the accumulated liability for retiree health care and life insurance costs, which for the State of Washington (State), as a whole, has been recorded in the State's Comprehensive Annual Financial Report (CAFR).

Health care and life insurance programs for employees of the State are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay as you go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees

for certain higher cost options elected by the employee.

State retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees.

An actuarial study performed by the Washington Office of the State Actuary calculated that the total OPEB obligation of the State of Washington at January 1, 2009 was \$3.5 billion and that the 2011 annual cost was \$349 million. The Actuary calculated the OPEB obligation based on individual State employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

The Actuary's allocation of the overall statewide liability related to the College was approximately \$17.7 million, and the annual allocated estimated cost to the College is about \$1.9 million. This estimated expense represents the amortization of the liability for fiscal year 2011 plus the current expense for active employees. This amount is not included in the College's financial statements.

The College was billed and paid approximately \$7.1 million in 2012 and \$7.4 million in 2011 for active and retiree healthcare expenses.



Note 16. Deferred Compensation

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency.

Note 17. Retirement Plans

The College offers three contributory pension plans, which cover eligible faculty, staff and administrative employees: The Washington State Public Employees' Retirement System (PERS) the Teachers Retirement System (TRS) and the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) are multiple-employer, defined benefit, public retirement systems administered by the state of Washington, Department of Retirement Systems (DRS), as established in the Revised Code of Washington (RCW) chapter 41.50.

The Evergreen State College Retirement Plan (TESCRP) is a defined contribution plan for the faculty and some exempt staff, with supplemental payment, when required.

For 2012, the payroll for the College's employees was \$13,555,672 for PERS, \$51,505 for TRS, \$461,787 for LEOFF and \$23,207,976 for TESCRP. Total covered payroll for 2012 was \$37,276,940.

For 2011, the payroll for the College's employees was \$14,000,206 for PERS, \$518,184 for LEOFF and \$24,088,182 for TESCRP. Total covered payroll for 2011 was \$38,606,572.

PERS, TRS and LEOFF Plans

Plan Descriptions

PERS, TRS and LEOFF are multiple-employer, defined benefit pension plans administered by the State of Washington, Department of Retirement Systems (DRS).

PERS Plan I

This plan provides retirement and disability benefits, and minimum benefits increase beginning at any age, with 30 years of service, or at age 55, with 25 years of service, or at age 60 with five years of service to eligible members hired prior to October 1, 1977.

PERS and TRS Plan II

These plans provide retirement and disability benefits, and a cost-of-living allowance, beginning at age 65 with five years of service, or actuarially reduced benefit beginning at age 55 with 20 years of service to eligible members hired on or after October 1, 1977.

LEOFF Plan II

This plan provides retirement and disability benefits, and a cost-of-living allowance, beginning at age 53 with five years of service, or actuarially reduced benefit beginning at age 50 with 20 years of service to eligible members hired on or after October 1, 1977.

PERS Plan III

This plan is a hybrid defined benefit and defined contribution plan. College contributions fund the defined benefit component, providing retirement and disability. In addition, PERS III has a defined contribution component, which is fully funded by employee contributions. PERS defined benefit plan benefits are vested after an employee completes five years of eligible service. Information regarding the plan descriptions and benefit provisions is included in a Comprehensive Annual Financial Report publicly available from the Washington State Retirement Systems, P.O. Box 48380, Olympia, WA 98504.

Funding Policy

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determine the actuarially required contribution rates for PERS and LEOFF plans, except where employee contribution rates are set by statute. All employers are required to contribute at the level established by state law. The contribution rates were as follows:

PERS, TRS and LEOFF 2012 Contribution Rates

<u>Plan</u>	<u>Member</u>	<u>College</u>
PERS I	6.00%	7.07% - 7.25%
PERS II	4.59% - 4.64%	7.07% - 7.25%
PERS III	Varies	7.07% - 7.25%
TRS II	3.36% - 4.69%	6.14% - 8.04%
LEOFF II	8.46%	8.62%

PERS and LEOFF 2011 Contribution Rates

<u>Plan</u>	<u>Member</u>	<u>College</u>
PERS I	6.00%	5.31%
PERS II	3.90%	5.31%
PERS III	Varies	5.31%
LEOFF II	8.46%	8.62%

The Evergreen State College Retirement Plan

Plan Description

The plan is a defined contribution plan administered by the College and covers most faculty and exempt staff. Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by

the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100% vested interest in their accumulations.

Employee contribution rates, which are based on age, range from 5% to 10%. The College matches the employee contributions. Employer and employee contributions for the years ended June 30, 2012 and 2011 were \$2,066,363 and \$2,094,738, respectively.

The benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% contribution after age 50, the benefit goal is 1.5% for each year of full-time service for the years in which the lower contribution was selected. No significant changes were made in the faculty benefit provisions for the year ended June 30, 2011.

The plan has a supplemental payment plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The College makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component of TESCPR is financed on a pay-as-you-go basis. Effective for new employees hired on or after July 1, 2011, state law no longer offers this supplemental component benefit of TESCPR.

The College received an actuarial valuation of the supplemental component of the TESCPR for fiscal year 2011. The previous valuation was performed in 2009. The Unfunded Actuarial accrued Liability (UAL) calculated as of July 1, 2011 and 2009 was \$3,413,000 and \$4,286,000, respectively, and is amortized over a 13-year period. The Annual Required Contribution (ARC) of \$547,000 consists of amortization of the UAL (\$276,000) and normal, or current, cost (\$260,000). The UAL and ARC were established using the entry age normal cost method.

The actuarial assumptions include an investment rate of return of 4.25% and projected salary increases ranging from 2% to 4%. The following reflects the activity in the Net Pension Obligation (NPO) for the years ended June 30, 2012 and 2011:

	2012	2011
Balance as of July 1	\$1,961,000	\$1,414,000
Annual Required Contribution	547,000	547,000
Payments to Beneficiaries	118,788	-
Balance as of June 30	<u>\$2,389,212</u>	<u>\$1,961,000</u>

The College records the estimated current payments to beneficiaries as a current liability with the remainder of the NPO as a long-term liability.

Note 18. Pledged Revenues

The Governmental Accounting Standards Board (GASB) has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The College has pledged specific revenues, net of operating expenses, to repay principal and interest of revenue bonds. The following is a schedule of the pledged revenue and related debt:

Source of Revenue Pledged	Current Year Revenues Pledged (net)	Current Year Debt Service	Total Future Revenues Pledged	Description of Debt	Purpose of Debt	Term of Commitment
Student housing rentals	\$ 707,909	\$ 618,956	\$ 6,999,087	2006 housing bonds issue	Remodel/renovate student housing	2026

Note 19. Segment Information

The College operates residence halls "Residential Services" located on the College campus. Revenue bonds are issued from time to time to build or remodel facilities. Residential Services pledges net revenues to cover the costs of debt service for the bonds, therefore, for accounting purposes, the Residential Services is a segment of the College. Presented below are condensed financial statements for Residential Services as audited by The State Auditor's Office (SAO) as of and for the years ended June 30, 2012 and 2011.

	June 30, 2012	June 30, 2011
Condensed Statement of Net Assets		
Assets		
Current assets	\$ 2,922,554	\$ 2,474,964
Noncurrent assets	13,276,121	13,493,859
Total assets	<u>16,198,675</u>	<u>15,968,823</u>
Liabilities		
Current liabilities	867,286	714,320
Noncurrent liabilities	4,967,831	5,379,010
Total liabilities	<u>5,835,117</u>	<u>6,093,330</u>
Net assets		
Invested in capital assets, net of related debt	7,916,121	7,738,859
Unrestricted	2,447,437	2,136,634
Total net assets	<u>\$ 10,363,558</u>	<u>\$ 9,875,493</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues	\$ 4,766,130	\$ 4,700,289
Operating expenses	4,058,221	3,819,993
Net operating income	707,909	880,296
Non-operating revenues (expenses)	(219,844)	(233,412)
Changes in net assets	488,065	646,884
Total net assets beginning of year	9,875,493	9,228,609
Total net assets, end of year	<u>\$ 10,363,558</u>	<u>\$ 9,875,493</u>
Condensed Statement of Cash Flows		
Net cash flows provided by operating activities	\$ 1,948,630	\$ 1,910,741
Net cash flows used by capital financing activities	(1,518,809)	(1,272,203)
Net cash flows provided by investing activities	4,112	4,982
Net increase in cash	433,933	643,520
Cash beginning of year	2,286,985	1,643,465
Cash end of year	<u>\$ 2,720,918</u>	<u>\$ 2,286,985</u>

The Evergreen State College 2012 Annual Financial Report



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