



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

April 1, 2014

The Evergreen State College
Olympia, Washington

REPORT ON FINANCIAL STATEMENTS

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 position, 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 solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the 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, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of The Evergreen State College are intended to present the financial position, the changes in financial position and, where applicable, 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, 2013 and 2012, 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.

Other Matters

Required Supplementary Information

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 and the other auditors 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 our 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 black ink, reading "Troy X. Kelley". The signature is written in a cursive style with a large "T" and "K".

TROY KELLEY
STATE AUDITOR

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, 2013 with comparative 2012 and 2011 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 4,400 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 47,700 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 Positions, the Statements of Revenues, Expenses and Changes in Net Positions and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

The Governmental Accounting Standards Board has issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This requires the college to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under these requirements, 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 2011 and 2012 amounts in order to conform to the 2013 presentation.

Statements of Net Position

The Statements of Net Position provide information about the College's financial position, and presents the College's assets, liabilities, and net positions at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statements of Net Position as of June 30, 2013, 2012 and 2011, follows:

Condensed Statements of Net Positions

As of June 30 (in thousands)

	2013	2012	2011
ASSETS			
Current assets	\$ 36,279	\$ 49,414	\$ 46,114
Capital, net	182,527	179,592	175,758
Other non-current assets	14,483	5,188	5,379
Total Assets	<u>233,289</u>	<u>234,194</u>	<u>227,251</u>
LIABILITIES			
Current liabilities	13,797	14,778	13,850
Other non-current liabilities	19,174	19,411	19,925
Total liabilities	<u>32,971</u>	<u>34,189</u>	<u>33,775</u>
NET ASSETS	<u>\$ 200,318</u>	<u>\$ 200,005</u>	<u>\$ 193,476</u>

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The significant decrease in current assets in 2013 can be attributed to the College reinvesting cash equivalents into a longer term investment (other non-current asset) and a decrease in the Normal School Permanent fund. In the prior year the state's Legislature required the College to partly 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 \$2.9 million from 2012 to 2013. After taking into consideration current depreciation expense of \$7.9 million, the increase was due to the completion of various remodeling projects through the campus in 2013.

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 decrease in current liabilities from 2012 to 2013 is due to the reduction in payables related to College's Communications building remodeling project. The modest decrease in non-current liabilities over the years is the result of payment of long-term debt less the increase in net pension obligations. The College's supplemental benefit pension liability continues to increase by about \$700,000 annually in 2013. 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 meantime, 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.

Condensed Net Positions	2013	2012	2011
Net Positions			
Invested in capital assets, net of related debt	\$ 166,283	\$ 162,451	\$ 157,811
Restricted:			
Non-expendable: Scholarships and Professorship:	2,202	2,211	2,222
Expendable	6,635	9,022	7,472
Unrestricted	25,198	26,321	25,971
Total net position	<u>\$ 200,318</u>	<u>\$ 200,005</u>	<u>\$ 193,476</u>

Total net assets increased by \$313 thousand during 2013 for a total of \$200,317,890. The largest item is invested in capital assets, net of related debt which totals \$166.3 million, a net increase of \$3.8 million. After factoring in \$7.9 million in depreciation expense for 2013, the College spent \$10.8 million in capital asset acquisitions. The decrease of \$2.4 million in expendable restricted net assets from 2012 to 2013 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. 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 to cover operating expenses.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position 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 Position for the Years Ended June 30, 2013, 2012 and 2011, follows:

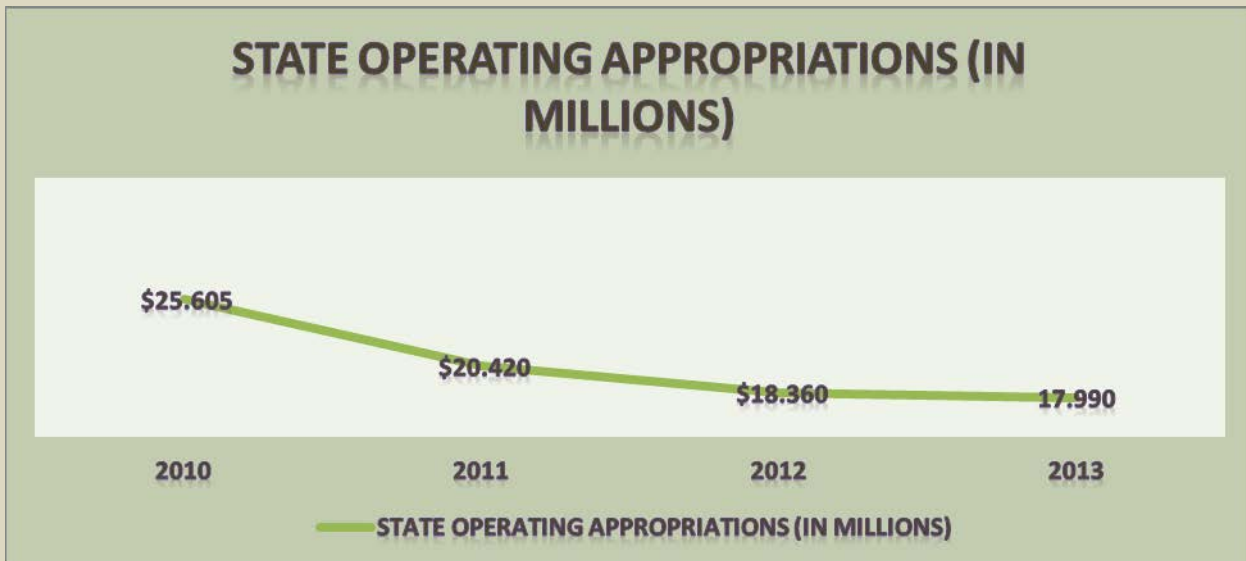
Condensed Statements of Revenues, Expenses, and Changes in Net Position

For the years ended June 30(in thousands)

	2013	2012	2011
Operating revenues	\$ 65,239	\$ 65,402	\$ 61,016
Operating expenses	99,565	95,282	98,653
Net operating loss	(34,326)	(29,880)	(37,637)
Non-operating revenues	29,273	29,619	32,757
Non-operating expenses	(764)	(794)	(823)
Gain(loss) before other revenues	(5,817)	(1,055)	(5,703)
Other revenues and expenses	6,130	7,584	9,043
Increase in net assets	313	6,529	3,340
Net assets at beginning of year	200,005	193,476	190,137
Net assets at end of year	\$ 200,318	\$ 200,005	\$ 193,477

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. 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 29% over the last four- year period and by 40% over the last five-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 \$1.2 trillion in 2013. For 2013 at the College, the amount of student loans received were \$747 thousand less than 2012 for a total of \$25.1 million in new student loans in 2013. The reduction in new student loans was 2% overall which is consistent with the College's decline in enrollment. 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.

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
2012-13	\$ 2,604	13.1%	\$ 2,643	4.8%	\$ 6,326	4.9%	\$ 6,686	0.0%
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%

*Does not include mandatory and optional fees

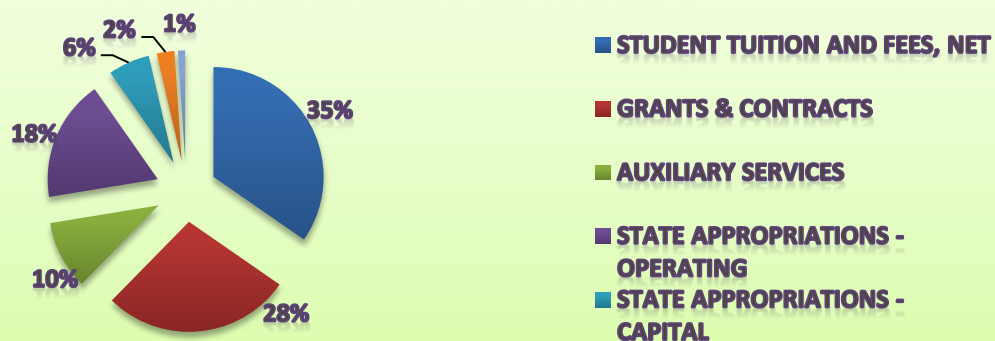
The table below reflects the reduction of state appropriations, both in actual dollars and in percentages, with increases in tuition rates:

Revenues by Sources (in thousands)

For the years ended June 30

	2013		2012		2011	
Student tuition and fees, net	\$ 34,875	34.7%	\$ 35,879	34.9%	\$ 33,423	32.5%
Grants & contracts	27,856	27.7%	27,379	26.7%	24,974	24.3%
Auxiliary services	10,143	10.1%	10,141	9.9%	10,305	10.0%
State appropriations - operating	17,990	17.9%	18,360	17.9%	20,420	19.9%
State appropriations - capital	6,130	6.1%	7,584	7.4%	9,043	8.8%
Investment income	2,596	2.6%	2,346	2.3%	3,654	3.5%
Other revenues	1,052	1.0%	916	0.9%	997	1.0%
Total revenues	\$ 100,642	100.0%	\$ 102,605	100.0%	\$ 102,816	100.0%

FY2013 REVENUES BY SOURCE



Operating Expenses

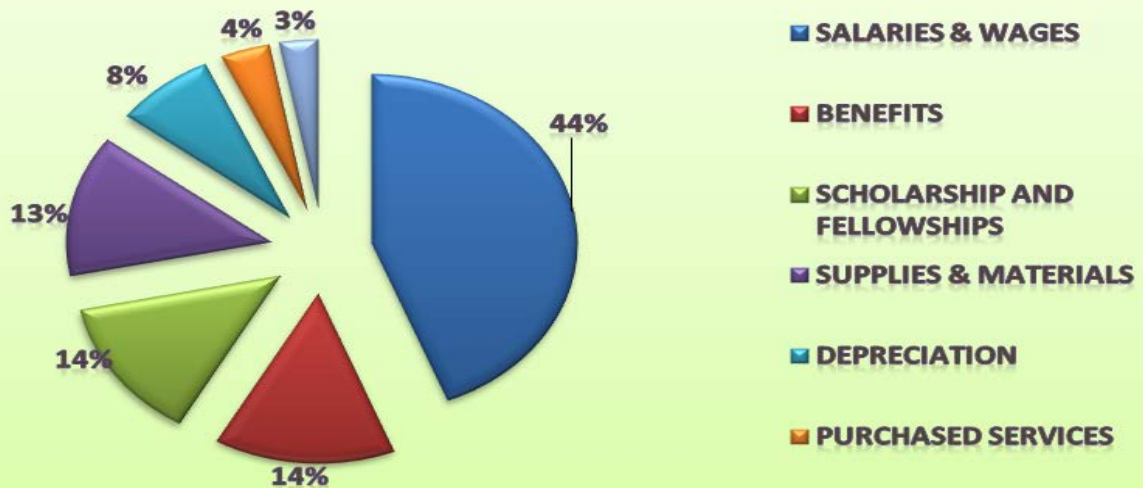
In 2013, the College's total operating expenses were up over \$4.3 million, with many individual components having some significant changes. Personnel costs, comprising salaries and benefits, were up \$1.2 million for the year. Supplies and materials also increased by \$3.5 million, which is mainly the result of increased spending for maintenance projects that were not capitalized. These fluctuations are expected, given a certain percentage of annual capital appropriations expenditures are for routine repairs and maintenance. Utility costs were higher because of the completion of the CAB building remodel and re-opening in September of 2012. The CAB accounts for 18% of the square footage of campus buildings.

Operating Expenses by Type (in thousands)

For the years ended June 30

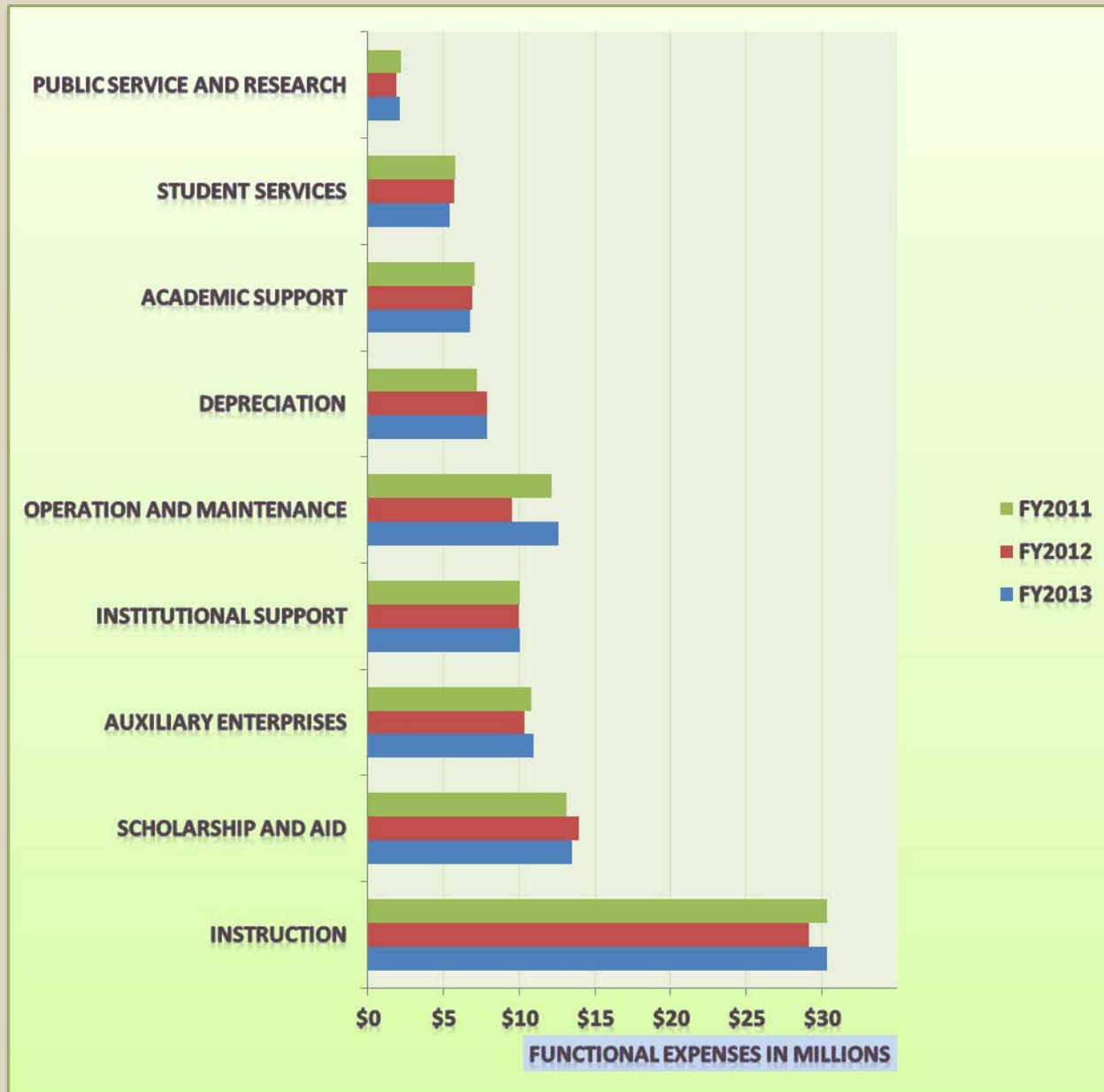
	2013		2012		2011	
Salaries & wages	\$	43,779 44.0%	\$	42,659 44.8%	\$	44,223 44.8%
Benefits		14,211 14.3%		14,205 14.9%		14,740 14.9%
Scholarship and fellowships		13,475 13.5%		13,953 14.6%		13,128 13.3%
Supplies & materials		13,448 13.5%		9,926 10.4%		11,599 11.8%
Depreciation		7,880 7.9%		7,882 8.3%		7,165 7.3%
Purchased services		3,860 3.9%		4,091 4.3%		5,022 5.1%
Utilities		<u>2,912 2.9%</u>		<u>2,566 2.7%</u>		<u>2,776 2.8%</u>
Total expenses	\$	99,565 100.0%	\$	95,282 100.0%	\$	98,653 100.0%

FY2013 EXPENSES BY OBJECT



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 2013, 2012 and 2011.



Capital Improvements

The College spent \$10.8 million for capital related purposes in 2013. 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, 2013 include the Communications Laboratory building and the Science Lab 1 building renovations.

Financial Summary and Economic Factors That Will Affect the Future

In 2013, the College's state appropriations decreased by \$370,000. However, for 2014 the College's state appropriations were increased by \$2.9 million or 16% mostly due to the State's revenue collections returning to pre-recession levels due to a slowly improving economy. State revenue growth is projected to be flat due to slow economic growth for 2015.

Most of the state's economic risk factors are from outside the state. Those factors include a weaker Chinese economy, uncertain federal fiscal policies and problems impeding the housing recovery. The gridlock at the federal level could result in significant reductions in federal student financial aid programs like Pell Grants and other federal funding.

Tuition did not increase in 2014 for resident undergraduates but did increase by 2 to 5% for all other students. The college expects similar increases in tuition for 2015. Enrollment has been steadily declining for the last three years, Fall 2013 enrollment was down about 2%, and if this trend continues will result in a similar reduction in tuition revenue.

The Evergreen State College
Statements of Net Position
June 30, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,398,542	\$ 32,165,725
Short-term investments	6,020,643	6,007,102
Due from State Treasurer	1,052,521	1,563,951
Funds held with State Treasurer	977,447	3,575,999
Accounts receivable, net	6,463,267	4,812,962
Student loan receivables, net	620,950	546,250
Inventories	745,744	742,194
Total current assets	<u>36,279,114</u>	<u>49,414,183</u>
Non-Current Assets		
Investments	11,120,368	1,651,404
Student loan receivables, net	3,341,528	3,513,484
Bond discounts and issue costs, net of amortization	21,546	23,247
Capital assets, net of depreciation	182,526,938	179,591,969
Total non-current assets	<u>197,010,380</u>	<u>184,780,104</u>
Total assets	<u>233,289,494</u>	<u>234,194,287</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	5,087,202	6,309,059
Unearned revenues	4,929,984	4,980,902
Deposits payable	474,770	411,859
Compensated absences	2,253,220	2,110,711
Net pension obligations, current	122,000	66,000
Current portion of bonds and notes payable	930,000	900,000
Total current liabilities	<u>13,797,176</u>	<u>14,778,531</u>
Non-Current Liabilities		
Compensated absences	825,259	822,851
Net pension obligations	3,014,169	2,323,212
Long-term portion of bonds and notes payable	15,335,000	16,265,000
Total non-current liabilities	<u>19,174,428</u>	<u>19,411,063</u>
Total liabilities	<u>32,971,604</u>	<u>34,189,594</u>
Net Position		
Net Investment in capital assets	166,283,484	162,450,216
Restricted for:		
Nonexpendable:		
Scholarships and professorships	2,201,528	2,211,131
Expendable:		
Loans	5,409,267	5,126,723
Endowment earnings	259,188	361,905
Other	966,870	3,533,562
Unrestricted	25,197,553	26,321,156
Total net position	<u>\$ 200,317,890</u>	<u>\$ 200,004,693</u>

See Accompanying Notes to the Financial Statements.

The Evergreen State College
Statements of Revenues, Expenses and Changes in Net Positions
For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Student tuition and fees	\$ 50,211,796	\$ 49,228,567
Less scholarship discounts and allowances	(15,336,777)	(13,349,768)
Auxiliary enterprise sales, net	9,505,962	9,342,111
State and local grants and contracts	10,635,583	9,637,963
Federal grants and contracts	4,900,218	5,586,070
Nongovernmental grants and contracts	3,633,837	3,241,912
Other operating revenue	973,136	856,120
Sales and services of educational activities	636,550	798,747
Interest on loans to students	78,684	59,791
Total operating revenue	65,238,989	65,401,513
Operating Expenses		
Salaries and wages	43,779,200	42,658,751
Benefits	14,211,391	14,204,922
Scholarships and fellowships	13,474,504	13,953,441
Supplies and materials	13,448,058	9,925,684
Depreciation	7,879,834	7,881,990
Purchased services	3,859,970	4,091,312
Utilities	2,911,652	2,566,025
Total operating expenses	99,564,609	95,282,125
Operating loss	(34,325,620)	(29,880,612)
Non-Operating Revenues (Expenses)		
State appropriations	17,990,000	18,360,000
Federal pell grant revenue	8,686,056	8,913,086
Investment income, gains and losses	2,596,346	2,345,911
Interest on indebtedness	(763,653)	(794,050)
Net non-operating revenues	28,508,749	28,824,947
Loss before other revenues, expenses, gains or losses	(5,816,871)	(1,055,665)
Capital appropriations	6,130,068	7,584,249
Increase in net position	313,197	6,528,584
Net Position		
Net position, beginning of year	200,004,693	193,476,109
Net position, end of year	\$ 200,317,890	\$ 200,004,693

See Accompanying Notes to the Financial Statements.

The Evergreen State College
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Student tuition and fees	44,581,209	\$ 45,221,597
Grants and contracts	19,169,639	18,465,945
Sales and services of educational activities	636,550	798,747
Auxiliary enterprise sales	9,505,962	9,342,111
Payments to employees	(57,098,717)	(56,389,175)
Payment to vendors	(21,474,777)	(15,575,684)
Payment for scholarships and fellowships	(23,669,926)	(22,937,518)
Net cash used by operating activities	<u>(28,350,060)</u>	<u>(21,073,977)</u>
Cash flows from noncapital financing activities		
State operating appropriations	17,990,000	18,746,000
Direct lending receipts	25,154,485	25,911,057
Direct lending disbursements	(25,140,302)	(25,911,057)
Agency fund receipts	802,920	779,871
Agency fund disbursements	(771,530)	(772,893)
Federal pell grant receipts	8,686,056	8,913,086
Net cash provided by noncapital financing activities	<u>26,721,629</u>	<u>27,666,064</u>
Cash flows from capital and related financing activities		
Capital appropriations	6,682,006	7,906,369
Certificate of participation proceeds	-	-
Purchase of capital assets	(10,814,802)	(11,724,171)
Principal paid on capital debt	(900,000)	(870,000)
Interest paid	(763,653)	(794,050)
Net cash used by capital and related financing activities	<u>(5,796,449)</u>	<u>(5,481,852)</u>
Cash flows from investing activities		
Purchase of investments	(12,034,632)	(6,007,102)
Proceeds from sales and maturities of investments	2,707,653	6,010,042
Income from investments, net	4,984,677	418,656
Net cash provided by investing activities	<u>(4,342,302)</u>	<u>421,596</u>
Increase in cash and cash equivalents	(11,767,183)	1,531,831
Cash and cash equivalents at the beginning of the year	<u>32,165,725</u>	<u>30,633,894</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 20,398,542</u></u>	<u><u>\$ 32,165,725</u></u>

See Accompanying Notes to the Financial Statements.

The Evergreen State College
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

Reconciliation of Operating Loss to Net Cash used by Operating Activities

	2013	2012
Operating Loss	\$ (34,325,620)	\$ (29,880,612)
Adjustment to reconcile operating loss to net cash used by operating activities		
Depreciation expense	7,879,834	7,881,990
Changes in assets and liabilities		
Accounts receivable	(1,650,305)	(448,469)
Loans receivable	97,256	126,847
Inventory	(3,550)	(95,376)
Bond discount and issue costs	1,701	64,203
Accounts payable and accrued expenses	(361,369)	1,513,008
Unearned revenues	(50,918)	(122,659)
Deposits	62,911	(112,909)
Net cash used by operating activities	\$ (28,350,060)	\$ (21,073,977)
Noncash transactions:		
Purchase of endowment investments	\$ (2,000,000)	(1,242,585)
Proceeds from sales and maturities of endowment investments	\$ 1,702,821	1,224,036
Retirement plan required contribution expense, net	746,957	(428,212)

See Accompanying Notes to the Financial Statements.

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

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

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

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

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, 2013 and 2012 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 has issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity.

Under GASB Statement Numbers 61 and 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. The Foundation is considered a discretely presented component unit because it has a separate board of directors, but is fiscally dependent on and provides benefits exclusively to the College.

During the fiscal year ended June 30, 2013, the Foundation distributed approximately \$1.2 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. Audited financial statements of the Foundation may be found at www.evergreen.edu/foundation/.

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 Positions.

New Accounting Pronouncements, Effective July 1, 2012

The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The College has no disclosures for this pronouncement.

The Governmental Accounting Standards Board has issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies existing requirements for the assessment of potential component units and their inclusion in the financial reporting entity. There was no impact to the College's definition of the reporting entity as a result of this statement. However, the College was required to disclose the reasons for including the Foundation in its financial statements as a discretely presented component unit. There were no additional disclosures required by the college based on this statement.

The Governmental Accounting Standards Board has issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The College has no disclosures on this pronouncement.

The Governmental Accounting Standards Board has issued Statement No. 63, *Financial Reporting of and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Further, this Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the net position and by renaming that measure as net position, rather than net assets.

The College has no deferred outflows of resources, deferred inflows of resources to be disclosed. However, the statement was implemented with the current reporting period to change the name of the Basic Financial Statements to reflect *Statements of Net Positions and a Statement of Revenues, Expenses and Changes in Net Positions*, in accordance with the pronouncement. There are no other requirements applicable to the College.

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.

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 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 Positions. 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 Positions, 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 Position

The College's net position components 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 position have been made to the 2012 amounts in order to conform to 2013 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, bond funds and fixed income bonds. 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, through its investment policy, where applicable, manages its exposure to custodial credit risk, credit risk, concentration of credit risk and interest rate risk by investing only in eligible investments authorized by state statute found in RCW 39 and 43.

	June 30, 2013		June 30, 2012	
Cash on hand	\$	20,290	\$	19,640
Bank demand and time deposits	\$	2,238,994		2,659,424
Local government investment pool	\$	18,139,257		29,486,661
Total cash and cash equivalents	\$	20,398,542	\$	32,165,725

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.

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.

Investment Maturities					
Investments	Fair value	One year or less	1-5 years	6-10 years	10+ years
Operating Funds					
Time certificate of deposits	\$ 6,020,643	\$ 6,020,643	\$ -	\$ -	\$ -
Bonds	9,016,927		9,016,927		
Endowment funds					
Cash Equivalents	4,703				
Bond Funds	772,316				
Equities	1,326,422	n/a	n/a	n/a	n/a
	<u>\$ 17,141,011</u>				

At June 30, 2013 and 2012, the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$259,188 and \$361,905, 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:

	2013	2012
Student tuition and fees	\$ 3,234,037	\$ 3,175,886
Federal, state and private grants	2,202,489	1,026,389
State appropriation receivable	1,052,618	1,563,951
Auxiliary enterprises	1,468,918	1,031,892
Other operating activities	181,726	226,256
Subtotal	8,139,788	7,024,374
Allowance for uncollectibles	(623,903)	(647,461)
Net accounts receivable	\$ 7,515,885	\$ 6,376,913

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

	2013	2012
Perkins loans	\$ 3,887,139	\$ 3,962,045
Other loans	79,076	118,020
Subtotal	3,966,215	4,080,065
Allowance for uncollectibles	(3,737)	(20,331)
Net student loans receivable	\$ 3,962,478	\$ 4,059,734

Note 5. Inventories

Inventories consist of the following:

Inventories	Balance June 30, 2013	Balance June 30, 2012
Enterprise funds	\$ 620,522	\$ 620,522
Working capital funds	121,672	121,672
Total inventory	\$ 742,194	\$ 742,194

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2013 is summarized as follows:

	Balance June 30, 2012	Additions/ Transfers	Retirements	Balance June 30, 2013
Non-depreciable assets				
Land	\$ 4,997,751	\$ -	\$ -	\$ 4,997,751
Construction in progress	10,255,262	7,716,351	2,333,993	15,637,620
Total non-depreciable assets	15,253,013	7,716,351	2,333,993	20,635,371

Depreciable assets				
Infrastructure	14,889,570	-	-	14,889,570
Buildings	206,909,972	3,105,040		210,015,012
Improvements Other Than Buildings	-	1,250,381		1,250,381
Furniture, fixtures and equipment	22,171,429	743,581	120,444	22,794,567
Library resources	19,173,219	333,442		19,506,661
Intangibles	836,559	-	-	836,559
Total depreciable assets	<u>263,980,749</u>	<u>5,432,444</u>	<u>120,444</u>	<u>269,292,750</u>
Less accumulated depreciation				
Infrastructure	9,096,027	443,474	-	9,539,501
Buildings	59,999,232	5,462,058	-	65,461,290
Improvements Other Than Buildings		4,168		4,168
Furniture, fixtures and equipment	14,188,377	1,470,068	120,444	15,538,001
Library resources	16,267,530	416,410	-	16,683,940
Intangibles	90,627	83,656	-	174,283
Total accumulated depreciation	<u>99,641,793</u>	<u>7,879,834</u>	<u>120,444</u>	<u>107,401,183</u>
Net capital assets				
	<u>\$ 179,591,969</u>	<u>\$ 5,268,961</u>	<u>\$ 2,333,993</u>	<u>\$ 182,526,938</u>

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	<u>1,703,681</u>	<u>10,128,546</u>	<u>1,576,965</u>	<u>10,255,262</u>
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>

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 or

insurance. 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 \$2,253,220 and \$2,110,711 at June 30, 2013 and 2012, respectively and accrued sick leave totaled \$825,259 and \$822,851 at June 30, 2013 and 2012, respectively.

Note 8. Long-Term Liabilities

Following are changes in long-term liabilities for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion	Long-Term Portion
Long-Term Liabilities						
Accrued leave liabilities	\$ 2,933,562	\$ 3,691,642	\$ 3,546,725	\$ 3,078,479	\$ 2,253,220	\$ 825,259
Certificate of Participation	11,805,000		490,000	11,315,000	505,000	10,810,000
Pension liability	2,389,212	816,000	69,043	3,136,169	122,000	3,014,169
Bonds payable	5,360,000		410,000	4,950,000	425,000	4,525,000
Total	<u>\$ 22,487,774</u>	<u>\$ 4,507,642</u>	<u>\$ 4,515,768</u>	<u>\$ 22,479,648</u>	<u>\$ 3,305,220</u>	<u>\$ 19,174,428</u>

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	<u>\$ 22,883,276</u>	<u>\$ 3,855,155</u>	<u>\$ 4,250,657</u>	<u>\$ 22,487,774</u>	<u>\$ 3,076,711</u>	<u>\$ 19,411,063</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, 2013:

	Interest Rate	Original Issue	Balance June 30, 2013	Balance June 30, 2012
System revenue bonds				
Series 2006	3.75% to 4.25%	\$ 7,550,000	\$ 4,950,000	\$ 5,360,000
Debt Service Requirements				
The scheduled maturities of system revenue bonds are as follows:				
Fiscal Year	Principal	Interest	Total	
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	315,000	136,831	451,831	
2019-2023	1,765,000	484,900	2,249,900	
2024-2026	1,240,000	106,888	1,346,888	
	<u>\$ 4,950,000</u>	<u>\$ 1,425,006</u>	<u>\$ 6,375,006</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
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	585,000	461,508	1,046,508
2019-2023	3,345,000	1,891,175	5,236,175
2024-2028	4,260,000	978,080	5,238,080
2029	990,000	54,945	1,044,945
	<u>\$ 11,315,000</u>	<u>\$ 5,440,355</u>	<u>\$ 16,755,355</u>

Note 11. Lease Obligations

The College has an operating lease rental for the Tacoma program building, along with several other building leases. Total operating lease expenses were \$909,859 and \$1,137,023 in 2013 and 2012, respectively.

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

2014	\$	901,839
2015	\$	893,799
2016	\$	417,668
2017	\$	-
2018	\$	-
	<u>\$</u>	<u>2,213,305</u>

Note 12. Commitments

Encumbrances for current funds carried forward totaled \$1,397,082 and \$2,332,349 at June 30, 2013 and 2012, respectively. The College does not encumber construction contracts. Remaining construction commitments totaled \$251,002 and \$2,316,124 at June 30, 2013 and 2012, respectively.

Note 13. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2013 and 2012 are summarized as follows:

	FY 2013	FY2012
Instruction	\$ 30,353,732	\$ 29,127,579
Scholarship and aid	13,474,504	13,953,441
Auxiliary enterprises	10,924,617	10,378,198
Institutional support	10,081,559	9,945,029
Operation and maintenance	12,587,809	9,544,194
Depreciation	7,879,833	7,881,990
Academic support	6,772,208	6,886,590
Student services	5,374,528	5,701,654
Public service	2,068,513	1,732,781
Research	47,306	130,669
Total operating expenses	\$ 99,564,609	\$ 95,282,125

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% in 2013. 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 \$205,175 and \$247,266 for 2013 and 2012, 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 June 30, 2013 was \$3.7 billion and that the 2013 annual cost was \$347 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 \$19.7 million, and the annual allocated estimated cost to the College is about \$2 million. This estimated expense represents the amortization of the liability for fiscal year 2013 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 \$6.7 million in 2013 and \$7.1 million in 2012 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 2013, the payroll for the College's employees was \$14,651,500 for PERS, \$397,029 for LEOFF and \$22,591,049 for TESCRP. Total covered payroll for 2013 was \$37,796,634.

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.

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 2013 Contribution Rates

Plan	Member	College
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% - 8.05%
LEOFF II	8.46%	5.24%

PERS, TRS and LEOFF 2012 Contribution Rates

Plan	Member	College
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%

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, 2013 and 2012 were \$1,952,067 and \$2,066,363, 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 TESCRRP 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 TESCRRP.

The College received an actuarial valuation of the supplemental component of the TESCRRP for fiscal year 2013. The previous valuation was performed in 2011. The Unfunded Actuarial accrued Liability (UAL) calculated as of July 1, 2013 and 2011 was \$5,938,000 and \$3,413,000, respectively, and is amortized over a 13-year period. The Annual Required Contribution (ARC) of \$816,000 consists of amortization of the UAL (\$573,000) and normal, or current, cost (\$227,000) plus interest. 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, 2013 and 2012:

	FY2013	FY2012
Balance as of July 1	\$ 2,389,212	\$ 1,961,000
Annual Required Contribution	816,000	547,000
Payments to Beneficiaries	69,043	118,788
Balance as of June 30	<u>\$ 3,136,169</u>	<u>\$ 2,389,212</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	\$ 1,381,573	\$ 624,081	\$ 6,375,006	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, 2013 and 2012.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Condensed Statements of Net Positions		
Assets		
Current assets	\$ 2,495,995	\$ 2,922,554
Noncurrent assets	14,500,886	13,276,121
Total assets	<u>16,996,881</u>	<u>16,198,675</u>
Liabilities		
Current liabilities	768,721	867,286
Noncurrent liabilities	4,539,914	4,967,831
Total liabilities	<u>5,308,635</u>	<u>5,835,117</u>
Net position		
Net investment in capital assets	9,550,886	7,916,121
Unrestricted	2,137,360	2,447,437
Total net position	<u>\$ 11,688,246</u>	<u>\$ 10,363,558</u>
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 4,695,378	\$ 4,766,130
Operating expenses	4,384,068	4,058,221
Net operating income	311,310	707,909
Nonoperating revenues (expenses)	1,013,378	(219,844)
Changes in net position	1,324,688	488,065
Total net assets beginning of year	10,363,558	9,875,493
Total net assets, end of year	<u>\$ 11,688,246</u>	<u>\$ 10,363,558</u>
Condensed Statement of Cash Flows		
Net cash flows provided by operating activities	\$ 1,270,927	\$ 1,948,630
Net cash flows used by capital financing activities	(1,692,596)	(1,518,809)
Net cash flows provided by investing activities	2,962	4,112
Net increase in cash	(418,707)	433,933
Cash beginning of year	2,720,918	2,286,985
Cash end of year	<u>\$ 2,302,211</u>	<u>\$ 2,720,918</u>