

# The Evergreen State College

## 2014 Annual Financial Report



# **The Evergreen State College Annual Financial Report for June 30, 2014**

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# Washington State Auditor's Office

## INDEPENDENT AUDITOR'S REPORT

May 26, 2015

The Evergreen State College  
Olympia, Washington

## REPORT ON THE 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 related to the amount 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Evergreen State College Foundation were not audited in accordance with *Government Auditing Standards*.



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 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, as of June 30, 2014 and 2013, 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 Evergreen State College, an agency of the state of Washington, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Report on Summarized Comparative Information***

The financial statements include summarized prior-year comparative information for the Evergreen State College Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2013, from which such partial information was derived. Other auditors have previously audited the Evergreen State College Foundation's 2013

financial statements and they expressed an unmodified opinion in their report dated February 28, 2014.

### ***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 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.

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR

# Management's Discussion and Analysis

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## 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, 2014 with comparative 2013 and 2012 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 4,000 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 49,700 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 the notes to their financial statements are included after the College's notes to the financial statements.

## Reclassifications

Certain reclassifications, if any, which do not affect total net assets have been made to 2012 and 2013 amounts in order to conform to the 2014 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, 2014, 2013 and 2012, follows:



# Management's Discussion and Analysis

<b>Condensed Statements of Net Positions</b>			
<b>As of June 30 (in thousands)</b>			
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>			
Current assets	\$ 37,029	\$ 36,279	\$ 49,414
Capital, net	177,984	182,527	179,592
Other non-current assets	15,141	14,483	5,188
Total Assets	230,154	233,289	234,194
<b>LIABILITIES</b>			
Current liabilities	13,206	13,797	14,778
Other non-current liabilities	18,984	19,174	19,411
Total liabilities	\$ 32,190	\$ 32,971	\$ 34,189
<b>NET ASSETS</b>	<b>\$ 197,964</b>	<b>\$ 200,318</b>	<b>\$ 200,005</b>

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The increase in current assets can be attributed to a build-up of approximately \$2.2 million in the Normal School fund during the last fiscal year offset by an approximate \$1.4 million decrease in receivables. Capital assets decreased by a net of \$4.5 million from 2013 to 2014. Although the college added \$3.4 million in new capital assets due to the completion of various capital projects during 2014, the current year depreciation expense was \$7.9 million, which reduced the balance of capital assets.

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 2013 to 2014 is due to a decrease in the amount of pre-paid summer school tuition held by the college at year end. 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 increased by about \$700,000 in 2014. 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.

# Management's Discussion and Analysis

- **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	2014	2013	2012
<b>Net Positions</b>			
Invested in capital assets, net of related debt	\$ 162,669	\$ 166,283	\$ 162,451
Restricted:			
Non-expendable: Scholarships and Professorships	2,187	2,202	2,211
Expendable	8,301	6,635	9,022
Unrestricted	24,807	25,198	26,321
Total net position	\$ 197,964	\$ 200,318	\$ 200,005

Total net assets decreased by \$2.4 million during 2014 to \$197,964,267. The largest item is invested in capital assets, net of related debt which totals \$162.7 million, a net decrease of \$3.6 million. After reducing capital assets by \$7.9 million for depreciation expense in 2014, the College spent \$3.4 million in capital asset acquisitions. The increase of \$1.7 million in expendable restricted net assets from 2013 to 2014 was primarily the result of a build-up of Normal School Permanent Fund dollars to fund future facilities operations and maintenance. 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 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 appropriations 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, 2014, 2013 and 2012, follows:





# Management's Discussion and Analysis

## Condensed Statements of Revenues, Expenses, and Changes in Net Position For the years ended June 30 (in thousands)

	2014	2013	2012
Operating revenues	\$ 63,201	\$ 65,239	\$ 65,402
Operating expenses	99,457	99,565	95,282
Net operating loss	(36,256)	(34,326)	(29,880)
Non-operating revenues	33,013	29,273	29,619
Non-operating expenses	(733)	(764)	(794)
Gain(loss) before other revenues	(3,976)	(5,817)	(1,055)
Other revenues and expenses	1,622	6,130	7,584
Increase in net assets	(2,354)	313	6,529
Net assets at beginning of year	200,318	200,005	193,476
Net assets at end of year	\$ 197,964	\$ 200,318	\$ 200,005

## 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. In order to keep tuition growth for resident undergraduates at four year institutions flat for the current year, the legislature increased state operating funding to the College for the first time in the last six years. The increase of \$3.086 million to \$21.076 million is still 30% less than the state appropriation in 2009. Reduced funding over this period resulted in double digit annual tuition increases, with the exception of the current year, and an overall decrease in total funding available. The increased funding in 2013 translated into no real tuition increases for the majority of our students. However, students did receive modestly higher amounts of Federal Pell and State Need grant funds but debt incurred by students through the use of student loans decreased. For 2014 at the College, the amount of student loans received were \$836 thousand less than 2013 for a total of \$24.3 million in new student loans in 2014. The reduction in new student loans was 3% overall which is consistent with the College's decline in enrollment and flat tuition growth for the majority of students. 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 recent increase state support provided to the College, and is representative of the budget increases to Higher Education in the last year due to an improved economy.

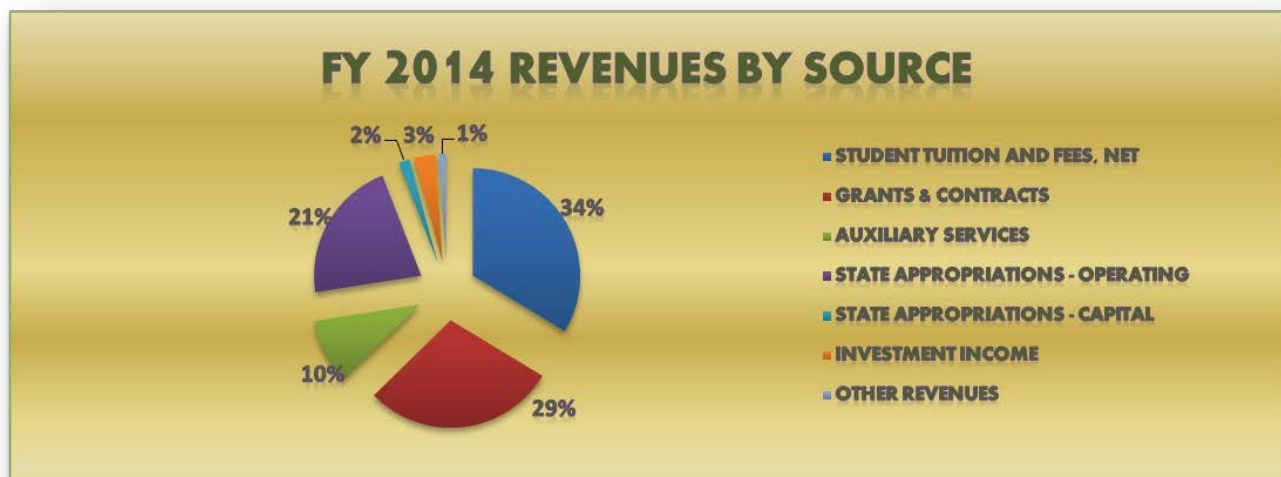
# Management's Discussion and Analysis

Tuition Rate rates for resident undergraduates, (most students) experienced no growth in the last fiscal year due to increased legislative funding. Other tuition rate increases have been consistent with prior years.

**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
2013-14	\$ 2,611	0.3%	\$ 2,774	5.0%	\$ 6,640	5.0%	\$ 6,824	2.1%
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%

The graph below reflects the percentage of revenue received by revenue source.



## Operating Expenses

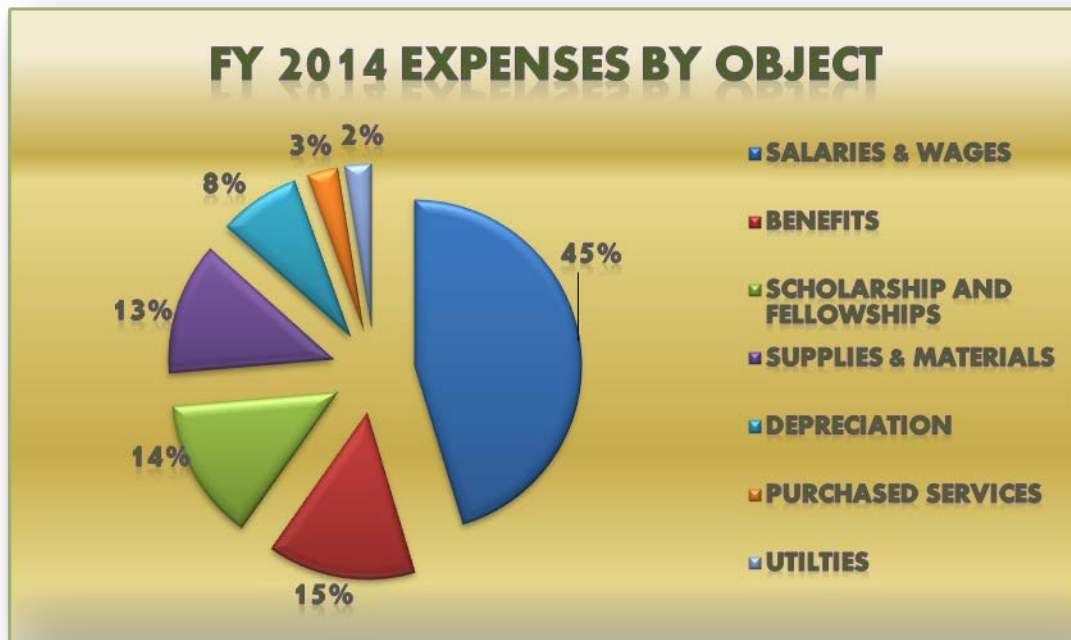
In 2014, the College's total operating expenses were down slightly by \$100 thousand, with many individual components having some significant changes. Personnel costs, comprising salaries and benefits, were up \$1.5 million for the year. However, supplies and materials also decreased by \$600 thousand, this is mainly the result of decreased spending for maintenance projects. These fluctuations are expected, given a certain percentage of annual capital appropriations expenditures are for routine repairs and maintenance. Utility costs were lower consistent with our energy conservation program efforts.

**Operating Expenses by Type (in thousands)  
For the years ended June 30, 2014**

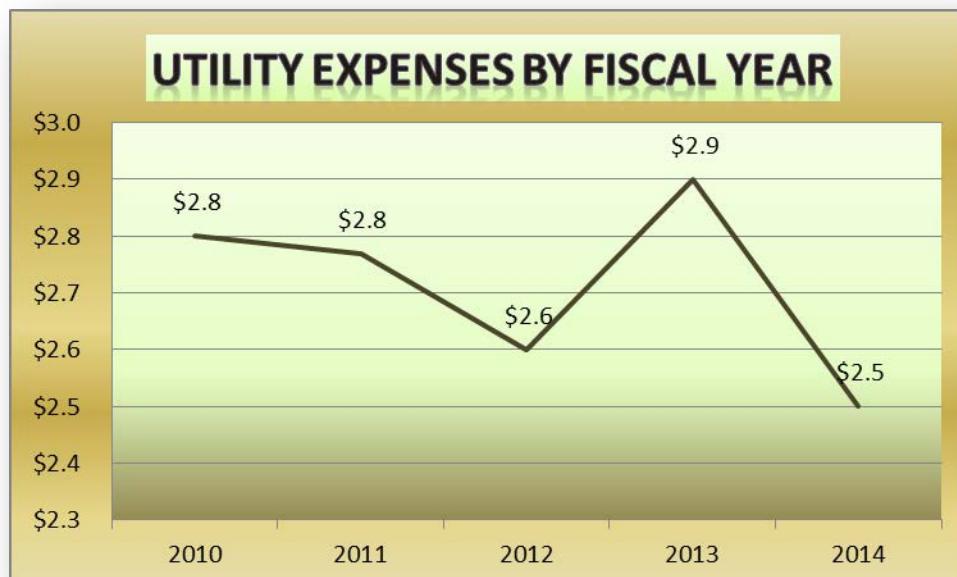
	2014		2013		2012	
Salaries & wages	\$ 45,076	45%	\$ 43,779	44%	\$ 42,659	45%
Benefits	14,456	15%	14,211	14%	14,205	15%
Scholarship and fellowships	13,736	14%	13,475	14%	13,953	15%
Supplies & materials	12,819	13%	13,448	14%	9,926	10%
Depreciation	7,919	8%	7,880	8%	7,882	8%
Purchased services	2,990	3%	3,860	4%	4,091	4%
Utilities	2,461	2%	2,912	3%	2,566	3%
Total expenses	\$ 99,457	100%	\$ 99,565	100%	\$ 95,282	100%

## Management's Discussion and Analysis

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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:

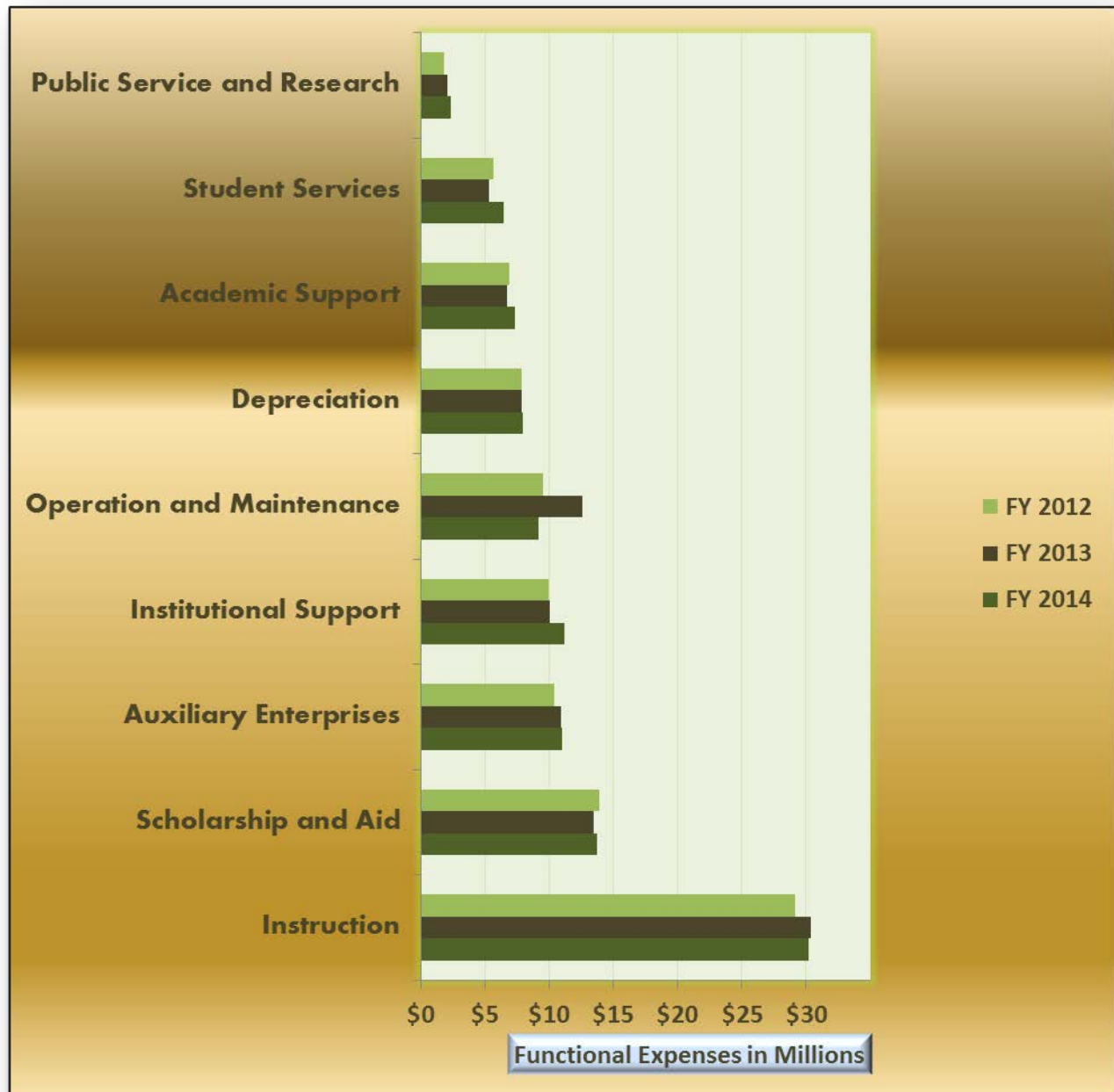


The substantial decrease this year in utility costs can be attributed to conservation efforts.

## Management's Discussion and Analysis

### Comparison of Operating Expenses by Function

The Bar chart on the below shows the amount, in dollars, for each of the functional areas of operating expenses for the 2014, 2013 and 2012.





# Management's Discussion and Analysis

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## Capital Improvements

The College spent \$3.4 million for capital related purposes in 2014. This continues a decline going back to 2009 when the College spent \$19 million. The College capital budget for the 2013-2015 period is approximately 30% less than the previous biennium. The level of capital spending may 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, 2014 include the Communications Laboratory building and the Science Lab 1 building renovations.

## Financial Summary and Economic Factors That Will Affect the Future

In 2014, the College's state appropriations increased by \$3.1 million which was largely due to the State's increased revenue collections and a desire to not increase tuition rates for resident undergraduate students. State revenue growth is projected to be moderate due to slow economic growth for 2015.

Most of the state's economic risk factors are from outside the state. Those factors include slower Chinese, Japanese, and European economies and geopolitical instability around the world. The recent changes 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 increased between 2 to 5% for all other students. The college expects similar increases in tuition for 2015. Enrollment has been declining for the last four years and for Fall 2014 enrollment is down about 4% which, if this trend continues, will result in a similar reduction in tuition revenue.



**The Evergreen State College**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 20,751,950	\$ 20,398,542
Short-term investments	6,016,241	6,020,643
Due from State Treasurer	864,281	1,052,521
Funds held with State Treasurer	3,145,578	977,447
Accounts receivable, net	4,974,774	6,463,267
Student loan receivables, net	597,081	620,950
Inventories	679,307	745,744
<b>Total current assets</b>	<u>37,029,212</u>	<u>36,279,114</u>
<b>Non-Current Assets</b>		
Investments	11,525,190	11,120,368
Student loan receivables, net	3,595,881	3,341,528
Bond discounts, net of amortization	19,846	21,546
Capital assets, net of depreciation	177,984,013	182,526,938
<b>Total non-current assets</b>	<u>193,124,930</u>	<u>197,010,380</u>
<b>Total assets</b>	<u>230,154,142</u>	<u>233,289,494</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	5,287,753	5,087,202
Unearned revenues	4,089,941	4,929,984
Deposits payable	430,717	474,770
Compensated absences	2,305,347	2,253,220
Net pension obligations, current	122,000	122,000
Current portion of bonds and notes payable	970,000	930,000
<b>Total current liabilities</b>	<u>13,205,758</u>	<u>13,797,176</u>
<b>Non-Current Liabilities</b>		
Compensated absences	874,474	825,259
Net pension obligations	3,744,643	3,014,169
Long-term portion of bonds and notes payable	14,365,000	15,335,000
<b>Total non-current liabilities</b>	<u>18,984,117</u>	<u>19,174,428</u>
<b>Total liabilities</b>	<u>32,189,875</u>	<u>32,971,604</u>
<b>Net Position</b>		
Net Investment in capital assets	162,668,860	166,283,484
Restricted for:		
Nonexpendable:		
Scholarships and professorships	2,186,609	2,201,528
Expendable:		
Loans	4,996,991	5,409,267
Endowment earnings	516,326	259,188
Other	2,787,934	966,870
Unrestricted	24,807,547	25,197,553
<b>Total net position</b>	<u>\$ 197,964,267</u>	<u>\$ 200,317,890</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Student tuition and fees	\$ 49,902,623	\$ 50,211,796
Less scholarship discounts and allowances	(16,998,545)	(15,336,777)
Auxiliary enterprise sales, net	8,983,410	9,505,962
State and local grants and contracts	11,381,121	10,635,583
Federal grants and contracts	4,740,242	4,900,218
Nongovernmental grants and contracts	3,526,243	3,633,837
Other operating revenue	955,435	973,136
Sales and services of educational activities	638,497	636,550
Interest on loans to students	72,318	78,684
<b>Total operating revenue</b>	<u>63,201,344</u>	<u>Å5,238,989</u>
<b>Operating Expenses</b>		
Salaries and wages	Å5,075,527	Å3,779,200
Benefits	Å4,456,403	14,211,391
Scholarships and fellowships	13,735,658	Å3,474,504
Supplies and materials	12,819,402	F3,448,058
Depreciation	7,918,636	Å,879,834
Purchased services	2,990,290	Å,859,970
Utilities	2,460,979	Å,911,652
<b>Total operating expenses</b>	<u>99,456,895</u>	<u>Å9,564,609</u>
<b>Operating loss</b>	<u>(36,255,551)</u>	<u>Å34,325,620)</u>
<b>Non-Operating Revenues (Expenses)</b>		
State appropriations	21,076,000	17,990,000
Federal Pell grant revenue	8,795,919	8,686,056
Investment income, gains and losses	3,140,941	2,596,346
Interest on indebtedness	(732,957)	(763,653)
<b>Net non-operating revenues</b>	<u>32,279,903</u>	<u>28,508,749</u>
Loss before other revenues, expenses, gains or losses	(3,975,648)	(5,816,871)
Capital appropriations	1,622,025	6,130,068
<b>Increase in net position</b>	(2,353,623)	313,197
<b>Net Position</b>		
Net position, beginning of year	<u>200,317,890</u>	<u>200,004,693</u>
<b>Net position, end of year</b>	<u>\$ 197,964,267</u>	<u>\$ 200,317,890</u>

See Accompanying Notes to the Financial Statements

**The Evergreen State College**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Student tuition and fees	\$ 34,305,746	\$ 44,581,209
Grants and contracts	19,647,606	19,169,639
Sales and services of educational activities	638,497	636,550
Auxiliary enterprise sales	8,983,410	9,505,962
Payments to employees	(58,700,114)	(57,098,717)
Payment to vendors	(18,093,902)	(21,474,777)
Payment for scholarships and fellowships	(13,735,658)	(23,669,926)
<b>Net cash used by operating activities</b>	<b>(26,954,416)</b>	<b>(28,350,060)</b>
<b>Cash flows from noncapital financing activities</b>		
State operating appropriations	20,960,000	17,990,000
Direct lending receipts	24,290,985	25,154,485
Direct lending disbursements	(24,305,168)	(25,140,302)
Agency fund receipts	858,494	802,920
Agency fund disbursements	(766,575)	(771,530)
Federal pell grant receipts	8,795,919	8,686,056
<b>Net cash provided by noncapital financing activities</b>	<b>29,833,655</b>	<b>26,721,629</b>
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations	1,814,261	6,682,006
Certificate of participation proceeds	-	-
Purchase of capital assets	(3,257,035)	(10,814,802)
Principal paid on capital debt	(930,000)	(900,000)
Interest paid	(732,957)	(763,653)
<b>Net cash used by capital and related financing activities</b>	<b>(3,105,731)</b>	<b>(5,796,449)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(9,017,796)	(12,034,632)
Proceeds from sales and maturities of investments	9,001,821	2,707,653
Income from investments, net	595,875	4,984,677
<b>Net cash provided by investing activities</b>	<b>579,900</b>	<b>(4,342,302)</b>
<b>Increase in cash and cash equivalents</b>	<b>353,408</b>	<b>(11,767,183)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>20,398,542</b>	<b>32,165,725</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 20,751,950</b>	<b>\$ 20,398,542</b>



**The Evergreen State College**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2014 and 2013**

**Reconciliation of Operating Loss to Net Cash used by Operating Activities**

	<u>2014</u>	<u>2013</u>
<b>Operating Loss</b>	\$ (36,255,551)	\$ (34,325,620)
Adjustment to reconcile operating loss to net cash used by operating activities		
Depreciation expense	7,918,636	7,879,834
Changes in assets and liabilities		
Accounts receivable	1,488,493	(1,650,305)
Loans receivable	(230,483)	97,256
Inventory	66,437	(3,550)
Bond discount and issue costs	1,701	1,701
Accounts payable and accrued expenses	940,447	(361,369)
Unearned revenues	(840,043)	(50,918)
Deposits	(44,053)	62,911
<b>Net cash used by operating activities</b>	<u>\$ (26,954,416)</u>	<u>\$ (28,350,060)</u>

**Noncash transactions:**

Purchase of endowment investments	\$ (147,193)	\$ (2,000,000)
Proceeds from sales and maturities of endowment investments	103,796	1,702,821
Retirement plan required contribution expense, net	\$ 730,473	\$ 746,957



## 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, 2014 and 2013 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, 2014, the Foundation distributed approximately \$1.4 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/](http://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 specific 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 last 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. 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.

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.

#### Accounting Standards Impacting the Future

In June 2012, the GASB approved Statement No. 68, "Accounting and Financial Reporting for Pensions," and Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 27". This will take effect in the fiscal year ending June 30, 2015. It requires governments providing defined benefit pensions to their employees to recognize their long term obligation for pension liabilities as a liability and recognize associated assets which have been set aside to fund the plan. The College participates in several cost sharing pensions plans administered by the State of Washington. The statement requires the College to recognize its share of the state-wide net liability for each of its plans. The new statement removes the old method of amortizing the liability balances over several years and will now require full recognition upon implementation. The College is currently determining the impact of this new 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 consists 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 2013 amounts in order to conform to 2014 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.

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Cash on hand	\$ 20,290	\$ 20,290
Bank demand and time deposits	3,416,127	2,238,994
Local government investment pool	17,315,533	18,139,257
<b>Total cash and cash equivalents</b>	<b>\$ 20,751,950</b>	<b>\$ 20,398,542</b>

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.

Investments	Fair value	Investment Maturities			
		One year or less	1-5 years	6-10 years	10+ years
Operating Funds					
Time certificate of deposits					
Heritage Bank	\$ 3,027,136	\$ -	\$ 3,027,136	\$ -	\$ -
Bonds	12,041,254	6,016,241	6,025,013	-	-
Cash Equivalents	6,147				
Bond Funds	1,635,398				
Equities	831,495	n/a	n/a	n/a	n/a
<b>Totals</b>	<b>\$ 17,541,430</b>				

At June 30, 2014 and 2013, the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$516,326 and \$259,188 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:

	2014	2013
Student tuition and fees	\$ 2,833,403	\$ 3,234,037
Federal, state and private grants	1,011,844	2,202,489
State appropriation receivable	864,281	1,052,618
Auxiliary enterprises	1,357,934	1,468,918
Other operating activities	333,515	181,726
Subtotal	6,400,976	8,139,788
Allowance for uncollectibles	(561,921)	(623,903)
Net accounts receivable	\$ 5,839,055	\$ 7,515,885

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

	2014	2013
Perkins loans	\$ 4,137,029	\$ 3,887,139
Other loans	58,122	79,076
Subtotal	4,195,151	3,966,215
Allowance for uncollectibles	(2,190)	(3,737)
Net student loans receivable	\$ 4,192,961	\$ 3,962,478

### Note 5. Inventories

Inventories consist of the following:

Inventories	Balance June 30, 2014	Balance June 30, 2013	Balance June 30, 2012
Enterprise funds	\$ 550,116	\$ 610,269	\$ 620,522
Working capital funds	129,191	135,475	121,672
Total inventory	\$ 679,307	\$ 745,744	\$ 742,194

**Note 6. Capital Assets**

Capital asset activity for the year ended June 30, 2014 is summarized as follows:

	<b>Balance June 30, 2013</b>	<b>Additions/ Transfers</b>	<b>Retirements</b>	<b>Balance June 30, 2014</b>
Non-depreciable assets				
Land	\$ 4,997,751	\$ -	\$ -	\$ 4,997,751
Construction in progress	15,637,620	1,792,277	-	17,429,897
Total non-depreciable assets	<u>20,635,371</u>	<u>1,792,277</u>	<u>-</u>	<u>22,427,648</u>
Depreciable assets				
Infrastructure	14,889,570	492,942	-	15,382,512
Buildings	210,015,012	366,243	-	210,381,255
Improvements other than buildings	1,250,381	-	-	1,250,381
Furniture, fixtures and equipment	22,794,567	459,734	136,129	23,118,172
Library resources	19,506,661	281,969	-	19,788,630
Intangibles	836,559	-	-	836,559
Total depreciable assets	<u>269,292,750</u>	<u>1,600,888</u>	<u>136,129</u>	<u>270,757,509</u>
Less accumulated depreciation	-			
Infrastructure	9,539,501	388,957	-	9,928,458
Buildings	65,461,290	5,558,314	-	71,019,604
Improvements other than buildings	4,168	50,015	-	54,183
Furniture, fixtures and equipment	15,538,001	1,428,631	118,675	16,847,957
Library resources	16,683,940	409,063	-	17,093,003
Intangibles	174,283	83,656	-	257,939
Total accumulated depreciation	<u>107,401,183</u>	<u>7,918,636</u>	<u>118,675</u>	<u>115,201,144</u>
Net capital assets	<u>\$ 182,526,938</u>	<u>\$ (4,525,471)</u>	<u>\$ 17,454</u>	<u>\$ 177,984,013</u>

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

	<b>Balance June 30, 2012</b>	<b>Additions/ Transfers</b>	<b>Retirements</b>	<b>Balance June 30, 2013</b>
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	<u>15,253,013</u>	<u>7,716,351</u>	<u>2,333,993</u>	<u>20,635,371</u>
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>

## 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 \$2,305,347 and \$2,253,220 at June 30, 2014 and 2013, respectively and accrued sick leave totaled \$874,474 and \$825,259 at June 30, 2014 and 2013, respectively.

## Note 8. Long-Term Liabilities

Following are changes in long-term liabilities for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion	Long-Term Portion
Long-Term Liabilities						
Accrued leave liabilities	\$ 3,078,479	\$ 3,946,709	\$ 3,845,367	\$ 3,179,821	\$ 2,305,347	\$ 874,474
Certificate of Participation	11,315,000	-	505,000	10,810,000	525,000	10,285,000
Pension liability	3,136,169	816,000	85,526	3,866,643	122,000	3,744,643
Bonds payable	4,950,000	-	425,000	4,525,000	445,000	4,080,000
Total	<u>\$22,479,648</u>	<u>\$ 4,762,709</u>	<u>\$ 4,860,893</u>	<u>\$22,381,464</u>	<u>\$ 3,397,347</u>	<u>\$ 18,984,117</u>

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>

## 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, 2014:**

	<b>Interest Rate</b>	<b>Original Issue</b>	<b>Balance June 30, 2014</b>	<b>Balance June 30, 2013</b>
System revenue bonds Series 2006	3.75% to 4.25%	\$ 7,550,000	\$ 4,525,000	\$ 4,950,000

**Debt Service Requirements**

The scheduled maturities of system revenue bonds are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	325,000	124,231	449,231
2020-2024	1,835,000	413,369	2,248,369
2025-2026	845,000	54,188	899,188
	<u>\$ 4,525,000</u>	<u>\$ 1,226,300</u>	<u>\$ 5,751,300</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:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	610,000	436,645	1,046,645
2020-2024	3,505,000	1,733,555	5,238,555
2025-2029	\$ 4,480,000	\$ 754,000	\$ 5,234,000
	<u>\$ 10,810,000</u>	<u>\$ 4,899,358</u>	<u>\$ 15,709,358</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 \$927,520 and \$909,859 in 2014 and 2013, respectively.

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

<b>Fiscal Year</b>	<b>Total Payments</b>
2015	\$ 893,799
2016	417,668
2017	-
2018	-
2019	-
	<u>\$ 1,311,466</u>

**Note 12. Commitments**

Encumbrances for current funds carried forward totaled \$3,911,136 and \$1,397,082 at June 30, 2014 and 2013, respectively. The College does not encumber construction contracts. Remaining construction commitments totaled \$420,459 and \$251,002 at June 30, 2014 and 2013, respectively.

**Note 13. Operating Expenses by Function**

Operating expenses by functional classification for the years ended June 30, 2014 and 2013 are summarized as follows:

	<b>FY2014</b>	<b>FY 2013</b>
Instruction	\$ 30,237,930	\$ 30,353,732
Scholarship and aid	13,735,658	13,474,504
Auxiliary enterprises	11,037,600	10,924,617
Institutional support	11,166,046	10,081,559
Operation and maintenance	9,143,888	12,587,809
Depreciation	7,918,636	7,879,833
Academic support	7,351,717	6,772,208
Student services	6,487,184	5,374,528
Public service	2,249,956	2,068,513
Research	128,280	47,306
Total operating expenses	<u>\$ 99,456,895</u>	<u>\$ 99,564,609</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, which were acquired with proceeds of bond issues where the bond agreement requires the College to carry insurance on Housing property.

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 \$168,990 and \$205,175 for 2014 and 2013, 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 \$6.6 million in 2014 and \$6.7 million in 2013 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 § 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state 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 2014, the payroll for the College's employees was \$15,426,506 for PERS, \$275,869 for TRS, \$441,824 for LEOFF and \$23,040,448 for TESCRP. Total covered payroll for 2014 was \$39,184,647.

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.

### 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:

### TERS, TRS, and LEOFF 2014 Contribution Rates

Plan	Member	College
PERS I	6.00%	9.21%
PERS II	4.92%	9.21%
PERS III	Varies	9.21%
TRS III	Varies	10.39%
LEOFF II	8.41%	8.59%

### TERS, 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%



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, 2014 and 2013 were \$1,994,876, and \$1,952,067, 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, 2014.

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, 2014 and 2013:

	<b>FY2014</b>	<b>FY2013</b>
Balance as of July 1	\$ 3,136,169	\$2,389,212
Annual Required Contribution	\$ 816,000	\$ 816,000
Payments to Beneficiaries	85,526	\$ 69,043
Balance as of June 30	<u>\$ 3,866,643</u>	<u>\$3,136,169</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:

<b>Source of Revenue Pledged</b>	<b>Current Year Revenues Pledged (net)</b>	<b>Current Year Debt Service</b>	<b>Total Future Revenues Pledged</b>	<b>Description of Debt</b>	<b>Purpose of Debt</b>	<b>Term of Commitment</b>
Student housing rentals	\$ 1,395,518	\$ 623,706	\$ 5,751,300	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, 2014 and 2013.

	June 30, 2014	June 30, 2013
<b>Condensed Statements of Net Positions</b>		
<b>Assets</b>		
Current assets	\$ 2,849,707	\$ 2,495,995
Noncurrent assets	13,701,081	14,500,886
Total assets	<u>16,550,788</u>	<u>16,996,881</u>
<b>Liabilities</b>		
Current liabilities	817,505	768,721
Noncurrent liabilities	4,095,237	4,539,914
Total liabilities	<u>4,912,742</u>	<u>5,308,635</u>
<b>Net position</b>		
Net investment in capital assets	9,176,081	9,550,886
Unrestricted	2,461,965	2,137,360
Total net position	<u>\$ 11,638,046</u>	<u>\$ 11,688,246</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>		
Operating revenues	\$ 4,492,136	\$ 4,695,378
Operating expenses	4,372,220	4,384,068
Net operating income	<u>119,916</u>	<u>311,310</u>
Non-operating revenues (expenses)	(193,370)	1,013,378
Changes in net position	<u>(73,454)</u>	<u>1,324,688</u>
Total net position beginning of year	<u>11,688,246</u>	<u>10,363,558</u>
Prior year adjustment	23,254	-
Net position, beginning of year - restated	<u>11,711,500</u>	<u>-</u>
Total net position, end of year	<u>\$ 11,638,046</u>	<u>\$ 11,688,246</u>
<b>Condensed Statement of Cash Flows</b>		
Net cash flows provided by operating activities	1,443,509	1,270,927
Net cash flows used by capital financing activities	(1,070,913)	(1,692,596)
Net cash flows provided by investing activities	-	2,962
Net increase in cash	<u>372,596</u>	<u>(418,707)</u>
Cash beginning of year	2,302,211	2,720,918
Cash end of year	<u>\$ 2,674,807</u>	<u>\$ 2,302,211</u>

# **THE EVERGREEN STATE COLLEGE FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS**

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

#### **Nature of Activities**

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

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

#### **Basis of Presentation**

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

##### **Unrestricted Net Assets**

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

##### **Temporarily Restricted Net Assets**

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

##### **Permanently Restricted Net Assets**

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

#### **Gifts and Contributions**

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

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

# THE EVERGREEN STATE COLLEGE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### Unconditional Promises to Give

Contributions, including unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenues in the period received. Unconditional promises to give due in the next year are reported at their net realizable value.

Unconditional promises to give, due in subsequent years are reported on the present value of their net realizable value, using an appropriate discount rate. Amortization of discounts is included in contribution revenue.

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

### Donated Materials and Services

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

### Cash and Cash Equivalents

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

### Certificates of Deposit

Certificates of deposit include deposits with individual balances of \$250,000, or less, with various financial institutions. At June 30, 2014, all certificates of deposit mature within one year.

### Investments

The Foundation maintains most of its investments in a pooled fund managed by the University of Washington in its Consolidated Endowment Fund (CEF). The University of Washington CEF had a fair value of \$2,832,752,593 and \$2,346,693,014 as of June 30, 2014 and 2013, consisting of 31,508,991 and 28,898,083 units valued at \$89.903 and \$81.206 per unit. The Foundation held 90,800 and 80,298 units valued at \$8,163,227 and \$6,594,888 as of June 30, 2014 and 2013. At June 30, 2014, an additional \$1,471,274 was held by the University of Washington pending a July 1, 2014 investment purchase. Asset allocation of the CEF at June 30 was as follows:

	2014	2013
Emerging Markets Equity	18%	18%
Developed Markets Equity	35%	45%
Private Equity	11% **	-
Real Assets	7% **	7% **
Opportunistic	2% **	4% **
Absolute Return	18% **	17% **
Fixed Income	9%	9%

\*\* Investment type includes private and other illiquid investments.



The fair value of the CEF is based on a per unit valuation, which is based on the estimated fair value of the underlying investments. The fair value of debt and equity securities with a readily determinable fair value is

## **THE EVERGREEN STATE COLLEGE FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS**

based on quotations from national securities exchanges. The alternative investments, which are not readily marketable, are carried at the estimate fair values provided by the investment managers. The Foundation can redeem units in the CEF at the end of a quarter.

In fiscal year 2014, the Foundation began investing with Morgan Stanley. As of June 30, 2014, the estimated value of the Foundation's investment with Morgan Stanley was \$1,016,788, with the cash value being \$5,632, the estimated fair value of mutual funds totaling \$309,887, and estimated fair value of the brokered certificates of deposit totaling \$701,269. The estimated fair value of the mutual funds is based on the underlying securities owned by the mutual fund. The estimated fair value of the brokered certificates of deposits is based on the interest rate and maturity of the certificate.

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

The annual change in market value of investments is recorded as "Investment income" in the statements of activities. The percentage participation allocation method is used to allocate all investment income, including realized and unrealized gains and losses, to the various funds based on a percentage of interest in the pooled investment.

#### **Fair Value Measurements**

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

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

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

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

#### **Credit and Market Risk**

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

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. To manage these risks, the Foundation has an investment policy designed to provide optimal return within reasonable risk tolerances.

#### **Split-Interest Agreements**

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

# **THE EVERGREEN STATE COLLEGE FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS**

### **Federal Income Taxes**

The Foundation is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. Income from certain activities not directly related to the Foundation's tax-exempt purpose would be subject to taxation as unrelated business income. The Foundation did not engage in any activity unrelated to its tax-exempt purpose; accordingly, no provision for income taxes is included in the accompanying financial statements. In accordance with requirements related to accounting for uncertainties in income taxes, the Foundation has determined they have no uncertain tax positions at June 30, 2014 and 2013. The fiscal years ended June 30, 2013, 2012 and 2011 remain open for examination by taxing authorities.

### **Financial Statement Estimates**

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

### **Allocation of Functional Expenses**

Expenses are charged to program services, fundraising and management and general categories based on direct expenditures incurred. Any expenditure not directly chargeable to a functional expense category is allocated based on appropriate allocation methods.

### **Related Parties**

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

### **Fund-Raising**

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

### **Prior-Year Summarized Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

### **New Accounting Pronouncements**

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires not-for-profit entities to classify cash receipts from the "nearly immediate" sale of donated financial assets as an operating activity in the consolidated statement of cash flows when received with no donor-imposed restrictions. When the donor has restricted the use of the cash receipts from the sale of donated financial assets, classification as a financial activity would be required. When financial assets are not "nearly immediately" sold, classification as an investing activity would be appropriate. The amendments in ASU 2012-05 are effective prospectively for fiscal years beginning after June 15, 2013. Adoption of this new guidance did not have a significant impact on the Foundation's financial statements.



# THE EVERGREEN STATE COLLEGE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958), Services Received from Personnel of an Affiliate*, which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments in the Update are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. Management is in the process of evaluating the potential impact this guidance will have on its financial statements.

In May 2014, the FASB issued *Revenue from Contracts with Customers*, (ASU No. 2014-09). This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Foundation is currently evaluating the impact this ASU will have on the financial statements.

### NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 436,540	\$ 940,894
Receivable in one to five years	270,393	361,250
Total Unconditional Promises to Give	<u>\$ 706,933</u>	<u>\$ 1,302,144</u>

At June 30, 2014 and 2013, the discount to net realizable value of the unconditional promises to give was not significant.

### NOTE 3 – INVESTMENTS

Investments are as follows at June 30:

	<u>2014</u>	<u>2013</u>
Cash	\$ 5,632	\$ -
Brokered certificates of deposit	701,269	-
Mutual funds	309,887	-
Investment in the University of Washington's Consolidated Endowment Fund	9,634,501	6,594,888
Total Investments	<u>\$ 10,651,289</u>	<u>\$ 6,594,888</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 280,928	\$ 225,859
Net unrealized gains on investments	820,447	471,605
Total Investment Income	<u>\$ 1,101,375</u>	<u>\$ 697,464</u>

# THE EVERGREEN STATE COLLEGE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 – ENDOWMENTS

The net asset classification of donor restricted endowment funds for a not-for-profit is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Disclosure about endowment funds, both donor-restricted and board designated endowment funds are required.

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

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

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

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

#### Endowment net asset composition by type of fund as of June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$	\$ 2,028,691	\$ 6,553,438	\$8,582,129
	\$	\$ 2,028,691	\$ 6,553,438	\$8,582,129



**THE EVERGREEN STATE COLLEGE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**Changes in endowment net assets for the year ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2013	\$	\$ 1,414,399	\$ 5,426,515	\$6,840,914
Adjustment for reclassified funds		(151,370)		(151,370)
Investment return		973,016	-	973,016
Contributions, net of transfers		(206,705)	1,146,651	939,946
Net assets released	-	(649)	(19,728)	(20,377)
Endowment net assets, June 30, 2014	\$ -	\$ 2,028,691	\$ 6,553,438	\$ 8,582,129

**Endowment net asset composition by type of fund as of June 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$	\$ 1,414,399	\$ 5,426,515	\$6,840,914
	\$	\$	\$	
	\$	1,414,399	\$ 5,426,515	\$6,840,914

**Changes in endowment net assets for the year ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2012	\$	\$ 946,616	\$ 3,849,684	\$ 4,796,300
Investment return		619,276	-	619,276
Contributions, net of transfers		(158,228)	1,576,831	1,418,603
Net assets released		6,735	-	6,735
Endowment net assets, June 30, 2013	\$	\$ 1,414,399	\$ 5,426,515	\$ 6,840,914

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are required to be reported in unrestricted net assets. There were no deficiencies of this nature as of June 30, 2014 and 2013.

**Return Objectives and Risk Parameters**

The Foundation has most of its investments in the University of Washington Consolidated Endowment Fund (CEF), whose objectives are 1) to provide permanent funding for endowed programs, 2) maintain the purchasing power of the CEF after spending and inflation. The objective of preserving purchasing power

# THE EVERGREEN STATE COLLEGE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

emphasizes the need to take a long-term perspective in formulating, 3) to provide a predictable and stable source of income for endowed programs, and 4) to provide a maximum level of return consistent with prudent risk levels. This objective assumes the construction of a global, equity-oriented, diversified portfolio coupled with active risk management.

### **Strategies Employed for Achieving Objectives**

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

<b>Investment Strategy</b>	<b>Long-term Target</b>	<b>Policy Range</b>
Emerging Markets Equity	18%	
Developed Markets Equity	35%	
Private Equity	11%	
Real Assets	7%	
Opportunistic	2%	
<b>CAPITAL APPRECIATION FUND</b>	<b>73%</b>	<b>55%-85%</b>
Absolute Return	18%	
Fixed Income	9%	
<b>CAPITAL PRESERVATION FUND</b>	<b>27%</b>	<b>15%-45%</b>

### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

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

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

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

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

### **NOTE 5 – FAIR VALUE OF FINANCIAL MEASUREMENTS**

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

# THE EVERGREEN STATE COLLEGE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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

	Year Ended June 30, 2014			
	Quoted Market Prices in Active Markets  (Level 1)	Other Observable Inputs  (Level 2)	Unobservable Inputs  (Level 3)	Total
Cash	\$ 5,632	\$ -	\$	\$ 5,632
Brokered certificates of deposit		701,269		701,269
Mutual funds		309,887		309,887
Consolidated Endowment Fund (CEF)		9,634,501		9,634,501
 Total investments	 \$ 5,632	 \$ 10,645,657	 \$ -	 \$ 10,651,289

	Year Ended June 30, 2013			
	Quoted Market Prices in Active Markets  (Level 1)	Other Observable Inputs  (Level 2)	Unobservable Inputs  (Level 3)	Total
Consolidated Endowment Fund (CEF)	\$ -	\$ 6,594,888	\$ -	\$ 6,594,888

### NOTE 6 – CHARITABLE GIFT ANNUITIES

Certain donors have entered into charitable gift annuity agreements with the Foundation under which the Foundation received certain assets. The assets were recorded at their fair market value on the date of receipt and are included in the general investments of the Foundation. In consideration of the assets received, the Foundation is required to pay quarterly installments to the donor over the donor's life. These installment payments totaled \$3,035 for the years ended June 30, 2014 and 2013. The charitable gift annuity obligation is recorded at the present value of the future cash flows expected to be paid based on the life expectancy of the donors discounted at the applicable rate as specified in the agreements. The charitable gift annuity obligation totaled \$11,149 and \$12,416 as of June 30, 2014 and 2013, respectively. In 2009, the Foundation purchased a certificate of deposit with a face value of \$100,000 for the purpose of satisfying the requirement to pledge assets for its annuity obligation. A certificate is purchased or renewed annually for this purpose.

### NOTE 7 – RELATED PARTY TRANSACTIONS

The Foundation owed the College \$89,955 and \$186,754 as of June 30, 2014 and 2013, respectively. The majority of the amount due is related to pass-thru grants. The Foundation provided grants to the College totaling \$715,365 and \$409,716 for the years ended June 30, 2014 and 2013.

During the years ended June 30, 2014 and 2013 the Foundation provided \$468,359 and \$511,116 to the College for student scholarships and fellowships.

# THE EVERGREEN STATE COLLEGE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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

### NOTE 8 – RELEASE OF NET ASSETS

Net assets of \$1,718,652 and \$1,516,399 were released from donor restrictions for the years ended June 30, 2014 and 2013, respectively, by incurring expenses satisfying the restricted purposes or by the occurrences of other events specified by the donors.

### NOTE 9 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for programs and scholarships and totaled \$5,428,606 and \$4,666,986 at June 30, 2014 and 2013, respectively.

	<u>2014</u>	<u>2013</u>
Academic Support and Research	\$ 1,246,051	\$ 1,032,712
Other College Support	930,245	1,299,875
Public Service Centers Student Aid	254,989	404,813
	2,997,321	1,929,586
Total Temporarily Restricted Net Assets	<u><u>\$ 5,428,606</u></u>	<u><u>\$ 4,666,986</u></u>

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

	<u>2014</u>	<u>2013</u>
Academic Support and Research	\$ 1,008,177	\$ 981,092
Other College Support	115,839	113,220
Student Aid	5,429,422	4,332,203
Total Restricted Net Assets	<u><u>\$ 6,553,438</u></u>	<u><u>\$ 5,426,515</u></u>

### NOTE 10 – CONCENTRATIONS

#### Major Donor

For the year ended June 30, 2014, the Foundation received contributions from three sources that comprised approximately 70% of total contribution revenue. For the year ended June 30, 2013, the Foundation received contributions from one source that comprised approximately 41% of total contribution revenue.

### NOTE 11 – IN-KIND SUPPORT

The Foundation receives substantial contributed support services under an agreement with the College. These services are included in both support and revenues and also in expenses on the accompanying statements of activities and changes in net assets. In addition, the Foundation receives in-kind donations from individuals and corporations, which are included in gifts and contributions and also as expenses on the statements of activities.



# THE EVERGREEN STATE COLLEGE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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

	<u>2014</u>	<u>2013</u>
<u>From individual and corporate donors:</u>		
Stock	\$ 32,716	\$ 97,216
Art Work	62,931	50,400
Materials	<u>24,534</u>	<u>8,581</u>
Total in-kind support from individuals and corporate donors	120,181	156,197
<u>From the College:</u>		
Management services	944,812	789,219
Rent	25,736	19,929
Supplies and equipment usage	<u>211,555</u>	<u>141,803</u>
Total in-kind support from the College	1,182,103	950,951
 Total in-kind support	 <u><u>\$ 1,302,284</u></u>	 <u><u>\$ 1,107,148</u></u>

### NOTE 12 – LEASES

The Foundation had a long-term operating lease for a vehicle which expired in May 2014. Once the lease expired, the Foundation entered into a new long-term operating lease for a vehicle which will expire in May 2017. Lease expense totaled \$4,324 and \$4,236 for the years ended June 30, 2014 and 2013, respectively. Minimum required lease payments for 2015, 2016, and 2017 are \$4,762, \$4,762, and \$3,969 respectively.

### NOTE 13 – ADMINISTRATIVE FEES

The Foundation charges a 5% administrative fee to restricted, and some unrestricted, funds and transfers this amount to unrestricted net assets to cover funds management, fundraising expenses, and administration expenses. For the year ended June 30, 2014, the Foundation charged a total of \$107,853 in administrative fees with \$24,624 being charged on permanently restricted funds, \$67,679 being charged on temporarily restricted funds, and \$15,550 being charged on unrestricted funds. For the year ended June 30, 2013, the Foundation charged a total of \$82,253 in administrative fees with \$71,407 being charged on permanently restricted funds and \$10,846 being charged on temporarily restricted funds.

### NOTE 14 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 25, 2015, the date on which the financial statements were available to be issued.



# The Evergreen State College 2014 Annual Financial Report



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