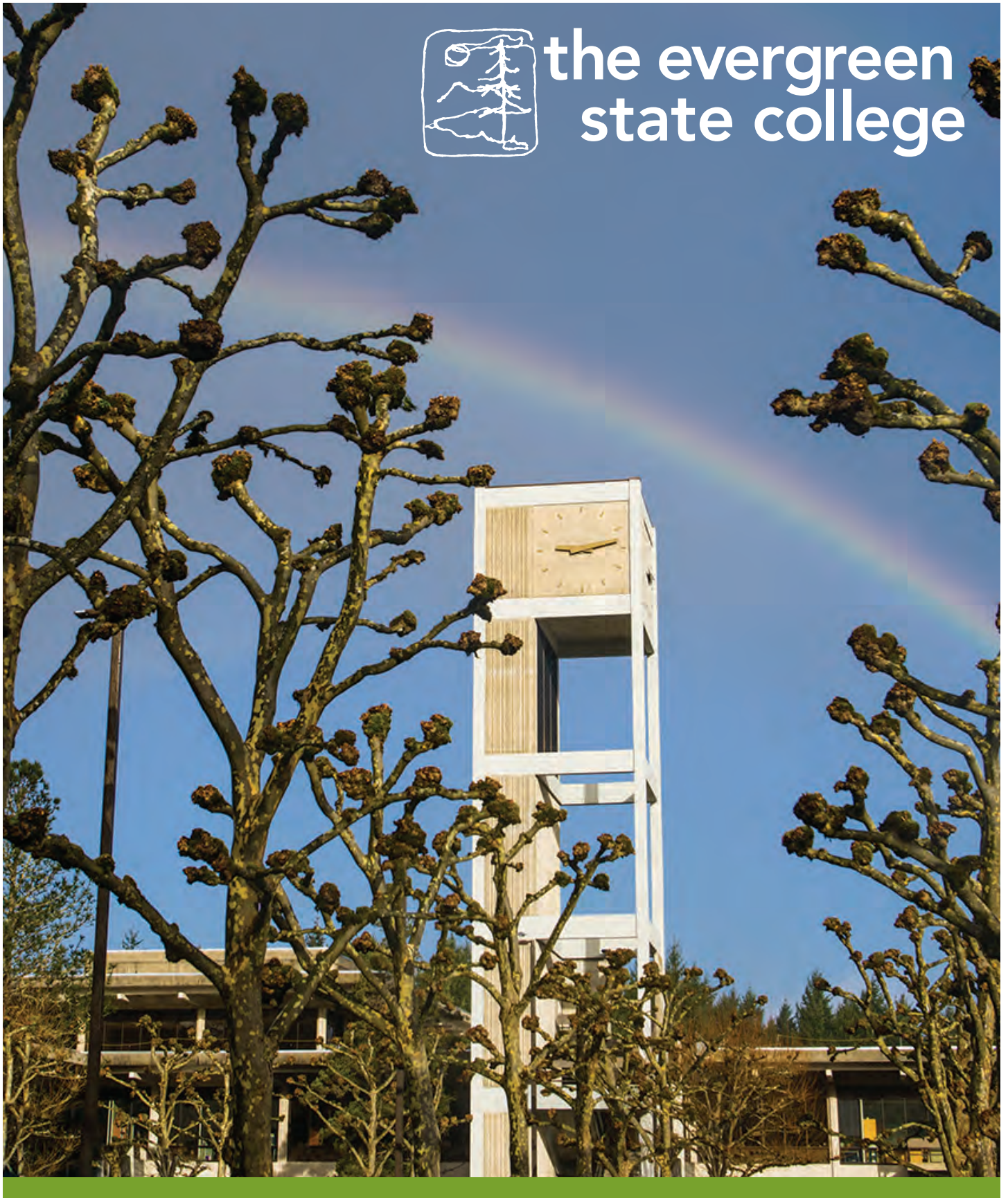




the evergreen
state college



2015 Annual Financial Report



THE EVERGREEN STATE COLLEGE Annual Financial Report for June 30, 2015

TABLE OF CONTENTS

| | |
|--------------------------------------|----|
| Board of Trustees and Administration | 1 |
| Auditor's Opinion | 2 |
| Management Discussion and Analysis | 6 |
| Financial Statements | 15 |
| Notes to the Financial Statements | 22 |
| Required Supplementary Information | 58 |



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Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Evergreen State College July 1, 2014 through June 30, 2015

Board of Trustees
The Evergreen State College
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Evergreen State College, Thurston County, Washington, as of and for the year ended June 30, 2015, 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 audit. 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 present component units. 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 audit 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Evergreen State College, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Evergreen State College, an agency of the state of Washington, are intended to present the financial position, and 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 aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, 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.

As discussed in Note 1 to the financial statements, in 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedules of the Evergreen State College's Share of Net Pension Liability and Schedules of Contributions 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The Board of Trustee and Administration information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2016 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 black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Evergreen State College

The following discussion and analysis provides an overview of the financial position and activities of The Evergreen State College (the College) for the fiscal year ended June 30, 2015 with comparative 2014 and 2013 financial information. Management's Discussion and Analysis (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 48,300 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.

GASB 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.

Financial Highlights

The College's net financial position decreased significantly during fiscal year 2015 due to the implementation of a new accounting standard. (GASB Statement No. 68 – See Note 1 and 17 to the Financial Statements). This accounting standard requires government agencies to recognize the long-term obligation for the net unfunded actuarial defined benefit liability on the Statements of Net Position. This does not impact the College's funding requirements for the defined benefit pension plans, but does require a \$14.4 million restatement of beginning net position on July 1, 2014. Fiscal year 2015 financial results reflect application of the accounting changes required by Statement No. 68, but those changes have not been applied to fiscal year 2013 amounts due to the constraints of available information. On a go-forward basis the standard requires recognition of pension expense using a systematic method designed to match the cost of pension benefits with service periods for eligible employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

An extensive review of the College's capital assets was conducted. This review resulted in a correction for capital assets and a prior year adjustment of (\$9,192,677). This adjustment decreased the net position beginning balance for fiscal year 2015 on the Statement of Revenue, Expenses and Changes in Net Positions. The net position for fiscal year 2014 was also impacted by the adjustment, resulting in a (\$9,192,677) decrease to the net position ending balance for fiscal year 2014.

A class action lawsuit filed against the State of Washington in 2006 related to the denial of health benefits for some employees was settled in May 2016. The State was found liable and Evergreen's portion of the settlement is \$804,000. That amount was recognized as a liability in the college's 2015 financial statements.

Reclassifications

Certain reclassifications, if any, which do not affect total net assets have been made to 2013 and 2014 amounts in order to conform to the 2015 presentation.

Statements of Net Position

The Statements of Net Position provides 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, 2015, 2014 and 2013 follows:

Condensed Statements of Net Positions As of June 30 (in thousands)

| Assets | 2015 | 2014 Restated | 2013 |
|-------------------------------|------------|------------------|------------|
| Current assets | \$ 47,735 | \$ 37,029 | \$ 36,279 |
| Capital, net | 169,078 | 168,792 | 182,527 |
| Other non-current assets | 6,501 | 15,141 | 14,483 |
| Total Assets | 223,314 | 220,962 | 233,289 |
| Deferred Outflows | 1,474 | | |
| Liabilities | | | |
| Current liabilities | 14,591 | 13,206 | 13,797 |
| Other non-current liabilities | 29,561 | 33,432 | 19,174 |
| Total liabilities | 44,152 | 46,638 | 32,971 |
| Deferred Inflows | 4,730 | | |
| Total Net Position | \$ 175,906 | \$ 174,324 | \$ 200,318 |

Assets

Current assets consist primarily of cash and cash equivalents, short-term investments, various accounts receivables, net and inventories. The increase in current assets of \$10.7 million from FY 2014 to FY 2015 is the result of an increase in short-term investments. During FY 2015, \$6 million in long term investments matured and were reinvested in the Local Government Investment Pool, a short term investment vehicle, and an additional \$3 million in long term investments will mature in FY 2016 requiring the total \$9 million to be reclassified from long-term investments to short-term investments.

The current year increase in capital assets of \$.3 million resulted from the College recording approximately \$7.8 million in capital asset additions and depreciation of approximately \$7.5 million.

The FY 2015 decrease of \$8.6 million in other noncurrent assets is primarily the reclassification of \$9 million of long-term investments to short-term investments noted above.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liabilities

Liabilities include amounts payable to suppliers for goods and services, accrued payroll, leave and related liabilities, bond debt, deposits held for others and unearned revenue.

Current liabilities increased by \$1.4 million from FY 2014 to FY 2015 mainly due to an a health care benefits settlement of \$804,000 and increase of \$252,000 of accounts payable related to the timing of vendor payments and an increase of \$537,000 of unearned income related to tuition payments for the summer session offset by a decrease of \$130,000 of compensated absences due to a larger number of retirements than in FY 2014. 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. Current assets exceed current liabilities by \$33.9 million in FY 2015, indicating the College's continued ability to meet its short-term obligations with liquid or easily liquidated assets.

Noncurrent liabilities decreased by \$3.8 million from FY 2014 to FY 2015 primarily due to an decrease in the net pension liability of \$3.6 million, and a decrease in long-term bonds and notes payable of \$1 million. Those were offset by an increase in the net pension obligation of \$760,000. The \$3.6 million decrease is the result of the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions –An Amendment of GASB No. 27*, that requires the College to recognize its long-term obligation for its share of the actuarially calculated net pension liability for the retirement plans administered through a trust by the State of Washington Department of Retirement Systems and recognize associated assets which have been set aside to fund the plan. This resulted in a restatement of \$14.4 million for a Net Pension Liability for 2014 which was reduced to \$10.9 million in 2015.

Net Position

Net position represents the difference between the College's assets and deferred outflows, less liabilities and deferred inflows. 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 Position-**
 - **Expendable** – resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties that have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are student loans, capital project funds and the expendable portion of endowments.
 - **Non Expendable** – consists of funds in which the donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only.
- **Unrestricted Net Position** – These are all the other funds available to the College for the general and educational obligations to meet current expenses for any lawful purpose. Unrestricted net assets are not subject to externally imposed stipulations; however, the College has designated the majority of unrestricted net assets for various academic and college support functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

| Condensed Net Positions | 2015 | 2014 | 2013 |
|---|-------------------|-------------------|-------------------|
| Net Positions (in thousands) | | Restated | |
| Invested in capital assets, net of related debt | \$ 154,731 | \$ 153,477 | \$ 166,283 |
| Restricted: | | | |
| Pensions | 350 | | |
| Non-expendable: Scholarships and Professor | 2,176 | 2,187 | 2,202 |
| Expendable | 6,905 | 8,301 | 6,635 |
| Unrestricted | 11,744 | 10,359 | 25,198 |
| Total net position | <u>\$ 175,906</u> | <u>\$ 174,324</u> | <u>\$ 200,318</u> |

Total net position increased by \$1.6 million during FY 2015 to \$175,905,824. This was primarily due to the investment in capital assets, net of related debt, increasing by approximately \$1.2 million during FY 2015. During 2015, the College spent \$7.8 million on capital asset acquisitions and reduced capital assets by \$7.5 million for depreciation expense. Additionally, the College's debt balances related to capital assets was reduced by approximately \$.9 million to the net investment in capital assets.

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 revenue and expenditures, both operating and non-operating, 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, 2015, 2014 and 2013, follows:

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

| | 2015 | 2014 | 2013 |
|----------------------------------|-------------------|-------------------|-------------------|
| | | Restated | |
| Operating revenues | \$ 61,599 | \$ 63,201 | \$ 65,239 |
| Operating expenses | <u>95,771</u> | <u>99,457</u> | <u>99,565</u> |
| Net operating loss | (34,172) | (36,256) | (34,326) |
| Non-operating revenues | 31,144 | 33,013 | 29,273 |
| Non-operating expenses | <u>(704)</u> | <u>(733)</u> | <u>(764)</u> |
| Gain(loss) before other revenues | (3,732) | (3,976) | (5,817) |
| Other revenues and expenses | <u>5,313</u> | <u>1,622</u> | <u>6,130</u> |
| Increase in net assets | <u>1,581</u> | <u>(2,354)</u> | <u>313</u> |
| Net assets at beginning of year | <u>174,324</u> | <u>200,318</u> | <u>200,005</u> |
| Prior Period Adjustment Note 21 | - | (9,193) | - |
| Restatement (Note 1 and 17) | - | (14,447) | - |
| Net assets at end of year | <u>\$ 175,905</u> | <u>\$ 174,324</u> | <u>\$ 200,318</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

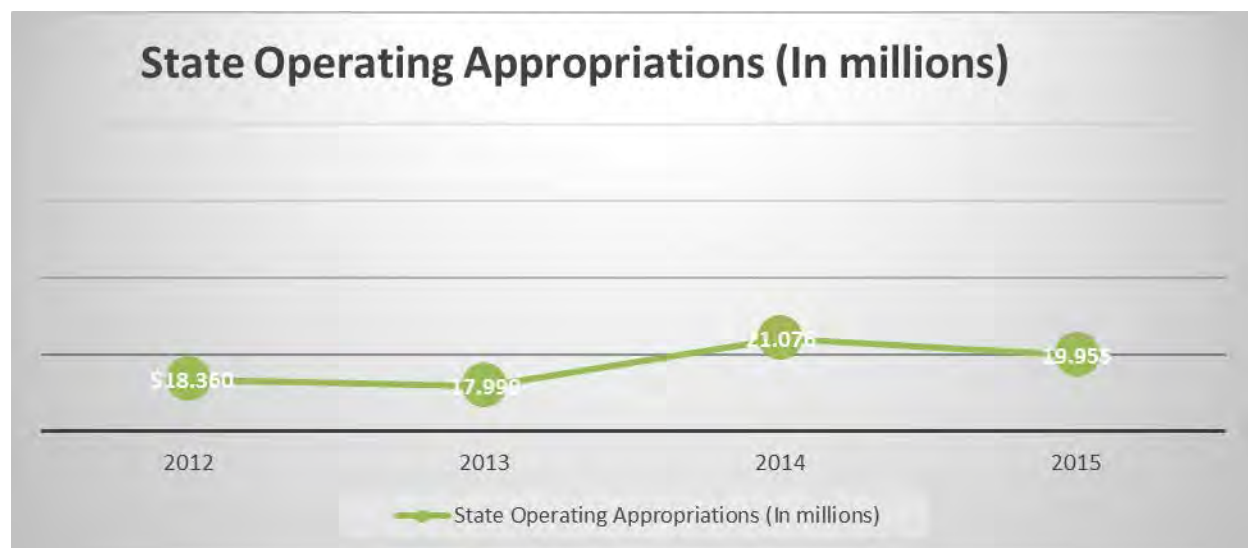
Operating and Non-operating Revenues

Tuition and fees, net (of scholarship discounts and allowances), and state operating appropriations are the primary sources of funding for the College's operations.

Net tuition revenues (tuition and fees less scholarship allowances) decreased slightly by \$1.6 million or 5% compared to FY 2014 partly because the College awarded \$17.8 million in scholarship allowances compared to \$17.0 million in FY 2014, an increase of 4.7%. The increase in scholarship allowances was to further assist students in the cost of their education. Also, student tuition and fees, which includes tuition, fees and mandatory fees (such as Service and Activity Fee and Health Service Fee) decreased slightly by \$812,000 or 1.6% compared to FY 2014. The decrease was mainly due to a decrease in enrollment, the average annual headcount in FY 2015 was 4,007 compared to 4,144 in FY 2014.

Both the federal grants and contracts (including the federal Pell Grant) and the State Need Grant revenues decreased in FY 2015. The federal grants and contracts (including the federal Pell Grant) decreased by about \$265,000 and the State Need Grant decreased by about \$1.5 million. Both decreases were because the College served fewer students in FY 2015 compared to FY 2014. However, the increase in scholarship allowances awarded by the College of slightly more than \$800,000 helped off-set some of the lost grant revenues

State appropriations used for operations decreased by \$1.1 million or 5.3% in FY 15 due to a slight decrease in state support for anticipated health care cost reductions. During FY 2014 state appropriations used for operations increased by \$3 million or 17.1% compared to FY 2013.



The line graph above illustrates the recent state support provided to the College, and is representative of the budget increases to Higher Education in the FY 2014 due to an improved economy. Although the graph shows a decrease in state support in FY 2015, the decrease was due to an anticipation of reduced costs for health care costs for state employees.

The Evergreen State College no longer has tuition setting authority for resident undergraduate students and as such there was no tuition increase for these students in FY 2015. The College maintains tuition setting authority for non-resident undergraduate, resident graduates and non-resident graduates and as such tuition increased in

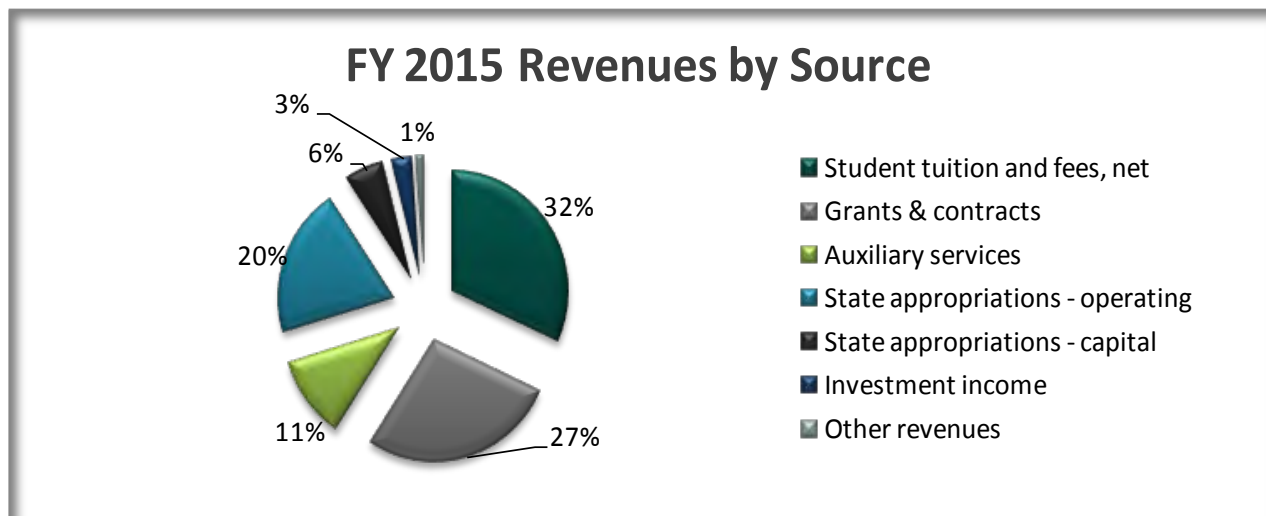
MANAGEMENT'S DISCUSSION AND ANALYSIS

each category, consistent with prior years. The graph below reflects the percentage of revenue received by revenue source and the FY 2015 tuition increases.

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 |
|---------------|------------------------|--------------------------|-------------------|--------------------------|---------------------------|--------------------------|----------------------|--------------------------|
| 2014-15 | \$ 2,615 | 0.0% | \$ 2,907 | 4.8% | \$ 6,967 | 4.9% | \$ 6,960 | 2.0% |
| 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% |

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



Operating Expenses

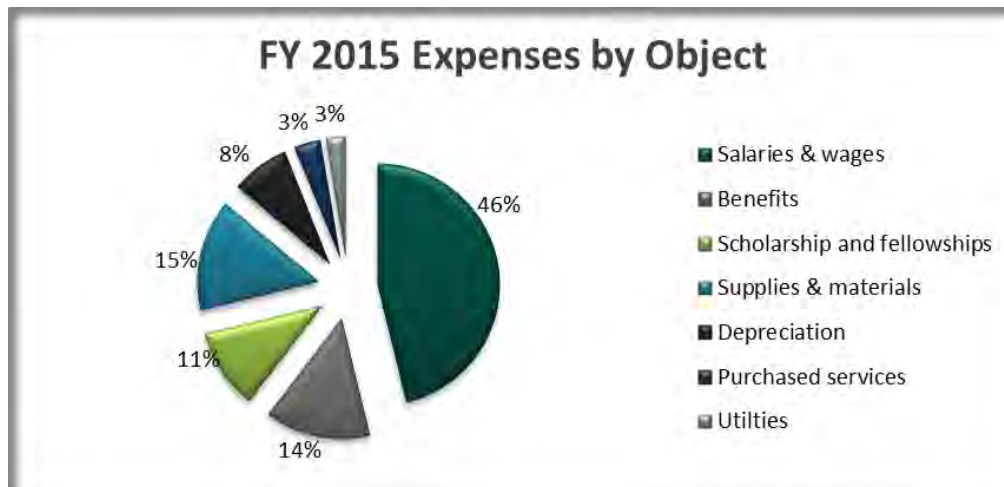
In 2015, the College's total operating expenses decreased by about \$3.7 million or 3.7% compared to FY 2014. The large decrease is mainly due to a decrease in salaries & wages of \$814,000, employee benefits of \$914,000 and scholarships and fellowships of \$3.4 million.

The decrease in benefits is mainly due to a reduction in employee health costs. The decrease in scholarships and fellowships is mainly because the College received less federal grants and contracts (including Pell) and less state need grant revenues reducing the amount to available to award.

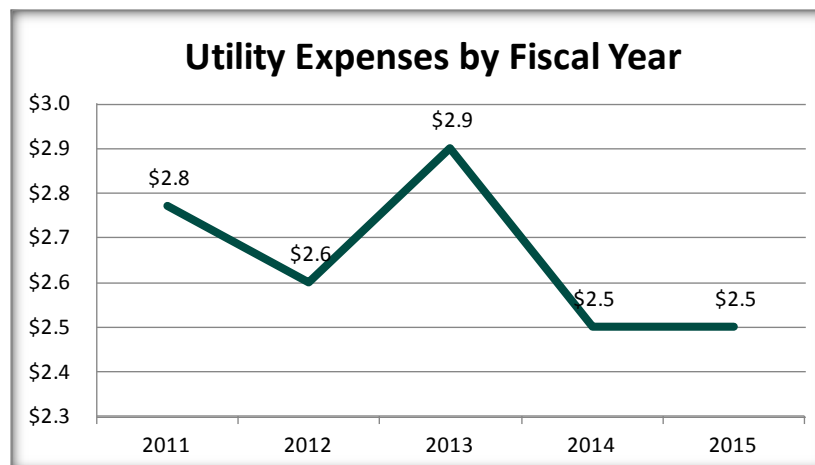
MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses By Type (in thousands) For the years ended June 30, 2015

| | 2015 | | 2014 | | 2013 | |
|-----------------------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Salaries & wages | \$ 44,262 | 47% | \$ 45,076 | 45% | \$ 43,779 | 44.0% |
| Benefits | 13,544 | 13% | 14,456 | 15% | 14,211 | 14.3% |
| Scholarship and fellowships | 10,371 | 11% | 13,736 | 14% | 13,475 | 13.5% |
| Supplies & materials | 14,244 | 15% | 12,819 | 13% | 13,448 | 13.5% |
| Depreciation | 7,518 | 8% | 7,919 | 8% | 7,880 | 7.9% |
| Purchased services | 3,353 | 4% | 2,990 | 3% | 3,860 | 3.9% |
| Utilities | 2,479 | 3% | 2,461 | 2% | 2,912 | 2.9% |
| | <u>\$ 95,771</u> | <u>100%</u> | <u>\$ 99,457</u> | <u>100%</u> | <u>\$ 99,565</u> | <u>100%</u> |



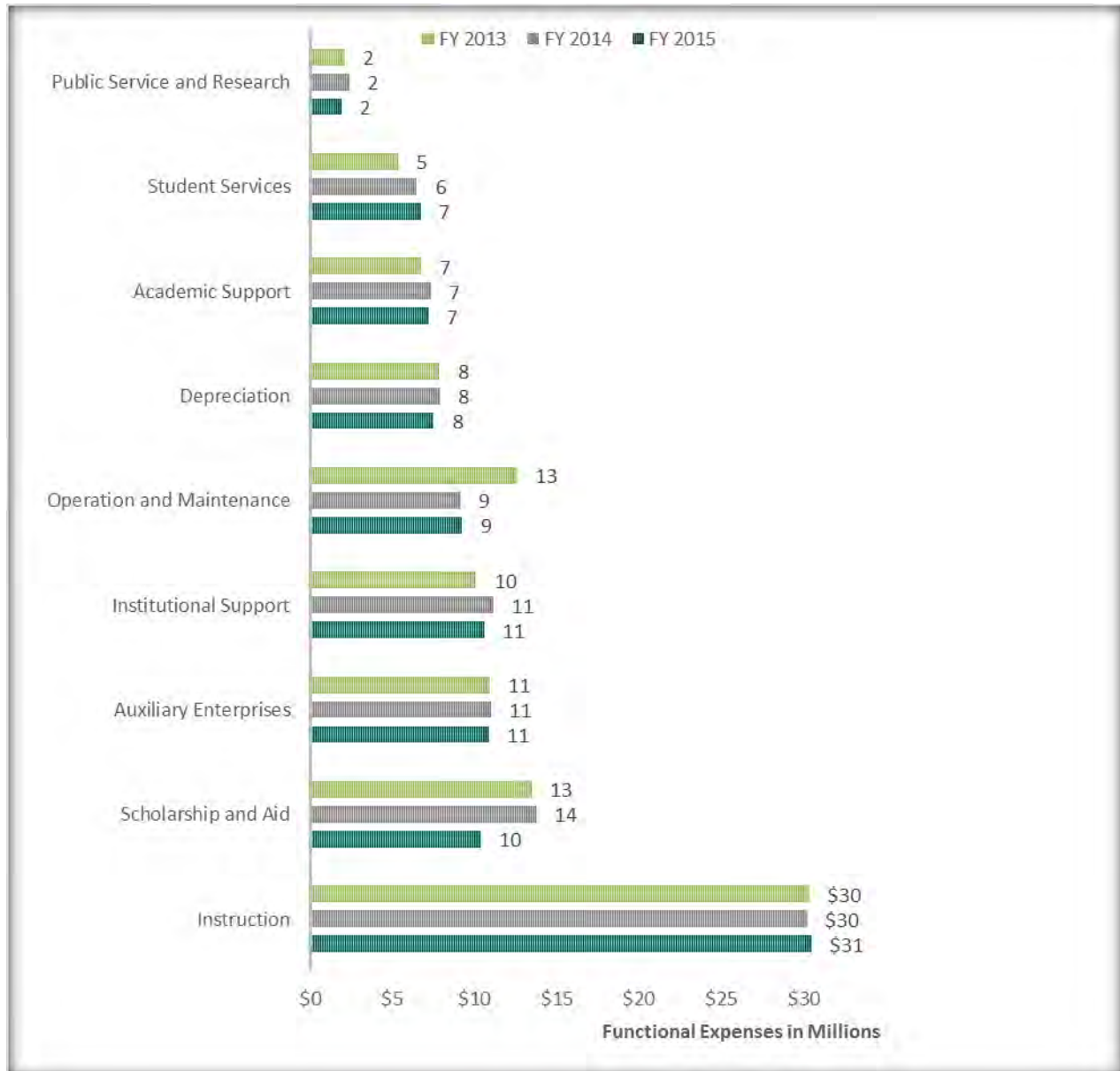
The College is a national leader in the area of environmental sustainability, with an institutional goal of being carbon neutral by the year 2020. To achieve this, the students have assessed themselves a fee to purchase green electrical power. In addition, there is a conscious effort to lower utility costs by conservation and other measures. These efforts over the last five years have been very successful, as the chart below illustrates. The one-time increase in utility costs in FY 2013 was due to the completion of the COM building remodel that had been taken off-line in FY 2012. Through conservation efforts the COM building and other campus buildings utility costs decreased the following year (FY 2014) and remained steady during FY 2015.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparison of Operating Expenses by Function

The chart below shows the amount, in dollars, for each of the functional areas of operating expenses for 2015, 2014 and 2013.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary and Economic Factors That Will Affect the Future

In 2015, the College's state appropriations decreased by \$1.1 million which was largely because the employer's share of employees' health care premiums decreased.

Although state revenue growth is projected to be increasing steadily as the recovery continues its slow pace and moderate growth, 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 Perkins and other federal funding. Tuition did not increase in 2015 for resident undergraduates but increased between 2% to 5% for all other students. The College expects similar increases in tuition for 2016. Enrollment has been declining for the last four years but may have bottomed out. However, if enrollments continue to decline the College will experience a continued decline in tuition revenue.

The state of Washington continues to address the requirement of the Supreme Court's 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to sufficiently fund basic education. Progress was made during the 2013-15 biennium but did not satisfy the court. The ruling, scheduled for full implementation in 2018, may have an impact on state appropriations for higher education.

GASB Statement No. 68 was implemented in FY 2015, resulting in a \$10.9 million Net Pension Liability for the College's proportionate share of the state's defined benefit plans. While the state of Washington pension plans in total are funded at the 95% level, two of the individual plans, PERS1 and TERS1, are underfunded by \$5.5 billion which may have a financial impact on the College at a future date. GASB has issued two new pronouncements that will be effective in FY 2017. GASB Statement No. 73 will affect financial reporting related to The Evergreen State College Retirement Plan (TESCRP) supplemental component with the inclusion of the net pension liability to the Statement of Net Position. GASB Statement No. 74 addresses the liability associated with Other Post-Employment Benefits (OPEB) offered to retirees. The financial impact of this statement is uncertain at this time.

The Evergreen State College
Statement of Net Position
June 30, 2015

| | 2015 |
|---|-----------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | 29,564,794 |
| Short-term investments | 9,060,395 |
| Due from State Treasurer | 480,751 |
| Funds held with State Treasurer | 1,871,343 |
| Accounts receivable, net | 5,425,920 |
| Student loan receivables, net | 636,199 |
| Inventories | 695,697 |
| Total current assets | 47,735,099 |
| Non-Current Assets | |
| Investments | 2,509,430 |
| Student loan receivables, net | 3,622,723 |
| Bond discounts and issue costs, net of amortization | 18,144 |
| Restricted Net Pension | 350,499 |
| Capital assets, net of depreciation | 169,077,787 |
| Total non-current assets | 175,578,583 |
| Total assets | 223,313,682 |
| Deferred Outflows | |
| Relating to pension (Note 17) | 1,474,495 |
| Total deferred outflows | 1,474,495 |
| Liabilities | |
| Current Liabilities | |
| Accounts payable and accrued expenses | 6,343,864 |
| Unearned revenues | 4,626,888 |
| Deposits payable | 318,793 |
| Compensated absences | 2,175,203 |
| Net pension obligations, current | 126,000 |
| Current portion of bonds and notes payable | 1,000,000 |
| Total current liabilities | 14,590,748 |
| Non-Current Liabilities | |
| Compensated absences | 830,258 |
| Net pension obligations | 4,505,264 |
| Net pension liabilities | 10,860,723 |
| Long-term portion of bonds and notes payable | 13,365,000 |
| Total non-current liabilities | 29,561,245 |
| Total liabilities | 44,151,993 |
| Deferred Inflows | |
| Relating to pension (Note 17) | 4,730,360 |
| Total deferred inflows | 4,730,360 |
| Net Position | |
| Net Investment in capital assets | 154,730,931 |
| Restricted for: | |
| Pensions | 350,499 |
| Nonexpendable: | |
| Scholarships and professorships | 2,176,278 |
| Expendable: | |
| Loans | 6,382,843 |
| Endowment earnings | 521,648 |
| Unrestricted | 11,743,625 |
| Total net position | \$ 175,905,824 |

See Accompanying Notes to the Financial Statements.

The Evergreen State College Foundation
Statement of Financial Position
June 30, 2015

ASSETS

| | 2015 |
|--|--------------|
| Current Assets | |
| Cash and Cash Equivalents | \$ 2,413,810 |
| Certificates of deposit | 100,000 |
| Unconditional promises to give, current | 168,040 |
| Other receivables (Due from College) | - |
| | <hr/> |
| Total current assets | 2,681,850 |
| Other Assets | |
| Certificate of deposit | - |
| Investments | 11,532,864 |
| Long-term unconditional promises to give | 551,401 |
| | <hr/> |
| Total other assets | 12,084,265 |
| | <hr/> |
| Total assets | 14,766,115 |
| | <hr/> |

LIABILITIES AND NET ASSETS

| | |
|---|---------------|
| Current Liabilities | |
| Accounts Payable | 22,142 |
| Payable to College | - |
| | <hr/> |
| Total current liabilities | 22,142 |
| Annuity Payment Liability | 11,184 |
| | <hr/> |
| Total liabilities | 33,326 |
| | <hr/> |
| Net Assets | |
| Unrestricted | 1,752,123 |
| Temporarily Restricted | 5,620,080 |
| Permanently Restricted | 7,360,586 |
| | <hr/> |
| Total net assets | 14,732,789 |
| | <hr/> |
| Total liabilities and net assets | \$ 14,766,115 |
| | <hr/> <hr/> |

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

The Evergreen State College
Statements of Revenues, Expenses and Changes in Net Positions
For the Year Ended June 30, 2015

| | 2015 |
|--|-----------------------|
| Operating Revenues | |
| Student tuition and fees | \$ 49,090,811 |
| Less scholarship discounts and allowances | (17,852,609) |
| Auxiliary enterprise sales, net | 10,281,204 |
| State and local grants and contracts | 9,904,872 |
| Federal grants and contracts | 4,899,711 |
| Nongovernmental grants and contracts | 3,661,473 |
| Other operating revenue | 934,806 |
| Sales and services of educational activities | 611,280 |
| Interest on loans to students | 66,982 |
| Total operating revenue | 61,598,530 |
| Operating Expenses | |
| Salaries and wages | 44,261,861 |
| Benefits | 13,543,810 |
| Scholarships and fellowships | 10,370,730 |
| Supplies and materials | 14,244,413 |
| Depreciation | 7,518,374 |
| Purchased services | 3,352,947 |
| Utilities | 2,478,640 |
| Total operating expenses | 95,770,775 |
| Operating loss | (34,172,245) |
| Non-Operating Revenues (Expenses) | |
| State appropriations | 19,955,000 |
| Federal pell grant revenue | 8,371,582 |
| Investment income, gains and losses | 2,817,473 |
| Interest on indebtedness | (703,777) |
| Net non-operating revenues | 30,440,278 |
| Income before contributions | (3,731,966) |
| Capital appropriations | 5,313,587 |
| Increase in net position | 1,581,620 |
| Net Position | |
| Net position, beginning of year | 197,964,267 |
| Prior Period Adjustment (Note 21) | (9,192,677) |
| Restatement (Note 1) | (14,447,386) |
| Net position, beginning of year - restated | 174,324,204 |
| Net position, end of year | \$ 175,905,824 |

See Accompanying Notes to the Financial Statements.

The Evergreen State College Foundation
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2015 |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Support and Revenues | | | | |
| Gifts and contributions | \$ 323,312 | \$ 1,715,861 | \$ 802,808 | \$ 2,841,981 |
| In-kind support from College | 1,226,233 | - | - | 1,226,233 |
| Investment income | 101,947 | 526,188 | - | 628,135 |
| Change in value of split-interest agreement | - | (3,070) | - | (3,070) |
| Gift fees | 75,823 | - | - | 75,823 |
| Reclassifications and transfers | - | (4,340) | 4,340 | - |
| Net assets released from restrictions | 1,648,056 | (1,648,056) | - | - |
| Total support and revenues | 3,375,371 | 586,583 | 807,148 | 4,769,102 |
| Expenses | | | | |
| Program Services: | | | | |
| Grants and scholarships | 1,050,231 | - | - | 1,050,231 |
| Other College support | 646,431 | - | - | 646,431 |
| Total program services | 1,696,662 | - | - | 1,696,662 |
| Support Services: | | | | |
| Management and General | 740,300 | - | - | 740,300 |
| Fundraising | 737,255 | - | - | 737,255 |
| Total support services | 1,477,555 | - | - | 1,477,555 |
| Total Expenses | 3,174,217 | - | - | 3,174,217 |
| Increase (decrease) in net assets | 201,154 | 586,583 | 807,148 | 1,594,886 |
| Net Assets | | | | |
| Beginning of year | 1,155,859 | 5,428,606 | 6,553,438 | 13,137,903 |
| Reclassification of net assets | 395,109 | (395,109) | - | - |
| Net assets, end of year | \$ 1,752,123 | \$ 5,620,080 | \$ 7,360,586 | \$ 14,732,789 |

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

**The Evergreen State College
Statement of Cash Flows
For the Year Ended June 30, 2015**

| | 2015 |
|--|-----------------------------|
| Cash flows from operating activities | |
| Student tuition and fees | 44,854,503 |
| Grants and contracts | 18,466,056 |
| Sales and services of educational activities | 611,280 |
| Auxiliary enterprise sales | 10,281,204 |
| Payments to employees | (57,896,706) |
| Payment to vendors | (18,992,666) |
| Payment for scholarships and fellowships | (23,077,328) |
| Net cash used by operating activities | <u>(25,753,657)</u> |
| Cash flows from noncapital financing activities | |
| State operating appropriations | 20,071,000 |
| Direct lending receipts | 24,565,701 |
| Direct lending disbursements | (24,515,743) |
| Agency fund receipts | 703,395 |
| Agency fund disbursements | (745,307) |
| Federal pell grant receipts | 8,371,582 |
| Net cash provided by noncapital financing activities | <u>28,450,628</u> |
| Cash flows from capital and related financing activities | |
| Capital appropriations | 5,574,298 |
| Certificate of participation proceeds | - |
| Purchase of capital assets | (7,804,823) |
| Principal paid on capital debt | (970,000) |
| Interest paid | (703,777) |
| Net cash used by capital and related financing activities | <u>(3,904,302)</u> |
| Cash flows from investing activities | |
| Purchase of investments | - |
| Proceeds from sales and maturities of investments | 6,000,000 |
| Income from investments, net | 4,020,175 |
| Net cash provided by investing activities | <u>10,020,175</u> |
| Increase in cash and cash equivalents | 8,812,844 |
| Cash and cash equivalents at the beginning of the year | <u>20,751,950</u> |
| Cash and cash equivalents at the end of the year | <u><u>\$ 29,564,794</u></u> |

See Accompanying Notes to the Financial Statements.

The Evergreen State College
Statements of Cash Flows
For the Year Ended June 30, 2015

Reconciliation of Operating Loss to Net Cash used by Operating Activities

| | <u>2015</u> |
|---|-----------------------------------|
| Operating Loss | \$ (34,172,245) |
| Adjustment to reconcile operating loss to net cash used by operating activities | |
| Depreciation expense | 7,518,374 |
| Net Pension Expense | (681,297) |
| Changes in assets and liabilities | |
| Accounts receivable | (451,147) |
| Loans receivable | (65,961) |
| Inventory | (16,391) |
| Bond discount and issue costs | 1,702 |
| Accounts payable and accrued expenses | 923,663 |
| Unearned revenues | 536,947 |
| Deposits | (111,924) |
| Net Pension Obligation Expense | 764,622 |
| Net cash used by operating activities | <u><u>(25,753,657)</u></u> |

Noncash transactions:

| | |
|---|--------------|
| Purchase of endowment investments | \$ (432,486) |
| Proceeds from sales and maturities of endowment investments | \$ 386,274 |

See Accompanying Notes to the Financial Statements.

The Evergreen State College Foundation
Statement of Cash Flows
Year Ended June 30, 2015

| | <u>2015</u> |
|---|-----------------------------------|
| Cash Flows from Operating Activities | |
| Change in net assets | \$ 1,594,886 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Contributions restricted for long term purposes | (807,148) |
| Bad Debts | - |
| Donated marketable securities | (90,212) |
| Investment Income added to investments | (359,517) |
| Unrealized gains on investments and change in value of split interest agreements | (263,021) |
| (Increase) decrease in unconditional promises to give | (166,089) |
| Decrease in other current assets | - |
| Increase (decrease) in accounts payable | 8,614 |
| Decrease in payable to College and employees | (89,955) |
| Net cash provided (used) by operating activities | <u>(172,442)</u> |
| Cash Flows from Investing Activities | |
| Proceeds from Investments | 811,207 |
| Proceeds from sale of donated stock | 87,145 |
| Purchases of investments | (562,378) |
| Net cash used by investing activities | <u>335,974</u> |
| Cash Flows from Financing Activities | |
| Contributions restricted for long-term purposes | 960,729 |
| Payment of annuity obligations | (3,035) |
| Net cash provided by financing activities | <u>957,694</u> |
| Net increase/decrease in cash and cash equivalents | 1,121,226 |
| Cash and Cash Equivalents | |
| Beginning of year | <u>1,292,584</u> |
| End of year | <u><u>\$ 2,413,810</u></u> |

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

Notes to the Financial Statements June 30, 2015

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 year ended June 30, 2015 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, 2015, the Foundation distributed approximately \$1.1 million to the College for restricted and unrestricted purposes. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. Audited financial statements of the Foundation may be found at www.evergreen.edu/foundation/.

Basis of Accounting

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

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

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

New Accounting Pronouncements

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". The College adopted GASB No. 68 on July 1, 2014. 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 pension 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 total pension liability is determined by discounting projected benefit payments and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension arrangements that meet certain criteria. The

Notes to the Financial Statements June 30, 2015

requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures.

This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. Prior to adopting this Statement, the College reported pension expense based on cash contributions paid to the pension plan administrator. In addition to the reporting change described above, implementation of this Statement resulted in the restatement of fiscal year 2015 beginning unrestricted net position, reducing it by \$14.4 million. The College's Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present only one fiscal year, since the change in accounting treatment required by Statement No. 68 is not able to be applied to the prior fiscal year due to the constraints of available information.

In January 2013, the GASB approved Statement No. 69 "Government Combinations and Disposals of Government Operations". This statement was adopted by TESC on July 1, 2014. It establishes accounting and financial reporting standards related to government combinations and disposals. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement has no impact on the College's statements.

In November 2013, the GASB approved Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". This was implemented by the College for the fiscal year ending June 30, 2015. The objective of this Statement is to address an issue regarding application of the provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68, to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of

resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

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.

Notes to the Financial Statements June 30, 2015

Bond Premiums/Discounts

Bond premiums or discounts are deferred and amortized over the term of the bonds using the effective interest method. The remaining balances of bond premiums or discounts are presented in the Statement of Net Position net of the face amount of bonds payable.

Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

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.

Net Pension Liability

TESC records pension obligations equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the defined benefit plans have been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Pension expense is recognized for benefits earned during the measurement period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual performance and changes in assumptions about future economic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The

differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

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 and investment income and interest expense.

Restatement of Net Position

On July 1, 2014, TESC adopted GASB Statement No. 68 "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27". This statement requires that TESC record its proportional share of the State's net pension liability (for defined benefit plans), administered by the State, and to restate the beginning net position of the earliest period presented. The College's beginning fiscal year 15 net position was restated or reduced by \$14.4 million. The College's net pension liability was increased by \$10.9 million. The net pension liability information was provided to the College by the Washington State Department of Retirement

Notes to the Financial Statements June 30, 2015

Systems (DRS) and the Office of State Actuary (OSA). The information provided by DRS and OSA only allowed the College to restate fiscal year 15 beginning net position due to the measurement period of June 30, 2014 for the net pension liability.

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 Position – 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 Position – Expendable: This consists of resources that the College is obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position: This consists of 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 2014 amounts in order to conform to 2015 presentation.

Note 2. Cash and Investments

Cash and cash equivalents include bank demand deposits, an overnight sweep account, petty cash held at the

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

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

GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

The College, through its investment policy, where applicable, manages its exposure to custodial credit risk, credit risk, concentration of credit risk and interest rate risk by investing only in eligible investments authorized by State statute found in RCW 39 and 43.

| | June 30, 2015 | June 30, 2014 |
|----------------------------------|---------------|---------------|
| Cash on hand | \$ 20,290 | \$ 20,290 |
| Bank demand and time deposits | 3,501,274 | 3,416,127 |
| Local government investment pool | 26,043,230 | 17,315,533 |
| Total cash and cash equivalents | \$ 29,564,794 | \$ 20,751,950 |



Notes to the Financial Statements June 30, 2015

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 | \$ 3,039,552 | \$ 3,039,552 | \$ - | \$ - | \$ - |
| Bonds | 6,020,843 | 6,020,843 | | - | - |
| Cash Equivalents | - | | | | |
| Bond Funds | 2,509,430 | | | | |
| Equities | - | n/a | n/a | n/a | n/a |
| Totals | \$ 11,569,825 | | | | |

At June 30, 2015 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$521,648 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 grants and contracts.

Accounts receivable at June 30 consisted of the following:

| | 2015 |
|-----------------------------------|--------------|
| Student tuition and fees | \$ 3,162,418 |
| Federal, state and private grants | 821,697 |
| State appropriation receivable | 480,752 |
| Auxiliary enterprises | 1,947,727 |
| Other operating activities | 191,254 |
| Subtotal | 6,603,848 |
| Allowance for uncollectibles | (697,177) |
| Net accounts receivable | \$ 5,906,671 |

Notes to the Financial Statements June 30, 2015

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

| | 2015 |
|------------------------------|-----------|
| Perkins loans | 4,199,560 |
| Other loans | 62,315 |
| Subtotal | 4,261,875 |
| Allowance for uncollectibles | (2,953) |
| Net student loans receivable | 4,258,922 |

Note 5. Inventories

Inventories at June 30 consist of the following:

| | |
|-----------------------|---------|
| Enterprise funds | 529,166 |
| Working capital funds | 166,531 |
| Total inventory | 695,697 |

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2015 is summarized as follows:

| | Balance June 30, 2014 | Additions/ Transfers | Retirements | Balance June 30, 2015 |
|-----------------------------------|--------------------------|-------------------------|---------------|--------------------------|
| Non-depreciable assets | | | | |
| Land | 4,997,751 | - | - | 4,997,751 |
| Construction in progress | 16,411,949 | 5,826,947 | 15,783,606 | 6,455,290 |
| Total non-depreciable assets | 21,409,700 | 5,826,947 | 15,783,606 | 11,453,041 |
| | - | | | - |
| Depreciable assets | - | | | - |
| Infrastructure | 12,930,975 | 834,403 | - | 13,765,378 |
| Buildings | 210,649,727 | 15,904,196 | - | 226,553,923 |
| Improvements other than buildings | 1,250,381 | - | - | 1,250,381 |
| Furniture, fixtures and equipment | 14,371,266 | 801,530 | - | 15,172,796 |
| Library resources | 19,738,196 | 221,353 | - | 19,959,549 |
| Intangibles | - | - | - | - |
| Total depreciable assets | 258,940,545 | 17,761,482 | - | 276,702,027 |
| | - | | | - |
| Less accumulated depreciation | - | | | - |
| Infrastructure | 8,291,661 | 345,337 | - | 8,636,998 |
| Buildings | 75,008,481 | 5,777,484 | - | 80,785,965 |
| Improvements other than buildings | 54,183 | 50,015 | - | 104,198 |
| Furniture, fixtures and equipment | 11,276,401 | 932,801 | - | 12,209,202 |
| Library resources | 16,928,182 | 412,737 | - | 17,340,920 |
| Intangibles | - | - | - | - |
| Total accumulated depreciation | 111,558,908 | 7,518,374 | - | 119,077,281 |
| Net capital assets | \$ 168,791,337 | \$ 16,070,055 | \$ 15,783,606 | \$ 169,077,787 |

Notes to the Financial Statements June 30, 2015

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 changes in the accrued vacation and sick leave balances for the year ended June 30, 2015 are as follows:

| | |
|----------------|------------------|
| Vacation Leave | \$ 2,175,203 |
| Sick Leave | 830,258 |
| Total | 3,005,461 |

Note 8. Long-Term Liabilities

Following are changes in long-term liabilities for the year ended June 30, 2015:

| | Balance June 30, 2014 | Additions | Reductions | Balance June 30, 2015 | Current Portion | Long-Term Portion |
|------------------------------|--------------------------|----------------------|---------------------|--------------------------|---------------------|----------------------|
| Long-Term Liabilities | | | | | | |
| Accrued leave liabilities | \$ 3,179,821 | \$ 3,435,372 | \$ 3,609,732 | \$ 3,005,461 | \$ 2,175,203 | \$ 830,258 |
| Certificate of Participation | 10,810,000 | - | 525,000 | 10,285,000 | 540,000 | 9,745,000 |
| Pension liability | 3,866,643 | 11,712,723 | 87,379 | 15,491,987 | 126,000 | 15,365,987 |
| Bonds payable | 4,525,000 | - | 445,000 | 4,080,000 | 460,000 | 3,620,000 |
| Total | \$ 22,381,464 | \$ 15,148,095 | \$ 4,667,111 | \$ 32,862,448 | \$ 3,301,203 | \$ 29,561,245 |

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, 2015:

| | Interest Rate | Original Issue | Balance June 30, 2015 | Balance June 30, 2014 |
|----------------------------------|----------------|-------------------|--------------------------|--------------------------|
| System revenue bonds Series 2006 | 3.75% to 4.25% | \$ 7,550,000 | \$ 4,080,000 | \$ 4,525,000 |

Debt Service Requirements

The scheduled maturities of system revenue bonds are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------------|---------------------|---------------------|
| 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 | 340,000 | 111,231 | 451,231 |
| 2021-2026 | 2,340,000 | 356,325 | 2,696,325 |
| | \$ 4,080,000 | \$ 1,043,530 | \$ 5,123,530 |

Notes to the Financial Statements June 30, 2015

Note 10. Notes Payable

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

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|---------------------|----------------------|
| 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 | 640,000 | 409,500 | 1,049,500 |
| 2021-2025 | 3,670,000 | 1,564,195 | 5,234,195 |
| 2026-2029 | 3,675,000 | 513,860 | 4,188,860 |
| | <u>\$ 10,285,000</u> | <u>\$ 4,375,278</u> | <u>\$ 14,660,278</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 \$896,161 during 2015.

The Tacoma operating lease was paid off and the building was purchased by the College during fiscal year 2016. Operating lease payments for the next five years are as follows:

| Fiscal Year | Total Payments |
|-------------|-------------------|
| 2016 | \$ 425,707 |
| 2017 | - |
| 2018 | - |
| 2019 | - |
| 2020 | - |
| | <u>\$ 425,707</u> |

Note 12. Commitments

Encumbrances for current funds carried forward totaled \$3,552,643 at June 30, 2015, respectively. The College does not encumber construction contracts. Remaining construction commitments totaled \$97,258 at June 30, 2015.

Notes to the Financial Statements June 30, 2015



Note 13. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2015 are summarized as follows:

| | FY 2015 |
|--------------------------------------|----------------------|
| Instruction | \$ 30,527,634 |
| Scholarship and aid | 10,370,731 |
| Auxiliary enterprises | 10,867,465 |
| Institutional support | 10,585,449 |
| Operations and maintenance | 9,237,271 |
| Depreciation | 7,518,374 |
| Academic support | 7,207,260 |
| Student services | 6,743,042 |
| Public service | 1,832,288 |
| Research | 77,261 |
| Undistributed health care settlement | 804,000 |
| Total operating expenses | <u>\$ 95,770,776</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%, it 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 \$138,928 for 2015.

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, 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

Notes to the Financial Statements June 30, 2015

the State-wide 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 the cost of the OPEB obligation of the State of Washington at June 30, 2015 to be \$5.3 billion and that the annual cost was \$502 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 State-wide liability related to the College was approximately \$28.1 million, and the annual allocated estimated cost to the College is about \$2.9 million. This estimated expense represents the amortization of the liability for fiscal year 2015 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 \$5.5 million in 2015 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 2015, the payroll for the College's employees was \$15,155,827 for PERS, \$434,539 for TRS, \$475,825 for LEOFF and \$22,872,810 for TESCRP. Total covered payroll for 2015 was \$39,072,125.

The College implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Pensions for fiscal year 2015 financial reporting. TESC's defined benefit pension plans were created by statutes. With the exception of the supplemental component of the TESCRP plan, they are administered in a way equivalent to pension trusts as defined by the GASB.

In accordance with Statement No. 68, TESC has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities.

Basis of Accounting

Pension plans administered by the State are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of all plans and additions to/deductions from all plan fiduciary net positions have been determined in all

Notes to the Financial Statements June 30, 2015

material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for TESC, for fiscal year 2014:

Aggregate Pension Amounts - All Plans

| | |
|--------------------------------|--------------|
| Net Pension Liabilities | (10,860,723) |
| Pension Assets | 350,499 |
| Deferred Outflows of Resources | 1,474,495 |
| Deferred Inflows of Resources | (4,730,360) |
| Pension Expense | 770,796 |

Investments

The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Department of Retirement Systems

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the State and local governments. The Governor appoints the director of the DRS. The DRS administered systems that TESC offers its employees are comprised of five defined benefit pension plans and two defined benefit/defined contribution plans. Below are the DRS defined benefit plans that TESC offers its employees:

- Public Employees Retirement System (PERS) Plans 1 & 2
- Teacher's Retirement System (TRS) Plans 1 & 2
- Law Enforcement Officers and Fire Fighters' Plan 2

Below are the DRS defined benefit/defined contribution plans that TESC offers its employees:

- Public Employees Retirement System (PERS) Plans 3
- Teacher's Retirement System (TRS) Plan 3

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS and LEOFF systems and plans was funded by an employer rate of 0.18 percent of employee salaries.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration/annual-report/>.

Higher Education

As established in chapter 28B.10 RCW, eligible higher education State employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the State.

A. DEFINED CONTRIBUTION PLANS

PERS, TRS and LEOFF 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

Notes to the Financial Statements June 30, 2015

benefit beginning at age 55 with 20 years of service to 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 eligible members hired on or after October 1, 1977.



PERS Plan III

This plan is a hybrid defined benefit and defined contribution plan. The College contributions fund the defined benefit component, providing retirement and disability. PERS III has a defined contribution component, which is fully funded by employee contributions. Refer to section B. of this note for a more detailed plan description.

As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15% of salaries, on member choice. Members who do not choose a

contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

The PERS defined benefit plan benefits are vested after an employee completes five years of eligible service. PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members.

Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions adjusted by earnings and losses from investments of those contributions upon separation from PERS-covered employment.

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. All required employee and employer contributions have been made to the above plans. The contribution rates may be found in Table B2.

The Evergreen State College Retirement 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, 2015 and 2014 were \$1,990,826, and \$1,994,876, respectively. All required employee and employer contributions have been made.

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, 2015.

Notes to the Financial Statements June 30, 2015

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 TESC RP 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 TESC RP.

The College received an actuarial valuation of the supplemental component of the TESC RP for fiscal year 2015. The previous valuation was performed in 2013. The Unfunded Actuarial accrued Liability (UAL) calculated as of July 1, 2015 and 2013 was \$5,924,000 and \$5,938,000, respectively, and is amortized over a 13-year period. The Annual Required Contribution (ARC) of \$852,000 consists of amortization of the UAL (\$599,000) and normal, or current, cost (\$236,000) 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% to 7.25% and projected salary increases of 3.75%. Approximately \$22,872,810 of TESC's payroll was covered under this plan during fiscal year 2015.

The following reflects the activity in the Net Pension Obligation (NPO) for the year ended June 30, 2015:

| | | |
|------------------------------|----|------------------|
| Balance as of July 1 | \$ | 3,866,643 |
| Annual Required Contribution | | 852,000 |
| Payments to Beneficiaries | | <u>87,379</u> |
| Balance as of June 30 | \$ | <u>4,631,264</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.

B. STATE PARTICIPATION IN PLANS ADMINISTERED BY DRS

Public Employees' Retirement System

Plan Description

The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; State employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined

benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for State and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

PERS participants joining the system on or after March 1, 2002, for State and higher education employees, have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Refer to section A of this note for a description of the defined contribution component of PERS Plan 3.

Benefits Provided. PERS plans provide retirement, disability, and death benefits to eligible members.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age

Notes to the Financial Statements June 30, 2015

of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. This is reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

PERS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that

service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

PERS Plan 3 members have the option to retire early with reduced benefits.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by State statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee defined benefit contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

Required contribution rates for fiscal year 2015 are presented in the table B2 of this note.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-------|
| Inflation | 3.00% |
| Salary Increases | 3.75% |
| Investment Rate of Return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a

Notes to the Financial Statements June 30, 2015

generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|-----------------|-------------------|--|
| Fixed Income | 20.00% | 0.80% |
| Tangible Assets | 5.00% | 4.10% |
| Real Estate | 15.00% | 5.30% |
| Global Equity | 37.00% | 6.05% |
| Private Equity | 23.00% | 9.05% |
| Total | 100.00% | |

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the fiscal year 2014 reporting period.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/Asset

At June 30, 2014, TESC reported \$7.4 million for its proportionate share of the collective net pension liability for PERS 1 and \$3.2 million for PERS 2/3. TESC's proportion for PERS 1 was 0.15 percent, a decrease of 0.004 percent since the prior reporting period, and 0.16 percent for PERS 2/3, a decrease of 0.003 percent. The

Notes to the Financial Statements June 30, 2015

proportions are based on TESC's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following presents the net pension liability/asset of TESC as an employer, calculated using the discount rate of 7.50 percent, as well as what the net pension liability/asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate.

| PERS 1 | |
|--|-------------|
| Employer's Proportionate Share of the Net Pension Liability (Asset) | |
| 1% Decrease | \$9,148,118 |
| Current Discount Rate | 7,421,818 |
| 1% Increase | \$5,939,956 |

| PERS 2/3 | |
|--|----------------|
| Employer's Proportionate Share of the Net Pension Liability (Asset) | |
| 1% Decrease | \$ 13,555,539 |
| Current Discount Rate | 3,249,783 |
| 1% Increase | \$ (4,621,898) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2014, TESC recognized a PERS 1 pension expense of \$179 thousand, and recognized a PERS 2/3 pension expense of \$495 thousand. At June 30, 2014, PERS 1 and PERS 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual | | |
| Changes of assumptions | | |
| Net difference between projected and actual earnings on pension plan investments | | |
| | | 928,057 |
| Change in proportion | | |
| State Contributions subsequent to the measurement date | | |
| | 65,506 | |
| Total | \$65,506 | \$928,057 |

| PERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | | |
| Changes of assumptions | | |
| Net difference between projected and actual earnings on pension plan investments | | |
| | | 3,444,801 |
| Change in proportion | | |
| State Contributions subsequent to the measurement date | | |
| | 1,300,129 | |
| Total | \$1,300,129 | \$3,538,391 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30:

| PERS 1 | |
|------------|-------------|
| 2015 | (\$232,014) |
| 2016 | (232,014) |
| 2017 | (232,014) |
| 2018 | (232,015) |
| Thereafter | \$0 |

| PERS 2/3 | |
|------------|-------------|
| 2015 | (\$786,309) |
| 2016 | (786,309) |
| 2017 | (786,309) |
| 2018 | (786,309) |
| 2019 | (393,155) |
| Thereafter | \$0 |

Teachers' Retirement System

Plan Description. The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-State agency employees.

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan

Notes to the Financial Statements June 30, 2015

with a defined contribution component. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are a Plan 1 member. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996 are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Refer to section A of this note for a description of the defined contribution component of TRS Plan 3.

Benefits Provided. TRS plans provide retirement, disability, and death benefits to eligible members.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2

members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. TRS Plan 2 members have the option to retire early with reduced benefits. The AFC is the average of the member's 60 highest paid consecutive months.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan. TRS Plan 3 members have the option to retire early with reduced benefits.

TRS members meeting specific eligibility requirements, have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions. TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine the contribution requirements are established under State statute.

Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment.

Required contribution rates for fiscal year 2014 are presented in the table B.1 of this note.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of

Notes to the Financial Statements June 30, 2015

June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-------|
| Inflation | 3.00% |
| Salary Increases | 3.75% |
| Investment Rate of Return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit

and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|-----------------|-------------------|--|
| Fixed Income | 20.00% | 0.80% |
| Tangible Assets | 5.00% | 4.10% |
| Real Estate | 15.00% | 5.30% |
| Global Equity | 37.00% | 6.05% |
| Private Equity | 23.00% | 9.05% |
| Total | 100.00% | |

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the fiscal year 2014 reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.50 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Notes to the Financial Statements June 30, 2015

Collective Net Pension Liability/Asset

At June 30, 2014, TESC reported a liability of \$169 thousand for its proportionate share of the collective net pension liability for TRS 1 and \$20 thousand for TRS 2/3. TESC's proportion for TRS 1 was 0.006 percent, an increase of 0.003 percent since the prior reporting period, and 0.006 percent for TRS 2/3, an increase of 0.002 percent. The proportions are based on TESC's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following presents the net pension liability/asset of TESC as an employer, calculated using the discount rate of 7.50 percent, as well as what the net pension liability/asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate.

| TRS 1 | |
|---|-----------|
| Employer's Proportionate Share of the Net Pension Liability (Asset) | |
| 1% Decrease | \$217,675 |
| Current Discount Rate | 169,151 |
| 1% Increase | \$127,500 |

| TRS 2/3 | |
|---|------------|
| Employer's Proportionate Share of the Net Pension Liability (Asset) | |
| 1% Decrease | \$173,612 |
| Current Discount Rate | 19,974 |
| 1% Increase | (\$94,225) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2014, TESC recognized a TRS 1 pension expense of \$97 thousand, and recognized a TRS 2/3 pension expense of \$18 thousand. At June 30, 2014, TRS 1 and TRS 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| TRS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Difference between expected and actual | | |
| Changes of assumptions | | |
| Net difference between projected and actual earnings on pension plan investments | | |
| | | 29,661 |
| Change in proportion | | |
| State Contributions subsequent to the measurement date | | |
| Total | \$0 | \$29,661 |

| TRS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Difference between expected and actual experience | | |
| Changes of assumptions | | |
| Net difference between projected and actual earnings on pension plan investments | | |
| | | 45,836 |
| Change in proportion | | |
| | 22,403 | |
| State Contributions subsequent to the measurement date | | |
| | 44,471 | |
| Total | \$66,874 | \$45,836 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30:

| TRS 1 | |
|------------|-----------|
| 2015 | (\$7,415) |
| 2016 | (7,415) |
| 2017 | (7,415) |
| 2018 | (7,416) |
| Thereafter | \$0 |

| TRS 2/3 | |
|------------|-----------|
| 2015 | (\$4,184) |
| 2016 | (4,184) |
| 2017 | (4,184) |
| 2018 | (4,184) |
| 2019 | (4,184) |
| Thereafter | (\$2,511) |

Notes to the Financial Statements June 30, 2015

Law Enforcement Officers' and Fire Fighters' Retirement System

Plan Description. The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was established in 1970 by the Legislature. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-State employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception.

LEOFF is a cost-sharing, multiple-employer retirement system, comprised of two separate defined benefit plans. LEOFF members who joined the system on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The board's duties include adopting contribution rates and recommending policy changes to the Legislature.

Benefits Provided. LEOFF Plan 2 provides retirement, disability, and death benefits to eligible members. LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service. FAS is based on the highest consecutive 60 months. Members who retire prior to the age of 53 receive reduced benefits.

A cost of living allowance (COLA) is granted based on the Consumer Price Index, capped at 3 percent annually.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

Contributions. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the State pays through legislative appropriations.

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The methods used to determine the contribution requirements are established under State statute.

Members in LEOFF Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. For fiscal year 2014, the State contributed \$55.6 million to LEOFF Plan 2.

Beginning in 2011, when State General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute.

Required contribution rates for fiscal year 2014 are presented in the table B1 in this note.

The following information applies to TESC as a LEOFF 2 employer.

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Notes to the Financial Statements June 30, 2015

| | |
|---------------------------|-------|
| Inflation | 3.00% |
| Salary Increases | 3.75% |
| Investment Rate of Return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|-----------------|-------------------|--|
| Fixed Income | 20.00% | 0.80% |
| Tangible Assets | 5.00% | 4.10% |
| Real Estate | 15.00% | 5.30% |
| Global Equity | 37.00% | 6.05% |
| Private Equity | 23.00% | 9.05% |
| Total | 100.00% | |

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the fiscal year 2014 reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.50 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected Contributions subsequent to the measurement date rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/Asset

At June 30, 2014, TESC reported an asset of \$350 thousand for its proportionate share of the collective net pension asset for LEOFF 2. TESC's proportion for LEOFF 2 was 0.026 percent, an increase of 0.0008

Notes to the Financial Statements June 30, 2015

percent since the prior reporting period. The proportions are based on TESC's contributions to the pension plan relative to the contributions of all participating employers and the non-employer contributing entity.

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following presents the net pension liability/asset of TESC as an employer, calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability/asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate.

| LEOFF 2 Employer's Proportionate Share of the Net Pension Liability (Asset) | |
|---|-------------|
| 1% Decrease | \$149,993 |
| Current Discount Rate | (350,499) |
| 1% Increase | (\$726,085) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2014, TESC recognized a LEOFF 2 pension expense of \$(18) thousand.

At June 30, 2014, LEOFF 2 reported deferred

outflows of resources and deferred inflows of resources related to pensions from the following sources:

| LEOFF 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual | | |
| Changes of assumptions | | |
| Net difference between projected and actual earnings on pension plan investments | | 185,450 |
| Change in proportion | | 2,965 |
| State Contributions subsequent to the measurement date | 41,986 | |
| Total | \$41,986 | \$188,415 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30:

| LEOFF 2 | |
|------------|------------|
| 2015 | (\$29,440) |
| 2016 | (29,440) |
| 2017 | (29,440) |
| 2018 | (29,440) |
| 2019 | (29,440) |
| 2020 | (29,440) |
| Thereafter | (\$11,776) |

TABLE B1: Required Contribution Rates

The required contribution rates (expressed as a percentage of current year covered payroll) at June 30, 2015 are as follows:

| Required Contribution Rates | Employer (College) | | | | Employee | | |
|--|--------------------|--------|--------|---|----------|--------|--------|
| | Plan 1 | Plan 2 | Plan 3 | | Plan 1 | Plan 2 | Plan 3 |
| <u>PERS</u> | | | | | | | |
| State agencies, local governmental units | 9.03% | 4.98% | 4.98% | * | 6.00% | 4.92% | ** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| PERS Plan 1 UAAL | 0.00% | 4.05% | 4.05% | | | | |
| Total | 9.21% | 9.21% | 9.21% | | | | |
| <u>TRS</u> | | | | | | | |
| State agencies, local governmental units | 10.21% | 5.84% | 5.84% | * | 6.00% | 4.96% | ** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| TRS Plan 1 UAAL | 0.00% | 4.37% | 4.37% | | | | |
| Total | 10.39% | 10.39% | 10.39% | | | | |
| <u>LEOFF</u> | | | | | | | |
| Ports and universities | N/A | 8.41% | N/A | | N/A | 8.41% | N/A |
| Administrative fee | | 0.18% | | | | | |
| Total | | 8.59% | | | | | |

* Plan 3 defined benefit portion only. ** Variable from 5% to 15% based on rate selected by the member. N/A indicates data not applicable.

Notes to the Financial Statements June 30, 2015

TABLE B2: Required Contributions

The required contributions for the years ending June 30, 2015, 2014 and 2013 are as follows:

| | 2015 | 2014 | 2013 |
|--------------|------------|------------|------------|
| PERS | | | |
| Employee | \$ 784,903 | \$ 806,921 | \$ 743,508 |
| College | 1,395,852 | 1,420,781 | 1,056,263 |
| TRS | | | |
| Employee | \$ 23,892 | \$ 15,476 | \$ 8,764 |
| College | 45,149 | 28,663 | 12,643 |
| LEOFF | | | |
| Employee | \$ 40,873 | \$ 37,157 | \$ 33,589 |
| College | 40,873 | 37,953 | 34,224 |

All required employer and employee contributions have been made.

Note 18. Pledged Revenues

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

| Source of Revenue Pledged | Current Year Revenues Pledged (net) | Current Year Debt Service | Total Future Revenues Pledged | Description of Debt | Purpose of Debt | Term of Commitment |
|---------------------------|-------------------------------------|---------------------------|-------------------------------|--------------------------|----------------------------------|--------------------|
| Student housing rentals | \$ 1,875,547 | \$ 627,769 | \$ 5,123,531 | 2006 housing bonds issue | Remodel/renovate student housing | 2026 |

Note 19. Subsequent Events

On March 31, 2016 the College received \$11.7 million from a Certificate of Participation (COP) financed through the Washington State Office of the State Treasurer (OST) to purchase property (land and building) in downtown Tacoma, Washington for a second campus. The term of the COP is 20 years with payments due June 1 and December 1 annually. The College's first payment will be December 1, 2016.

At the time of the issuance of the 2015 financial report, the College had not yet received the re-payment schedule and is unable to provide a future payment schedule at this time.

On November 1, 2015 the College refinanced its 2006 Series Housing bonds to take advantage of the lower interest rate environment. The new 2015 Series Housing bonds have a principle of \$4.7 million and will be paid off in 2026.

A class action lawsuit filed against the State of Washington in 2006 related to the denial of health benefits for some employees was settled in May 2016. The State was found liable and Evergreen's portion of the settlement is \$804,000. That amount was recognized as a liability in the college's 2015 financial statements.

Notes to the Financial Statements June 30, 2015

Note 20. 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 year ended June 30, 2015:

Condensed Statements of Net Positions

| | |
|----------------------------------|----------------------|
| Assets | |
| Current assets | \$ 4,018,270 |
| Noncurrent assets | 12,643,145 |
| Total assets | <u>16,661,415</u> |
| Deferred Outflows | 54,527 |
| Liabilities | |
| Current liabilities | 941,574 |
| Noncurrent liabilities | 3,771,895 |
| Total liabilities | <u>4,713,469</u> |
| Deferred Inflows | 148,400 |
| Net position | |
| Net investment in capital assets | 8,563,145 |
| Unrestricted | 3,290,928 |
| Total net position | <u>\$ 11,854,073</u> |

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | |
|--|----------------------|
| Operating revenues | \$ 5,032,860 |
| Operating expenses | 4,202,622 |
| Net operating income | 830,238 |
| Non-operating revenues (expenses) | (177,206) |
| Changes in net position | 653,032 |
| Total net position beginning of year | <u>11,638,046</u> |
| Restatement | (282,513) |
| Prior Year Adjustment | (154,492) |
| Net position, beginning of year - restated | <u>11,201,041</u> |
| Total net position, end of year | <u>\$ 11,854,073</u> |

Condensed Statement of Cash Flows

| | |
|---|---------------------|
| Net cash flows provided by operating activities | \$ 1,900,997 |
| Net cash flows used by capital financing activities | (762,613) |
| Net cash flows provided by investing activities | - |
| Net increase in cash | <u>1,138,384</u> |
| Cash beginning of year | <u>2,674,807</u> |
| Cash end of year | <u>\$ 3,813,191</u> |

Notes to the Financial Statements June 30, 2015

Note 21. Prior Period Adjustment

An extensive review of the College's capital assets was conducted. This review resulted in a correction for capital assets and a prior year adjustment of (\$9,192,677). This adjustment decreased the net position beginning balance for fiscal year 2015 on the Statement of Revenue, Expenses and Changes in Net Positions. The net position for fiscal year 2014 was also impacted by the adjustment, resulting in a (\$9,192,677) decrease to the net position ending balance for fiscal year 2014.

| Description | Amount |
|---|-----------------------|
| Capital Asset Write Ups - FY 2014 Net of Accumulated Depreciation | \$ 268,472 |
| Gross Amount of Assets Retired FY 2014 | (13,103,385) |
| Retired Assets FY 2014 | 3,642,236 |
| Decrease to Net Position FY 2014 | \$ (9,192,677) |

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 be subsequently 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 has been met, 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 in perpetuity; the income from which is expendable for the purpose designated by the donor.

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 has been met, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional Promises to Give

Contributions, including unconditional promises to give are recognized as revenues in the period received. Unconditional promises to give that are due in the next year are reported at their net realizable value. FASB Statement 116 requires that an Allowance for Uncollectable Pledges be used; however, based on management judgment, past history, and the rare occurrences of pledges not being fulfilled, management has decided not to use an Allowance for Uncollectable Pledges account as any allowance would be immaterial.

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Unconditional promises to give that are due in subsequent years are reported using an appropriate discount rate to the present value. 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. Non-cash donations are recorded at fair value on the date of the donation. In the absence of any donor 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. As of June 30, 2015, the cash and cash equivalents total \$2,413,810, of which \$1,685,449 is classified as unrestricted and \$728,361 as restricted. The restricted portion is tied to the temporarily restricted and permanently restricted net assets. 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, 2015, all certificates of deposit mature within one year.

Investments

At June 30, 2015, an additional \$224,518 was held by the University of Washington pending a July 1, 2015 investment purchase. Asset allocation of the CEF at June 30 was as follows:

University of Washington Consolidated Endowment Fund (CEF) Fair Market Value as of June:

| | <u>2015</u> | <u>2014</u> |
|------------------------------|-------------------------|-------------------------|
| Total Units at U of W | 33,521,892 | 31,508,991 |
| Value per Unit | \$ 91.768 | \$ 89.03 |
| Total value at U of W | <u>\$ 3,076,225,847</u> | <u>\$ 2,832,752,593</u> |

TESC Foundation Portion

| | | |
|-------------------------------|----------------------|---------------------|
| Total Units | 112,029 | 90,800 |
| Value per Unit | \$ 91.768 | \$ 89.03 |
| Total TESC Foundation Portion | <u>\$ 10,280,645</u> | <u>\$ 8,163,227</u> |

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

| | <u>2015</u> | <u>2014</u> |
|--------------------------|-------------|-------------|
| Emerging Markets Equity | 17% | 18% |
| Developed Markets Equity | 28% | 35% |
| Private Equity | 15% ** | 11% ** |
| Real Assets | 7% ** | 7% ** |
| Opportunistic | 3% ** | 2% ** |
| Absolute Return | 19% ** | 18% ** |
| Fixed Income | 11 % | 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 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.

Additional Investments

The Foundation also has established an investment portfolio with Morgan Stanley:

| Morgan Stanley | <u>2015</u> | <u>2014</u> |
|-------------------------|---------------------|---------------------|
| Cash | \$ - | \$ 5,632 |
| Mutual Funds | 324,609 | 309,887 |
| Certificates of Deposit | 703,092 | 701,269 |
| Total | <u>\$ 1,027,701</u> | <u>\$ 1,016,788</u> |

Due to the long-term nature of the portfolio, investments are classified as noncurrent regardless of maturity. 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, investments in the CEF, and investments at 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.

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Investment securities are exposed to various risks including, but not limited to, interest rate, market, and credit risks. Due to the level of risks associated with certain investment securities, it is expected that changes in the values of investment securities will fluctuate. 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%.

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, 2015 and 2014. The fiscal years ended June 30, 2014, 2013 and 2012 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 related 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, 2014, from which the summarized information was derived.

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements

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. Adoption of this new guidance did not have a significant impact on the Foundation's 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>2015</u> | <u>2014</u> |
|--------------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 172,257 | \$ 436,540 |
| Receivable in one to five years | 587,198 | 270,393 |
| Long-term pledge receivable discount | <u>(40,014)</u> | <u>-</u> |
| Total Unconditional Promises to Give | <u>\$ 719,441</u> | <u>\$ 706,933</u> |

At June 30, 2014, the discount to net realizable value of the unconditional promises to give was not significant; however at June 30, 2015, due to the increase in the amount pledge receivables over one-year management determined that the long-term pledges should be discounted. The discount rates are based on the risk free applicable federal long-term rates were at the time each unconditional promise to give was made. The range of interest rates are between 2.19% and 3.37%.

NOTE 3 – INVESTMENTS

Investments are as follows at June 30:

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|
| Cash | \$ - | \$ 5,632 |
| Brokered certificates of deposit | 703,092 | 701,269 |
| Mutual funds | 324,609 | 309,887 |
| Investment in the University of Washington's | | |
| Consolidated Endowment Fund | <u>10,505,163</u> | <u>9,634,501</u> |
| Total Investments | <u>\$ 11,532,864</u> | <u>\$ 10,651,289</u> |

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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

| | <u>2015</u> | <u>2014</u> |
|--|--------------------------|----------------------------|
| Interest and dividend income | \$ 358,977 | \$ 280,928 |
| Net unrealized gains/(loss) on investments | <u>269,158</u> | <u>820,447</u> |
| Total Investment Income | <u><u>\$ 628,135</u></u> | <u><u>\$ 1,101,375</u></u> |

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 is required.

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

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 made in accordance with the direction of the applicable donor 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 is classified as temporarily restricted 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

Changes in endowment net assets for the year ended June 30, 2015

| | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|---------------------------|----------------------------|---------------------------|
| Endowment net assets, July 1, 2014 | \$ 2,028,691 | \$ 6,553,438 | \$8,582,129 |
| Adjustment for reclassified funds | - | - | - |
| Investment return | 526,188 | - | 526,188 |
| Contributions, net of transfers | (316,525) | 807,148 | 490,623 |
| Net assets released | 2,758 | - | 2,758 |
| Endowment net assets, June 30, 2015 | <u><u>\$2,241,112</u></u> | <u><u>\$ 7,360,586</u></u> | <u><u>\$9,601,698</u></u> |

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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

| | 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 | <u>\$ 2,028,691</u> | <u>\$ 6,553,438</u> | <u>\$ 8,582,129</u> |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are required to be reported in unrestricted net assets. There were no deficiencies of this nature as of June 30, 2015 and 2014.

Return Objectives and Risk Parameters

The Foundation has most of its investments in the University of Washington Consolidated Endowment Fund (CEF), with the objective of providing permanent funding for endowed programs. The objective of providing permanent funding needs to take a long-term perspective to provide a predictable and stable source of income for endowed programs, and 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.

| Investment Strategy | Long-term Target | Policy Range |
|----------------------------------|------------------|--------------|
| Emerging Markets Equity | 17% | |
| Developed Markets Equity | 28% | |
| Private Equity | 15% | |
| Real Assets | 7% | |
| Opportunistic | 3% | |
| CAPITAL APPRECIATION FUND | 70% | 55%-85% |
| Absolute Return | 19% | |
| Fixed Income | 11% | |
| CAPITAL PRESERVATION FUND | 30% | 15%-45% |

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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. This is consistent with the Foundation's objective to maintain a predictable and steady income.

NOTE 5 – FAIR VALUE OF FINANCIAL MEASUREMENTS

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

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

| Year Ended June 30, 2015 | | | | |
|-----------------------------------|---|--|---|----------------------|
| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
| Cash | \$ - | \$ - | \$ - | \$ - |
| Brokered certificates of deposit | | 703,092 | | 703,092 |
| Mutual funds | | 324,609 | | 324,609 |
| Consolidated Endowment Fund (CEF) | | 10,505,163 | | 10,505,163 |
| Total investments | <u>\$ -</u> | <u>\$ 11,532,864</u> | <u>\$ -</u> | <u>\$ 11,532,864</u> |
| 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 | <u>\$ 5,632</u> | <u>\$ 10,645,657</u> | <u>\$ -</u> | <u>\$ 10,651,289</u> |

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CHARITABLE GIFT ANNUITIES

Certain donors have entered into charitable gift annuity agreements with the Foundation under which the Foundation received certain assets. The assets were recorded at their fair market value on the date of receipt and are included in the general investments of the Foundation. In consideration of the assets received, the Foundation is required to pay quarterly installments to the donor over the donor's life. These installment payments totaled \$3,035 for the years ended June 30, 2015 and 2014.

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 \$11,184 and \$11,149 as of June 30, 2015 and 2014, 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 \$0 and \$89,955 as of June 30, 2015 and 2014, respectively. The majority of the amount due is related to pass-thru grants. The Foundation provided grants to the College totaling \$584,450 and \$715,365 for the years ended June 30, 2015 and 2014.

During the years ended June 30, 2015 and 2014 the Foundation provided \$353,847 and \$468,359 to the College for student scholarships and fellowships.

The Foundation receives substantial contributed support services under an agreement with the College. These services are included in both revenues and 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 \$1,648,056 and \$1,718,652 were released from donor restrictions for the years ended June 30, 2015 and 2014, 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 \$5,620,080 and \$5,428,606 at June 30, 2015 and 2014, respectively.

| | <u>2015</u> | <u>2014</u> |
|---|---------------------------|---------------------------|
| Academic Support and Research | \$1,405,881 | \$1,246,051 |
| Other College Support | 320,653 | 930,245 |
| Public Service Centers | 623,998 | 254,989 |
| Student Aid | 3,269,548 | 2,997,321 |
| Total Temporarily Restricted Net Assets | <u><u>\$5,620,080</u></u> | <u><u>\$5,428,606</u></u> |

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|---------------------|---------------------|
| Academic Support and Research | \$ 1,059,668 | \$ 1,008,177 |
| Other College Support | 115,861 | 115,839 |
| Student Aid | <u>6,185,057</u> | <u>5,429,422</u> |
| Total Restricted Net Assets | <u>\$ 7,360,586</u> | <u>\$ 6,553,438</u> |

NOTE 10 – CONCENTRATIONS

Major Donor

For the year ended June 30, 2015, the Foundation received contributions from four sources that comprised approximately 55% of total contribution revenue. For the year ended June 30, 2014, the Foundation received contributions from three sources that comprised approximately 70% 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 revenues and 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.

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

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| <u>From individual and corporate donors:</u> | | |
| Stock | \$ 90,213 | \$ 32,716 |
| Art Work | 14,260 | 62,931 |
| Materials | <u>21,127</u> | <u>24,534</u> |
| Total in-kind support from individuals and corporate donors | 125,600 | 120,181 |
| <u>From the College:</u> | | |
| Management services | 993,426 | 944,812 |
| Rent | 25,212 | 25,736 |
| Supplies and equipment usage | <u>207,595</u> | <u>211,555</u> |
| Total in-kind support from the College | 1,226,233 | 1,182,103 |
| Total in-kind support | <u>\$ 1,351,833</u> | <u>\$ 1,302,284</u> |

NOTE 12 – LEASES

In May 2014, the Foundation entered into a new long-term operating lease for a vehicle which will expire in May 2017. Lease expense totaled \$4,866 and \$4,324 for the years ended June 30, 2015 and 2014, respectively. Minimum required lease payments for 2016 and 2017 are \$4,762 and \$4,366 respectively.

THE EVERGREEN STATE COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – ADMINISTRATIVE FEES

The Foundation charges a 5% administrative fee and transfers this amount to unrestricted net assets to cover funds management, fundraising expenses, and administration expenses. The Foundation charged \$75,823 and \$107,853 in administrative fees for the years ended June 30, 2015 and 2014, respectively.

NOTE 14 – SCHOLARSHIPS FOR FUTURE PERIODS

In April, May and June of each year, students receive notice of their scholarship awards for the following academic year. These scholarship funds remain in the Foundation until August or September. The endowment scholarship funds are held in a holding account specifically for that purpose. The one-time scholarships are held in their own separately-accounted for scholarship account for use in future years. In August or September, the Foundation transfers the funds to the College and then the College applies the funds to the student accounts. The amount and number of scholarships varies from year to year. The annual scholarship amount and number of scholarships to be awarded is determined by the following:

1. Donor intent as defined in gift agreement
2. Foundation spending policy
3. For unrestricted scholarships, determined by the board
4. Number of awards from larger scholarship funds is determined by judgment of college staff if donor does not express a preference (i.e. is it better to have two \$1,000 scholarships or one \$2,000 scholarship)

As of June 30, 2015, the Foundation was holding funds earmarked for academic year 2015-2016 scholarships in the amount of \$505,660 and as of June 30, 2014, the amount held for academic year 2014-2015 was \$371,655. Of those amounts, \$278,122 and \$188,772 was available for endowment based scholarships, and \$227,538 and \$182,883 was available for one-time scholarships on June 30, 2015 and 2014, respectively.

Though the entire amount of the funds held are available for scholarships, not all of the scholarship offers are accepted. Additionally, there are times when students accept their scholarship offer but end up not being enrolled in the new academic year or are no longer qualified for the scholarship when classes begin; thereby leaving the scholarship unused. Any unused scholarship funds are returned to the Foundation and are held for future scholarships in the following academic year.

NOTE 15 – RECLASSIFICATION OF NET ASSETS

In the year ended June 30, 2015, \$395,109 was reclassified from temporarily restricted to unrestricted net assets due to the lack of donor restrictions on the funds.

NOTE 16 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 20, 2016, the date on which the financial statements were available to be issued.

Required Supplementary Information

PENSION PLAN INFORMATION**Cost Sharing Employer Plans**

Schedules of TESC's Proportionate Share of the Net Pension Liability

| Schedule of TESC's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30 * (dollars in thousands) | |
|---|----------|
| | 2014 |
| TESC PERS 1 employers' proportion of the net pension liability | 0.15% |
| TESC PERS 1 employers' proportionate share of the net pension liability | \$ 7,422 |
| TESC PERS 1 employers' covered-employee payroll | \$ 986 |
| TESC PERS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll | 752.74% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.19% |
| * As of June 30; this schedule is to be built prospectively until it contains ten years of data. | |

| Schedule of TESC's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date ended June 30 * (dollars in thousands) | |
|--|-----------|
| | 2014 |
| TESC PERS 2/3 employers' proportion of the net pension liability | 0.16% |
| TESC PERS 2/3 employers' proportionate share of the net pension liability | \$ 3,250 |
| TESC PERS 2/3 employers' covered-employee payroll | \$ 14,440 |
| TESC PERS 2/3 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll | 22.51% |
| Plan fiduciary net position as a percentage of the total pension liability | 93.29% |
| * As of June 30; this schedule is to be built prospectively until it contains ten years of data. | |

PENSION PLAN INFORMATION

Cost Sharing Employer Plans

Schedules of TESC's Proportionate Share of the Net Pension Liability

| Schedule of TESC's Proportionate Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30 * (dollars in thousands) | | 2014 |
|--|----|--------|
| TESC TRS 1 employers' proportion of the net pension liability | | 0.01% |
| TESC TRS 1 employers' proportionate share of the net pension liability | \$ | 169 |
| TESC TRS 1 employers' covered-employee payroll | \$ | 172 |
| TESC TRS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 98.26% |
| Plan fiduciary net position as a percentage of the total pension liability | | 69.00% |
| * As of June 30; this schedule is to be built prospectively until it contains ten years of data. | | |

| Schedule of TESC's Proportionate Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date ended June 30 * (dollars in thousands) | | 2014 |
|---|----|--------|
| TESC TRS 2/3 employers' proportion of the net pension liability | | 0.01% |
| TESC TRS 2/3 employers' proportionate share of the net pension liability | \$ | 20 |
| TESC TRS 2/3 employers' covered-employee payroll | \$ | 103 |
| TESC TRS 2/3 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 19.42% |
| Plan fiduciary net position as a percentage of the total pension liability | | 97.00% |
| * As of June 30; this schedule is to be built prospectively until it contains ten years of data. | | |

PENSION PLAN INFORMATION

Cost Sharing Employer Plans

Schedules of TESC's Proportionate Share of the Net Pension Liability

| Schedule of TESC's Proportionate Share of the Net Pension Liability Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 Measurement Date of June 30 * (dollars in thousands) | | 2014 |
|---|----|---------|
| TESC LEOFF 2 employers' proportion of the net pension liability | | 0.03% |
| TESC LEOFF 2 employers' proportionate share of the net pension liability (asset) | \$ | (350) |
| TESC LEOFF 2 employers' covered-employee payroll | \$ | 442 |
| TESC LEOFF 2 employers' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | | -79.19% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | | 116.75% |
| * As of June 30; this schedule is to be built prospectively until it contains ten years of data. | | |

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Contributions

| Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30 | | | | | |
|---|---|--|--|------------------------------|---|
| Fiscal Year | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered employee payroll |
| 2015 | \$ 65,765 | \$ 65,765 | \$ 0 | \$ 714,066 | 9.21% |
| 2016 | | | | | |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |
| 2024 | | | | | |
| Notes: These schedules will be built prospectively until they contain ten years of data. | | | | | |

| Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30 | | | | | |
|---|--|---|--|------------------------------|---|
| Fiscal Year | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered employee payroll |
| 2015 | \$ 1,330,086 | \$ 1,330,086 | \$ 0 | \$ 14,441,760 | 9.21% |
| 2016 | | | | | |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |
| 2024 | | | | | |
| Notes: These schedules will be built prospectively until they contain ten years of data. | | | | | |

PENSION PLAN INFORMATION

Cost Sharing Employer Plans

Schedules of Contributions

| Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30 | | | | | |
|--|---|--|--|------------------------------|---|
| Fiscal Year | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered employee payroll |
| 2015 | \$ 23,371 | \$ 23,371 | \$ 0 | \$ 224,941 | 10.39% |
| 2016 | | | | | |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |
| 2024 | | | | | |
| Notes: These schedules will be built prospectively until they contain ten years of data. | | | | | |

| Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30 | | | | | |
|--|---|--|--|------------------------------|---|
| Fiscal Year | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered employee payroll |
| 2015 | \$ 21,777 | \$ 21,777 | \$ 0 | \$ 209,598 | 10.39% |
| 2016 | | | | | |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |
| 2024 | | | | | |
| Notes: These schedules will be built prospectively until they contain ten years of data. | | | | | |

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Contributions

| Schedule of Contributions | | | | | |
|---|---|--|--|------------------------------|---|
| Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 | | | | | |
| Fiscal Year Ended June 30 | | | | | |
| Fiscal Year | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered employee payroll |
| 2015 | \$ 40,873 | \$ 40,873 | \$ 0 | \$ 475,825 | 8.59% |
| 2016 | | | | | |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |
| 2024 | | | | | |