Everett Community College

2013 Financial Report
Fiscal Year Ended June 30, 2013

2013
Financial Report

Table of Contents

You may view the financial report at www.everettcc.edu.

For information about the financial data included in this report, contact:
Susan Dresser, Executive Director of Finance
Everett Community College
2000 Tower Street
Everett, WA 98201
425.388.9254

For information about enrollment, degrees awarded, or academic programs, contact:
Laurie Franklin, Dean of Enrollment and Student Financial Services
Everett Community College
2000 Tower Street
Everett, WA 98201

Trustees and Administrative Officers

As of June 30, 2013
(financial statement date)

BOARD OF TRUSTEES

Betty Cobbs, chairperson

Gene Chase

Gigi Burke

Janet Kusler

James Shipman

As of December 31, 2014
(audit date)

BOARD OF TRUSTEES

Betty Cobbs

Gigi Burke chairperson

James Shipman

Bob Bolerjack

EXECUTIVE OFFICERS

As of June 30, 2013
(financial statement date)

Dr. David N. Beyer, President

Dr. Sandra Fowler-Hill, Executive Vice-President of Instruction and Student Services

Patrick Sisneros, Vice President of College Services

Jennifer Howard, Vice President of Administrative Services

Dr. John Olson, Vice President of College Advancement and Executive Director EvCC Foundation

John Bonner, Executive Director of Corporate and Continuing Education

Heather Bennett, Executive Director of Institutional Effectiveness and Resource Development

As of December 31, 2014
(audit date)

Dr. David N. Beyer, President

Alison Stevens, Executive Vice-President of Instruction and Student Services

Patrick Sisneros, Vice President of College Services

Jennifer Howard, Vice President of Administrative Services

Dr. John Olson, Vice President of College Advancement and Executive Director EvCC Foundation

John Bonner, Executive Director of Corporate and Continuing Education

Heather Bennett, Executive Director of Institutional Effectiveness and Resource Development

Maria Peña, Chief Diversity and Equity Officer

Everett Community College
Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Everett Community College (the College) for the fiscal year ended June 30, 2013 (FY 2013). The 2013 report constitutes the college's inaugural audited financial statement. As a result, any comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2012 (FY 2012).

This overview provides readers with 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 College's financial statements and accompanying note disclosures.

Reporting Entity

Everett Community College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 19,800 students annually. Established in 1941, Everett Community College awards associate degrees, prepares students for transfer to four-year schools, provides training and retraining for those preparing to enter the workforce, offers customized business training for professionals, teaches basic skills and literacy, and offers personal enrichment training[1]. Everett Community College educates, equips and inspires each student to achieve personal and professional goals, contribute to our diverse communities and thrive in a global society.

The College's main campus is located in Everett, Washington, a community of about 105,370 residents[2]. Classes are offered at other locations in Snohomish County. General education classes are offered in Monroe, Washington, at the Lake Tye building. The cosmetology program is located in Marysville, Washington. The Corporate and Continuing Education Center is located in Everett, across from the Boeing facility. The aviation program is offered at Paine Field. Other courses are provided through partnerships with Sno Isle Skills Center and Snohomish High school.

The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

[1] Everett Community College Annual Report 2014 found at http://www.everettcc.edu/files/administration/visitors/profile/2014-annual-report.pdf

[2] http://quickfacts.census.gov/qfd/states/53/5322640.html

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College at a moment in time, at year-end. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over a period of time. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health as a whole.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activity is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, and net assets at year-end and includes all assets and liabilities of the College. A condensed presentation of the Statement of Net Position is as follows:

Condensed Statement of Net Position *As of June 30th*	**FY 2013**
Assets	
Current Assets	**$ 20,616,585**
Capital Assets, net	**153,046,172**
Long-term investments	**10,038,420**
Total Assets	**$ 183,701,177**
Liabilities	
Current Liabilities	**$ 8,187,108**
Other Liabilities, non-current	**23,301,213**
Total Liabilities	**$ 31,488,321**
Net Position	**$ 152,212,856**

Current assets consist primarily of cash, short-term investments, various accounts receivables and inventories. The college's cash and short-term investments are held in its US Bank accounts and the Local Government Investment Pool (LGIP).

Capital assets include land, buildings, improvements, infrastructure, and equipment valued at $5,000 or more, net of depreciation. Management of land and buildings is delegated by the state legislature to the colleges through the State Board of Community and Technical Colleges (SBCTC).

Long-term investments include the College's investments in US agency bonds.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificates of Participation (COP) debt and unearned revenue.

Non-current liabilities include amounts payable that may be due to employees upon separation, such as sick leave and vacation payouts. It also includes the future portion of Certificates of Participation (COP) debt.

Net position represents the College's assets less its liabilities. These are shown in the chart below. The College is required by accounting standards to report its net position 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:

Non Expendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. In recent years, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. However, some funds donated many years ago for this purpose remain in college accounts and are reported in this area.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the assets. These include capital project funds and the expendable portion of endowments.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. The college follows its adopted policy for use of these funds.

Net Position *As of June 30th*	**FY 2013**
Invested in Capital Assets, net of related debt	**$ 131,139,514**
Restricted	
Nonexpendable	**78,488**
Expendable	**9,467**
Unrestricted	**20,985,388**
Total Net Position	**$ 152,212,857**

Statement of Revenues, Expenses and Changes in Net Position
The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's total net position during FY 2013. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government entity without directly giving equal value to that government entity in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed statement of revenues, expense and changes in net position is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

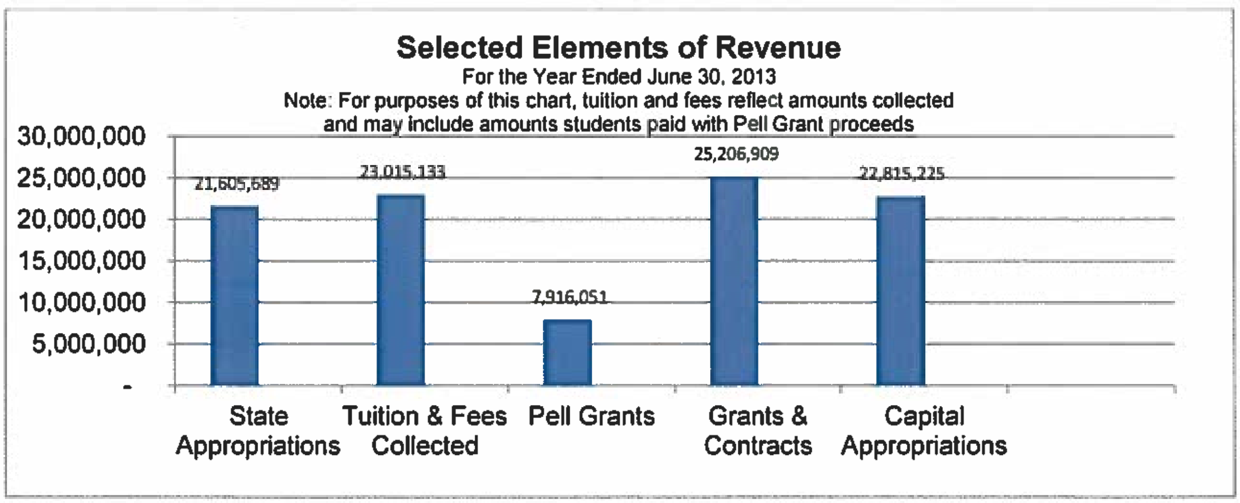
Condensed Statement of Revenue, Expenses and Changes in Net Position *As of June 30th*		**FY 2013**
Operating Revenues	$	54,336,603
Operating Expenses		80,628,096
Net Operating Loss		(26,291,493)
Non-Operating Revenues		29,610,227
Non-Operating Expenses		946,751
Gain (Loss) Before Other		2,371,983
Capital Appropriations		22,815,225
Increase (Decrease) in Net Position	$	25,187,208
Net Position, Beginning of the Year	$	127,025,648
Net Position, End of the Year	$	152,212,856

Revenues
Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased again in FY 2013. The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their highest level at the beginning of FY 2009 and as of FY 2013 have been reduced by almost 24%.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Since enrollments increased slightly in FY 2013, the College's revenues reflect the increase in enrollments along with the increase in tuition revenues due to increased tuition rates. Pell grant revenues generally follow enrollment trends. Thus, as the College's enrollment continued to increase slightly during FY 2013, so did the College's Pell Grant revenue. For FY 2013, the College attempted to keep other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College offered some courses and programs on a fee-only 'self-support' basis, as allowed by law. Beginning in FY 2010 and continuing in FY 2013, the college expanded its use of self-support classes to strategically absorb the impact of high enrollments during a period of high unemployment. As required by law, the college collected these funds as fees rather than as tuition.

In FY 2013, grant and contract revenues contributed to the college's revenues. The College continued to serve students under the terms of contracted programs. The College contracted with local high schools to enroll Running Start students who earn both high school and college credit for their courses. In FY 2013, the college served over two hundred contracted international students who were not supported by state dollars.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.



Expenses

Faced with severe budget cuts over the past five years, the College has continuously sought opportunities to identify savings and efficiencies.

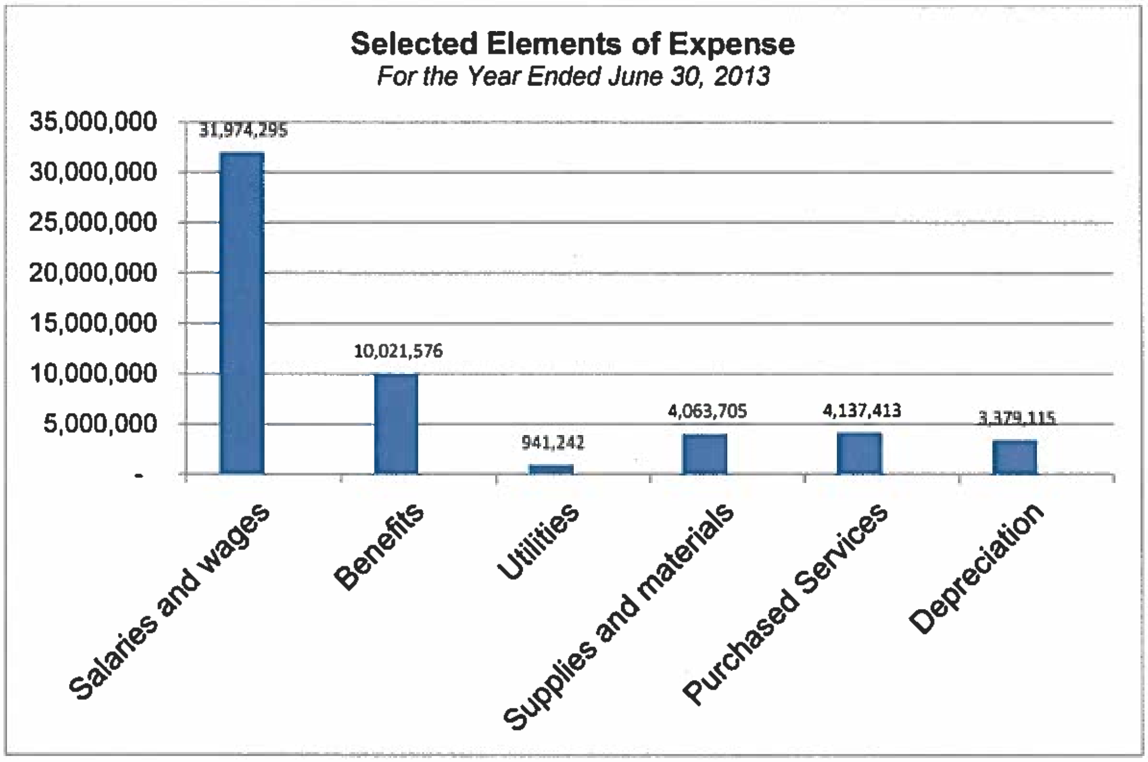
Employee costs (salary/wages and benefits) make up the majority of the college's expenses. In FY 2013, salary and benefit costs increased as a result of adding positions and negotiated increases for faculty. As positions were vacated and new positions were created, the costs associated with those positions increased due to job market competition.

The college purposefully managed its utility expenses through sponsoring campus-wide sustainability initiatives. This reduced usage and associated expenses. The college's December closure also contributed to cost savings in this area.

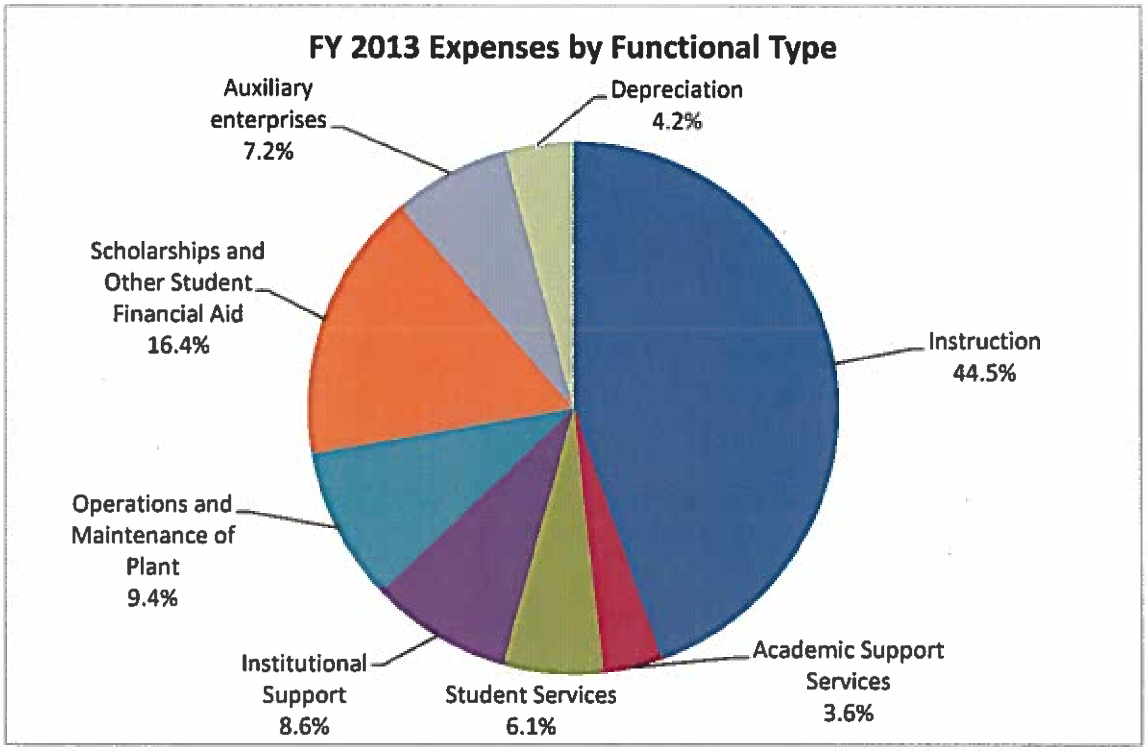
Supplies and materials include instructional expenses, along with materials used by facilities and maintenance. This also includes the cost of goods sold, such as items from the college bookstore.

Purchased services include expenses paid to university partners as a pass through from University Center. Additional expenses are paid to other entities for costs associated with the Healthcare Education to Career Opportunities grant and the Youth Re-Engagement program.

Depreciation expenses represent the cost of capitalized assets being used over time. Some of those include our buildings, improvements and capitalized equipment.



Operating Expenses by Function
The chart below shows the percentage of each functional area of operating expenses for FY 2013. Instruction has traditionally encompassed the majority of college expenses over time, and FY 2013 is no exception. This aligns with the percentage of expenditures at other community and technical colleges in the SBCTC system.



Statement of Cash Flows

The Statement of Cash Flows gives a general picture of where the College obtains and spends its cash and cash equivalents. The statement gives detailed information about cash flows related to four different types of activities within the institution.

The first section shows cash received and spent on the operations of the college. Since tuition and fees and other operating revenue alone do not normally cover the operating costs of a public higher education institution, this section can be expected to show more cash used than provided.

The second section shows cash received and spent on non-capital financing activities of the College. Here the college reports cash from state appropriations and cash related to federally-funded Pell grants. This section also includes any activity that cannot be reported in one of the other sections.

The third section shows cash received and spent on capital and related financing activities. This includes state capital appropriations for major projects, minor works and repairs. It also includes cash proceeds, loan origination costs, interest and principal payments related to Certificates of Participation.

The fourth section shows cash received and spent on investing activities, including the purchase and sale of investment instruments and interest earnings.

Following these four sections, the statement provides the total increase in cash from beginning of the year to the end of the year.

The last section of the statement includes a reconciliation of operating loss to net cash used solely by operating activities. The cash used by operating activities is shown also in section one by source and use.

A condensed statement of cash flows is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Cash Flows *As of June 30th*		**FY 2013**
Operating Activities	$	(24,678,341)
Non-Capital Financing Activities		29,524,045
Capital Financing Activities		541,496
Investing Activities		75,808
Net Change in Cash	$	5,463,008
Cash, Beginning of Year		9,162,046
Cash, End of Year	$	14,625,054

Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed.

At June 30, 2013, the College had invested $153,046,172 in capital assets, net of accumulated depreciation.

Asset Type		June 30, 2013		June 30, 2012 (unaudited)		Change
Land	$	8,558,859	$	8,558,859	$	-
Construction in Progress		30,598,654		15,724,365		14,874,289
Buildings, net		110,920,576		106,427,402		4,493,174
Other Improvements and Infrastructure, net		316,267		339,904		(23,637)
Equipment, net		2,565,795		1,362,102		1,203,693
Library Resources, net		86,021		12,815		73,206
Total Capital Assets, Net		**$153,046,172**	**$**	**132,425,447**		**$20,620,725**

In FY 2013, the college began construction on the "Index replacement" project, Liberty Hall. It also began a remodel of the Corporate and Continuing Education Center (CCEC) facility on Seaway Boulevard in south Everett. These projects increased the college's investment in capital assets from the prior year.

At June 30, 2013, the College had just over $21,000,000 in outstanding debt related to capital assets. The College entered into a Certificate of Participation (COP) for the remodel of CCEC during FY 2013. The College has on-going capital leases for equipment in Whitehorse Hall along with fiber optic and other information technology infrastructure projects.

Debt Type	June 30, 2013
Certificates of Participation	$ 21,470,000
Capital Leases	$ 450,589
Total	**$ 21,920,589**

Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. The state Legislature continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. Everett Community College received a significant portion of the investment in aerospace training in the form of FTE funding. Should Everett Community College be successful in attaining its FTE and completion targets, this additional funding may be established as a part of the annual state allocation.

Increasing the cost of tuition by 7% and 12% over the past years was a difficult decision for legislators, and they declined to approve tuition increases for FY 2014. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations.

Washington's Economic and Revenue Forecast Council [3] prepares independent forecasts quarterly throughout the year. In its most recent forecast (February 2014), the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies.

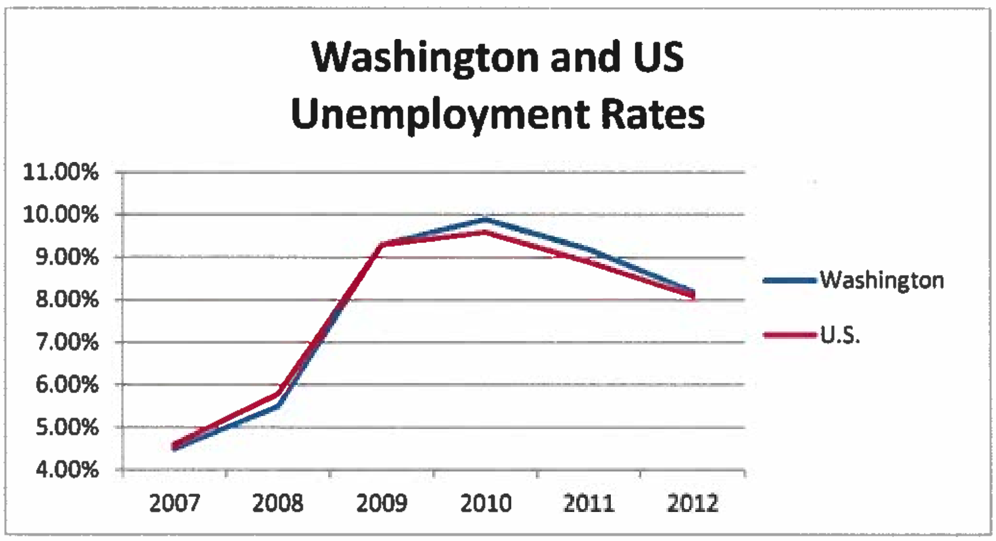
Closer to home, Washington continues to add jobs, including showing growth in the manufacturing sector. Housing construction, home prices and car sales also increased and exports are at an all-

[3] http://www.erfc.wa.gov/

time high. Both employment in Washington state and personal income are expected to continue to grow in 2014 and through 2019, the end of the period covered by the forecast. [4]

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. In Snohomish County, unemployment rates are on a consistent, downward trend[5]. From a peak of 11.3 percent in early 2010, the current rate as of July 2014 was 5.3 percent.

Based on US census data, Snohomish County residents were more likely to have attended some college / earned their associate's degree compared to the state and the nation. Even if the usual pattern is for lower enrollments during economic downturns, Everett Community College is currently maintaining its enrollment numbers and has not seen the same downturn as other colleges. This bodes well for the future of the college.



[4] http://www.erfc.wa.gov/
[5] https://fortress.wa.gov/esd/employmentdata/reports-publications

Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT ON FINANICAL STATEMENTS

January 16, 2015

Everett Community College
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of the Everett Community College, Snohomish County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements. We were not engaged to audit the financial statement of the aggregate discretely presented component units. These financial statements collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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.

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

The financial statements of Everett Community College Foundation (ECCF) component unit have not been audited, and we were not engaged to audit the ECCF financial statements as part of our audit of the College's basic financial statements. ECCF's financial activities are included in the College's basic financial statements as a discretely presented component unit and represent 100 percent of the assets, net position, and revenues, respectively, of the College's aggregate discretely presented component units.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the Everett Community College, Washington. Accordingly, we do not express an opinion on these financial statements.

Unmodified 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 of the Everett Community

College, Washington, as of June 30, 2013, 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 Everett Community College, an agency of the state of Washington, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type 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, 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Sincerely,

Troy X Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

Everett Community College
Statement of Net Position
June 30,2013

Assets			
Current assets			
Cash and cash equivalents			14,477,348
Restricted cash and cash equivalents			147,706
Accounts Receivable			5,838,466
Interest Receivable			27,679
Inventories			125,386
	Total current assets		20,616,585
Non-Current Assets			
Long-term investments			10,038,420
Capital assets, net of depreciation			153,046,172
	Total non-current assets		163,084,592
		Total assets	**183,701,177**
Liabilities			
Current Liabilities			
Accounts Payable			805,917
Accrued Liabilities			2,738,133
Deposits Payable			7,281
Unearned Revenue			3,473,709
Leases and Certificates of Participation Payable			1,162,068
	Total current liabilities		8,187,108
Noncurrent Liabilities			
Compensated Absences			2,542,692
Long-term liabilities			20,758,521
	Total non-current liabilities		23,301,213
		Total liabilities	**31,488,321**
Net Position			
Net Investment in Capital Assets			131,139,514
Restricted for:			
Nonexpendable			78,488
Expendable			9,467
Unrestricted			20,985,387
Total Net Position			**152,212,856**
Total Liabilities and Net Position			**183,701,177**

(See accompanying notes to the financial statements)

Everett Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

Operating Revenues		
Student tuition and fees, net		23,015,133
Auxiliary enterprise sales		5,426,139
State and local grants and contracts		14,623,800
Federal grants and contracts		10,583,109
Other operating revenues		688,422
	Total operating revenue	54,336,603
Operating Expenses		
Operating Expenses		9,387,353
Salaries and wages		31,974,295
Benefits		10,021,576
Scholarships and fellowships		16,723,397
Supplies and materials		4,063,705
Depreciation		3,379,115
Purchased services		4,137,413
Utilities		941,242
	Total operating expenses	80,628,096
	Operating income (loss)	(26,291,493)
Non-Operating Revenues		
State appropriations		21,605,689
Federal Pell grant revenue		7,916,051
Investment income, gains and losses		88,487
	Net non-operating revenues	29,610,227
Non-Operating Expenses		
Interest on indebtedness		946,751
	Net non-operating expenses	946,751
Income or (loss) before other revenues, expenses, gains, or losses		2,371,983
Capital Revenues		
Capital appropriations		22,815,225
	Increase (Decrease) in net position	25,187,208
Net Position		
Net position, beginning of year		127,025,648
Net position, end of year		152,212,856

(See accompanying notes to the financial statements)

Everett Community College
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash flow from operating activities	
Student tuition and fees	23,580,944
Grants and contracts	24,597,525
Payments to vendors	(18,608,445)
Payments for utilities	(941,242)
Payments to employees	(32,175,291)
Payments for benefits	(10,103,389)
Auxiliary enterprise sales	4,846,091
Payments for scholarships and fellowships	(16,723,397)
Other receipts (payments)	848,864
Net cash used by operating activities	(24,678,340)
Cash flow from noncapital financing activities	
State appropriations	21,607,994
Pell grants	7,916,051
Amounts for other than capital purposes	0
Net cash provided by noncapital financing activities	29,524,045
Cash flow from capital and related financing activities	
Proceeds of capital debt	4,000,000
Capital appropriations	21,171,025
Purchases of capital assets	(25,965,233)
Certificate of participations proceeds	3,416,611
Principal paid on capital debt	(1,134,156)
Interest paid	(946,751)
Net cash provided by capital and related financing activities	541,496
Cash flow from investing activities	
Purchase of investments	(6,012,679)
Proceeds from sales and maturities of investments	6,000,000
Income of investments	88,487
Net cash provided by investing activities	75,808
Increase in cash and cash equivalents	5,463,008
Cash and cash equivalents at the beginning of the year	9,162,046
Cash and cash equivalents at the end of the year	14,625,054

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(26,291,493)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	3,379,115
Changes in assets and liabilities	
Receivables , net	(928,686)
Inventories	550,875
Other assets	0
Accounts payable	(2,102,598)
Accrued liabilities	263,753
Unearned revenue	506,774
Compensated absences	(14,814)
Deposits payable	(41,266)
Net cash used by operating activities	(24,678,340)

(See accompanying notes to the financial statements)

Notes to the Financial Statements

June 30, 2013
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity
Everett Community College (the College) is a comprehensive community College offering open-door academic programs, workforce education, basic skills, and community services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the College is included in the State's Comprehensive Annual Financial Report.

The Everett Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1984 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to provide scholarships to students, professional development opportunities to faculty and staff, equipment to aid in the teaching process, and financial assistance to the College to meet its greatest needs as may be determined by the Foundation Board of Directors. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the College or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2013, the Foundation distributed approximately $596,585 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 2000 Tower Street, Everett, WA 98201.

Basis of Presentation
The College follows all GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net

Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the College's assets, deferred inflows, liabilities, deferred outflows, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The College has no significant arrangements allowing external parties to operate College capital assets.

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62) and amendments contained in GASB Statement No 66 *Technical Corrections – 2012*, which incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in the pronouncements of the FASB and American Institute of Certified Public Accountants (AICPA). This statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement amends the net asset reporting requirement in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The College did not identify any transactions requiring treatment as a deferred inflow or outflow.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for financial statements for periods beginning after December 15, 2012. The impact of this pronouncement is uncertain at this time.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after December 15, 2014. The impact of this pronouncement is uncertain at this time.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which improves recognition, measurement and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The impact of this pronouncement is uncertain at this time.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. Endowment investments are classified as noncurrent assets. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash, cash equivalents and U.S. Agency securities.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts and amounts due from State Treasurer under the terms of a certificate of participation. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories, consisting primarily of supplies used by aviation and cosmetology programs, are valued at cost using the first in, first out method.

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the College, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, only fixed assets with a unit cost of $5,000 or greater are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources, 2 to 10 years for most equipment, and 11 to 40 years for heavy-duty equipment, air craft, locomotive and vessels.

In accordance with GASB Statement 42, the College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2013, no assets had been written down.

Unearned Revenues
Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer quarter tuition and fees and housing deposits as unearned revenues.

Tax Exemption
The College is a tax-exempt organization under the provisions of Section 115 (1) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Net Position
The College's net position is classified as follows.

- *Net Investment in Capital Assets.* This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable.* This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Expendable.* These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted.* These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues
The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

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 Position. 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. Discounts and allowances for the year ending June 30, 2013 are $6,326,598.

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 Position, 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 nonoperating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

2. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2013, the carrying amount of the College's cash and equivalents was $14,625,054 as represented in the table below.

Table 1: Cash and Cash Equivalents	**June 30, 2013**
Petty Cash and Change Funds	$7,845
Bank Demand and Time Deposits	$14,422,878
Local Government Investment Pool	$194,331
Total Cash and Cash Equivalents	**$14,625,054**

Investments consist of U.S. Agency bonds. All bonds held by the College are obligations of the United States or its agencies.

Table 2: Investment Maturities	**Fair Value**	**One Year or Less**	**1 - 5 Years**	**6 - 10 Years**	**10 or More Years**
U.S. Agency Obligations	$ 10,038,420		$ 10,038,420		
Total Investments	**$10,038,420**	**$ -**	**$10,038,420**	**$ -**	**$ -**

Custodial Credit Risks—Deposits
Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with the US Bank. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Interest Rate Risk—Investments

The College manages its exposure to interest rate changes by limiting the duration of investments to mature at various points in the year. The portfolio average maturity is three years or less.

Concentration of Credit Risk—Investments
State law limits College operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. College policy does not limit the amount the College may invest in any one issuer.

Custodial Credit Risk—Investments
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2013, none of the College's investments are exposed to custodial credit risk because the investments are held by US Bank Safekeeping of Washington in the College's name.

3. Accounts 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 federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2013, accounts receivable were as follows:

Table 3: Accounts Receivable	**Amount**	
Student Tuition and Fees	$	1,520,862
Due from the Federal Government	$	523,189
Due from Other State Agencies	$	3,389,059
Auxiliary Enterprises	$	850,518
Other	$	734
Subtotal	$	6,284,362
Less Allowance for Uncollectible Accounts	$	(445,896)
Accounts Receivable, net	**$**	**5,838,466**

4. Inventories

Inventories, stated at cost using first in, first out method, consisted of the following as of June 30, 2013:

Table 4: Inventories	Amount	
Consumable Inventories	$	125,386
Merchandise Inventories	$	-
Raw Materials Inventories	$	-
Inventories	**$**	**125,386**

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2013 is presented as follows. The current year depreciation expense was $3,379,115.

Table 5: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 8,558,859	$ -	$ -	$ 8,558,859
Construction in progress	15,724,365	23,378,685	8,504,396	30,598,654
Total nondepreciable capital assets	24,283,224	23,378,685	8,504,396	39,157,513
Depreciable capital assets				
Buildings	135,652,499	6,781,862	0	142,434,361
Other improvements and infrastructure	813,213	0	0	813,213
Equipment	6,011,185	1,782,812	747,982	7,046,015
Library resources	1,914,109	73,206	62,602	1,924,713
Subtotal depreciable capital assets	144,391,006	8,637,880	810,584	152,218,302
Less accumulated depreciation				
Buildings	29,225,097	2,288,688	0	31,513,785
Other improvements and infrastructure	473,309	23,637	0	496,946
Equipment	4,649,083	1,066,790	1,235,653	4,480,220
Library resources	1,901,294	0	62,602	1,838,692
Total accumulated depreciation	36,248,783	3,379,115	1,298,255	38,329,643
Capital assets, net of accumulated depreciation	**$ 132,425,447**	**$ 28,637,450**	**$ 8,016,725**	**$ 153,046,172**

6. Accounts Payable and Accrued Liabilities

At June 30, 2013, accrued liabilities are the following:

Table 6: Accounts Payable and Accrued Liabilities	Amount	
Accrued Liabilities	$	1,643,804
Amounts Owed to Employees	$	1,094,329
Accounts Payable	$	805,917
Amounts Held for Others	$	7,281
Total	**$**	**3,551,331**

7. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, as follows:

Table 7: Unearned Revenue	Amount	
Summer Quarter Tuition & Fees	$	3,033,042
Housing and Other Deposits		440,667
Total Unearned Revenue	$	3,473,709

8. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2012 through June 30, 2013, were $117,879.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The College has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to $10,000,000 for each claim with no deductible. The College has had no claims in excess of the coverage amount within the past three years.

9. Compensated Absences

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 either credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes, or a cash payout based on an annual vote of union retirees. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $1,305,777 at June 30, and accrued sick leave totaled $1,236,915 at June 30, 2013.

Accrued annual and sick leave are categorized as non-current liabilities.

10. Leases Payable

The College finances some capital asset purchases through the Washington State Treasurer's leasing program. These are classified as capital leases. The College also has leases for student residences, classroom space and other assets with various vendors. These leases are classified as operating leases. As of June 30, 2013, the minimum lease payments under capital leases and operating leases consist of the following.

Table 8: Leases Payable		
Fiscal year	Capital Leases	Operating Leases
2014	224,703	408,978
2015	86,155	409,203
2016	89,455	343,442
2017	87,155	321,680
2018	0	100,878
2019-2023	0	155,128
2024-2028	0	155,128
2029-2033	0	155,128
2034-2038	0	155,128
2039-2043	0	85,320
Total minumum lease payments	487,468	2,290,013
Less Amount representing interest	36,879	
Net present value	$ 450,589	

11. Notes Payable

In August, 2012, the College obtained financing to remodel the Corporate and Continuing Education Building through a certificate of participation (COP), issued by the Washington State Treasurer (OST) in the amount of $3,545,000. The interest rate charged is approximately 3.103%.

In August, 2009, the College obtained financing to build the Health Education & Fitness Center through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $20,440,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2011. The interest rate charged is approximately 4.463%.

Student fees related to the Health Education & Fitness Center COP are accounted for in a dedicated fund, which is used to pay a portion of the principal and interest, not coming out of the general operating budget. The College's debt service requirements for these note agreements for the next five years and thereafter are as follows:

12. Annual Debt Service Requirements

Future debt service requirements at June 30, 2013 are as follows.

Annual Debt Service Requirements						
	Certificates of Participation			Capital Leases		
Fiscal year	Principal	Interest	Total	Principal	Interest	Total
2,014	$ 955,000	$ 918,913	$ 1,873,913	$ 207,068	$ 17,635	$ 224,703
2,015	985,000	890,263	1,875,263	76,251	9,904	86,155
2,016	1,015,000	859,513	1,874,513	82,943	6,512	89,455
2,017	1,050,000	826,033	1,876,033	84,327	2,828	87,155
2,018	1,090,000	783,383	1,873,383	-	-	-
2019-2023	6,185,000	3,200,100	9,385,100	-	-	-
2024-2028	7,680,000	1,710,661	9,390,661	-	-	-
2029-2033	2,510,000	175,450	2,685,450	-	-	-
2034-2038	-	-	-	-	-	-
2039-2043	-	-	-	-	-	-
Total	**$ 21,470,000**	**$ 9,364,314**	**$ 30,834,314**	**$ 450,589**	**$ 36,879**	**$ 487,468**

13. Schedule of Long Term Debt

	Balance outstanding 6/30/12	Additions	Reductions	Balance outstanding 6/30/13	Current portion
Certificates of Participation	$ 18,860,000	$ 3,545,000	$ 935,000	$ 21,470,000	$ 955,000
Capital leases	649,745	-	199,156	450,589	207,068
Compensated Absences	2,349,640	1,947,232	1,754,180	2,542,692	
Total	**$ 21,859,385**	**$ 5,492,232**	**$ 2,888,336**	**$ 24,463,281**	**$ 1,162,068**

14. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical Colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY2012-13, the payroll for the College's employees was $9,347,922 for PERS, $336,044 for TRS, and $18,466,362 for SBRP. Total covered payroll was $28,027,873.

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of-living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The College also has one faculty member with pre-existing eligibility who continues to participate in TRS 1 or 2.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute. By statute, PERS 3 employees may select among six contribution rate options, ranging from 5 to 15 percent.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made 100% of required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2013, 2012 and 2011 are as follows:

Contribution Rates at June 30						
	FY2011		FY2012		FY2013	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	5.31%	6.00%	7.08%	6.00%	7.21%
Plan 2	3.90%	5.31%	4.64%	7.08%	4.64%	7.21%
Plan 3	5 - 15%	5.31%	5 - 15%	7.08%	5 - 15%	7.21%
TRS						
Plan 1	6.00%	6.14%	6.00%	8.04%	6.00%	8.05%
Plan 3	5-15%	6.14%	5-15%	8.04%	5-15%	8.05%

Required Contributions						
	FY2011		FY2012		FY2013	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 14,259	$ 12,620	$ 14,652	$ 17,555	$ 11,323	$ 13,606
Plan 2	$ 293,368	$ 399,437	$ 341,974	$ 530,973	$ 357,658	$ 555,760
Plan 3	$ 58,463	$ 45,783	$ 73,922	$ 83,999	$ 88,725	$ 101,607
TRS						
Plan 1	$ 11,757	$ 12,031	$ 11,813	$ 15,513	$ 11,909	$ 15,975
Plan 2	$ 2,490	$ 4,550	$ 3,311	$ 5,723	$ 3,475	$ 5,964
Plan 3	$ -	$ -	$ -	$ -	$ 3,895	$ 4,620

State Board Retirement Plan

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement 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% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

<u>Contributions</u>. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2013 were each $1,616,534.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2013, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $9,497. In 2012, legislation (RCW 28B.10.423) was passed requiring Colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2013, the College paid into this fund at a rate of 0.25% of covered salaries, totaling $46,822. As of June 30, 2013, the Community and Technical College system accounted for $2,052,816 of the fund balance.

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

State of Washington 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 the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The state of Washington funds OPEB obligations at a state-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB Statement No. 45, does not exist at department levels, and as a result, the Actuarial Accrued Liability (AAL) is not available for the College. The state of Washington's Comprehensive Annual Financial Report (CAFR) includes the state's measurement and recognition of OPEB expense/expenditures, liabilities, note disclosures, and required supplementary information specified by GASB Statement No. 45. The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

The College paid $5,059,446 for healthcare expenses in 2013, which included its pay-as-you-go portion of the OPEB liability.

15. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2013.

Expenses by Functional Classification		
Instruction	$	35,974,291
Academic Support Services		2,899,532
Student Services		4,931,929
Institutional Support		6,915,312
Operations and Maintenance of Plant		7,545,065
Scholarships and Other Student Financial Aid		13,226,894
Auxiliary enterprises		5,778,367
Depreciation		3,356,706
Total operating expenses	**$**	**80,628,096**

16. Commitments and Contingencies

There is a class action filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

The College also has an outstanding legal matter originally filed with a labor arbitrator and with the Public Employment Relations Commission (PERC). The arbitrator ruled in favor of the College. However, PERC ruled in favor of the complainant. The College appealed the ruling. At the end of fiscal year 2013, the College had notice of a pending claim of approximately $300,000. This figure included back pay for the impacted employees along with possible attorney's fees that may or may not be assessed. Additionally, the College is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statement.

The College has commitments of $3,508,634 for various capital improvement projects that include construction and replacement of an existing building.

17. Subsequent Events

The above referenced legal matter with PERC has been resolved effective June, 2014. The total cost to the College was $337,701.

In fall 2013, the College received notice of error in calculating the license costs associate with a Novell software product. To correct the error, the College paid Novell $290,850.