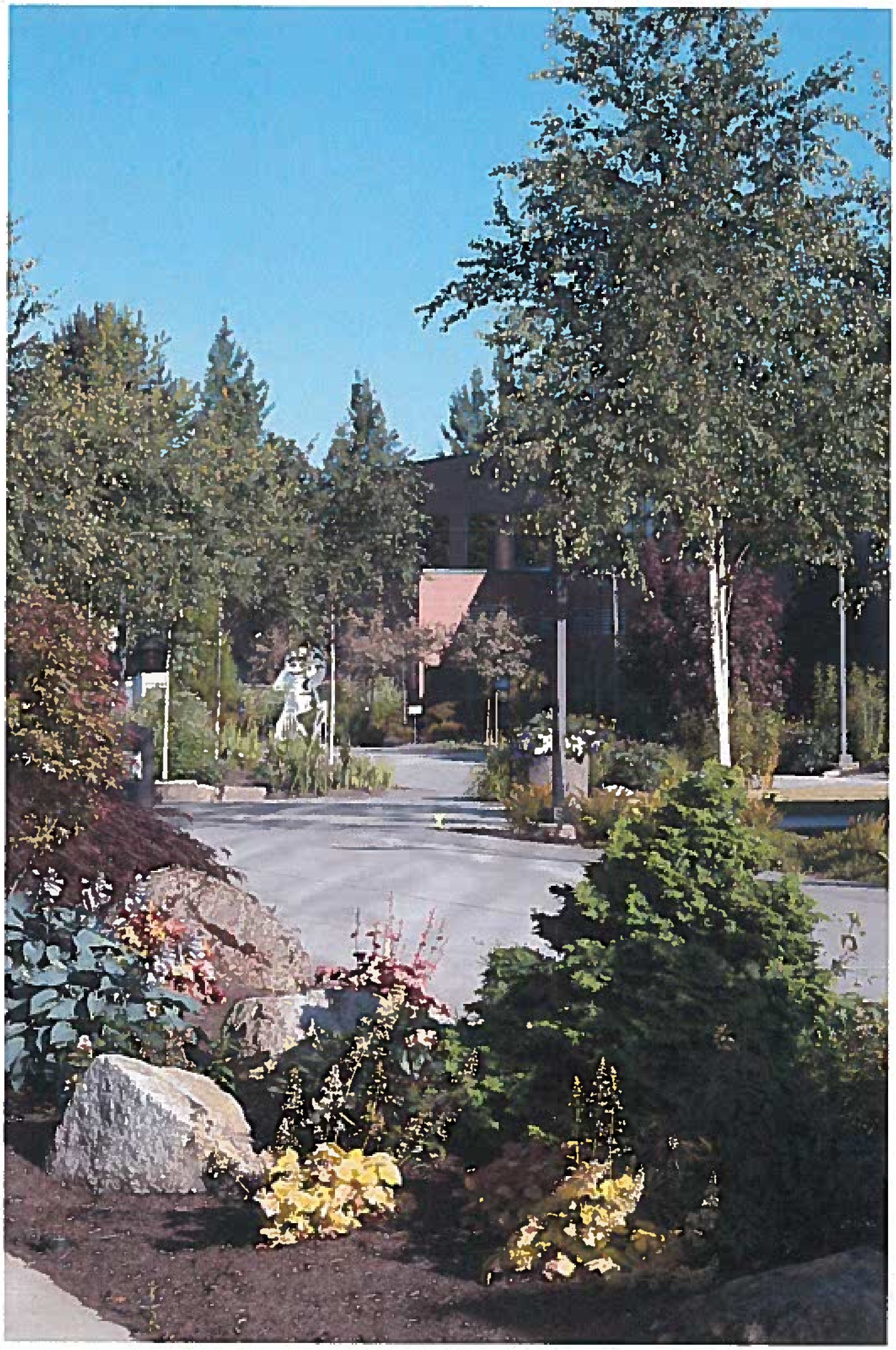

Everett Community College

2014 Financial Report
Fiscal Year Ended June 30, 2014

2014
Financial Report

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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, 2014
(financial statement date)

BOARD OF TRUSTEES

Gigi Burke, chairperson

Betty Cobbs

Janet Kusler

Bob Bolerjack

James Shipman

As of April 1, 2015
(audit date)

BOARD OF TRUSTEES

Gigi Burke, chairperson

Betty Cobbs

Bob Bolerjack

James Shipman

Mike Deller

EXECUTIVE OFFICERS

As of June 30, 2014
(financial statement date)

Dr. David N. Beyer, President

Jeanne Leader, Interim 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 April 1, 2015
(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, 2014 (FY 2014) with comparative 2013 (FY 2013) financial information.
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.

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[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 comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	**FY 2014**		**FY 2013**	
Assets				
Current Assets	$	24,626,719	$	20,616,585
Capital Assets, net		151,894,650		153,046,172
Long-term investments		12,021,443		10,038,420
Total Assets	$	188,542,812	$	183,701,177
Liabilities				
Current Liabilities	$	8,720,198	$	8,187,108
Other Liabilities, non-current		22,309,186		23,301,213
Total Liabilities	$	31,029,384	$	31,488,321
Net Position	$	157,513,428	$	152,212,856 *

*Net Position as previously reported was restated for net amounts receivable from the State Treasurer that were previously not reported. See Note 18 in accompanying financial statements for more information.

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The significant increase of current assets in FY 2014 is partially attributed to a $2.2 million dollar receivable from the state treasurer. This receivable is due to appropriations related to FY 2014 that were not received until after the end of FY 2014.

Net capital assets decreased by $1.15 million from FY 2013 to FY 2014. Everett Community College had $4.5 million in current depreciation expense, combined with disposal of certain assets. This decrease was offset in part by ongoing acquisitions of capitalizable equipment.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

Long term investments include the college's investments in bonds. The EvCC board of Trustees voted to increase the amount of funds designated for investment purposes because of its positive investment return in this area. The investments are held by US Bank Safekeeping, part of the US Bank Corporation.

Current liabilities increased at the end of the year because of EvCC's investment in the Applied Machining and Technology Center. The increase in accounts payable began in May 2014 related to the construction remodel of an existing college facility located on north Broadway. This facility became AMTEC, which opened in fall 2014.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt. The COP debt did not change significantly in FY 2014. However, the leave liability increased as the number of employees increased.

Net position represents the value of the College's assets after liabilities are deducted. 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. Changes in these balances are discussed above.

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.

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 asset. The primary expendable funds for the College are 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.

Condensed Net Position As of June 30th	FY 2014		FY 2013	
Invested in Capital Assets, net of related debt	$	131,383,126	$	131,139,514
Restricted				
Expendable		9,467		9,467
Nonexpendable		78,557		78,488
Unrestricted		26,042,278		20,985,387
Total Net Position	$	157,513,428	$	152,212,856 *

*Net Position as previously reported was restated for net amounts receivable from the State Treasurer that were previously not reported. See Note 18 in accompanying financial statements for more information.

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 2014. 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.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th	FY 2014		FY 2013	
Operating Revenues	$	45,897,347	$	54,336,603
Operating Expenses		72,654,732		80,628,096
Net Operating Loss		(26,757,385)		(26,291,493)
Non-Operating Revenues		31,649,032		29,610,227
Non-Operating Expenses		3,539,104		946,751
Gain (Loss) Before Other		1,352,543		2,371,983
Capital Appropriations		1,705,626		22,815,225
Increase (Decrease) in Net Position		3,058,169		25,187,208
Net Position, Beginning of the Year, as restated		154,455,259		127,025,648
Net Position, End of the Year	$	157,513,428	$	152,212,856 *

*Net Position as previously reported was restated for net amounts receivable from the State Treasurer that were previously not reported. See Note 18 in accompanying financial statements for more information.

Revenues

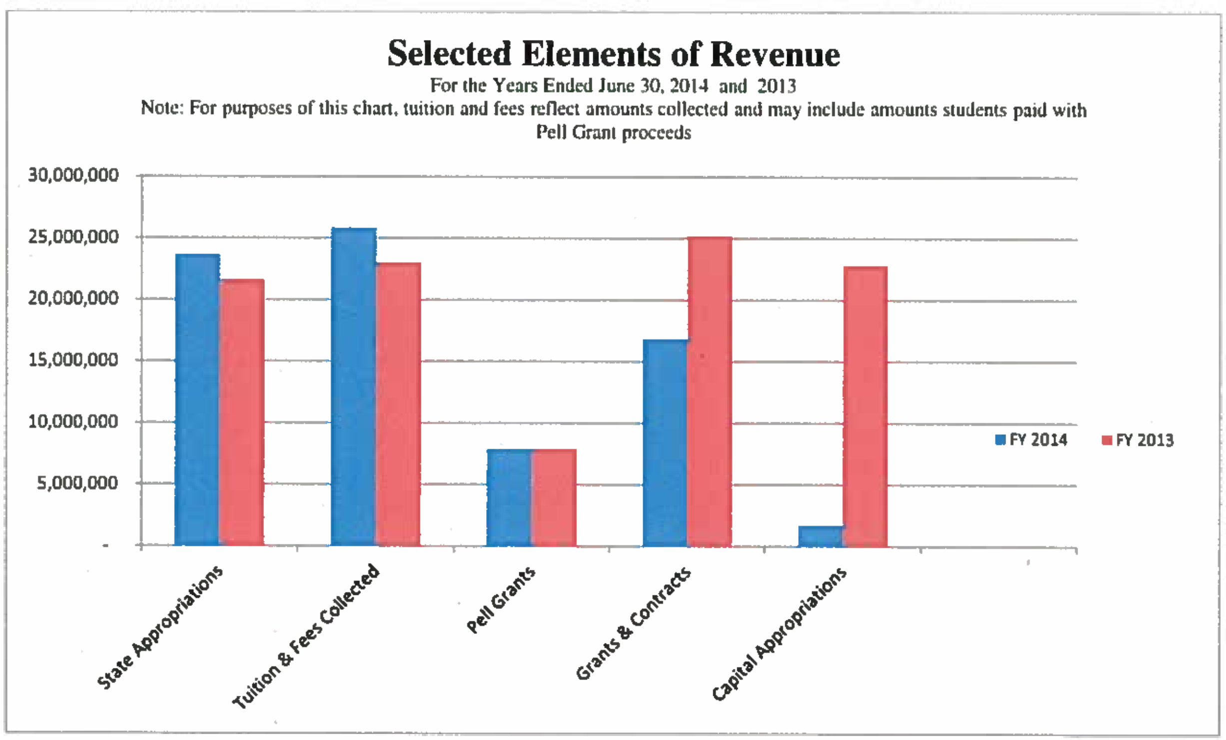
The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their highest level at the beginning of FY 2009 and at the close of FY 2013 were reduced by almost 24%. In FY 2014, the Legislature reinstated a small portion of the previous cuts.

In both FY 2013 and FY 2014, tuition rates remained unchanged. However, the revenue from tuition increased by $2.8 million in FY 2014. This is generally due to a change in revenues from international students. Effective FY 2014, international student tuition that was previously counted as contract revenue is now counted as part of tuition and fees per a rules clarification by the State Board of Community and Technical Colleges. Additionally, successful recruiting efforts led to greater than anticipated international student enrollments.

Student fees were not increased at the College for FY 2014. In addition, the College continues to serve some students and offers some programs on a fee-only basis, as allowed by law. Changes in enrollment patterns have caused the college to move away from self-support and offer most classes as state support. Remaining self-support programs include Fire Science; Medical Coding/Transcription; and Corporate and Continuing Education programs.

In FY 2014, grant and contract revenues had a net decrease of $8.4 million The Office of Financial Management's (OFM) guided change to not recognize revenue or expense for federal direct loans reduced federal grant revenue and expense by $5.7 million. In addition, the HECO grant was in its final extension year, and this reduced revenue by $1.5 million over FY 2013. A third decrease in contract revenue came as a result of the change in international student revenue described above.

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 reductions in allocation over the past five years, the College has continuously sought opportunities to identify savings and efficiencies.

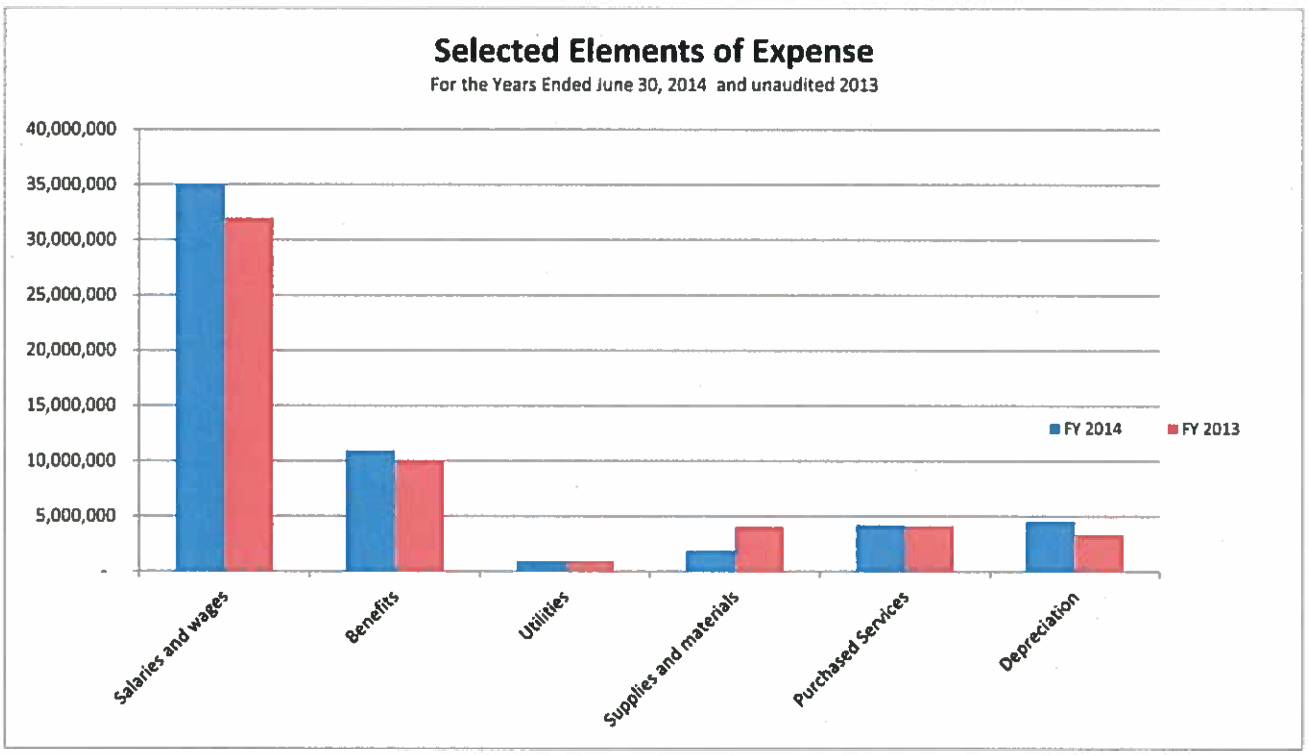
Employee costs (salary/wages and benefits) make up the majority of the college's expenses. In FY 2014, salary and benefit costs increased as a result of adding positions and negotiated increases for faculty. As positions were vacated and new positions were created, the costs associated with those positions continue to increase 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.

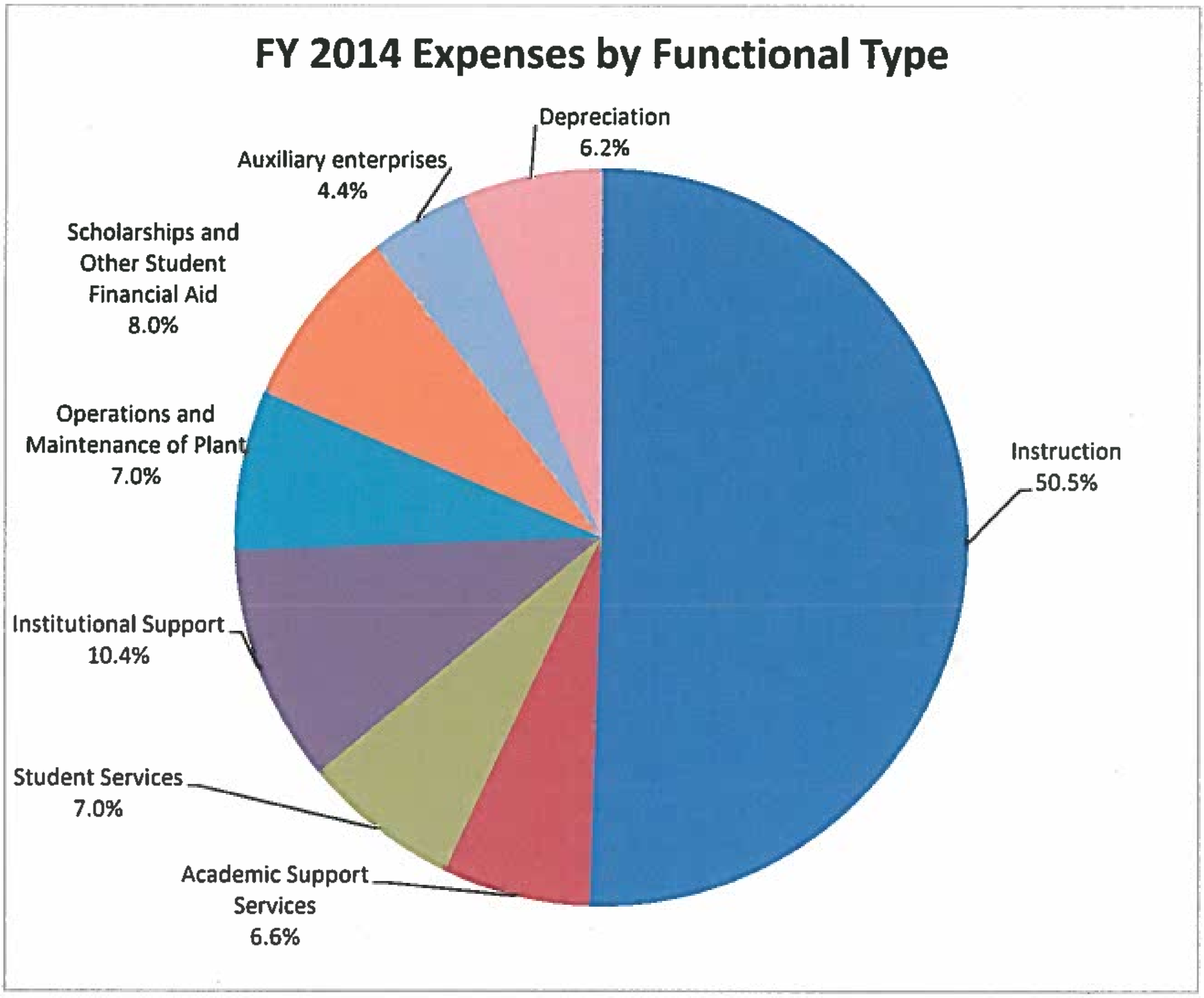
Purchased services include expenses paid to university partners as a pass through from University Center. Additional expenses are paid to other entities for costs associated with the Youth Re-Engagement program.

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



Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2014 and FY 2013. This illustrates the College's commitment to instruction and the support of student success over and above the administrative functions of the College.



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. For FY 2014, the cash provided from tuition/fees and grants/contracts was down by $5.5 million. Cash used was down by $15.3 million generally due to fewer payments to vendors (fewer capital projects) and payments for scholarships (changes described earlier to direct loan processes and HECO.)

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. State appropriations increased by $1.7 million. In FY 2013, the College did not report the portion of tuition that is directed to the SBCTC for SBCTC capital and other projects. For FY 2014, $2.4 million is reported as a new 'use' and is a variance from the previous statement.

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 cash used by capital activities increased by $4 million in FY 2014, primarily due to the change in proceeds from financing related to the Corporate and Continuing Education building remodel.

The fourth section shows cash received and spent on investing activities, including the purchase and sale of investment instruments and interest earnings. In FY 2014, the increase of approximately $1.9 million is primarily due to the increased investment in bonds as approved the by Board of Trustees.

Following these four sections, the statement provides the total increase in cash from beginning of the year to the end of the year. The College's cash and cash equivalents at June 30th increased in FY 2014 by $3.2 million.

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.

Condensed Statement of Cash Flows As of June 30th		FY 2014		FY 2013
Operating Activities	$	(20,244,092)	$	(24,678,341)
Non-Capital Financing Activities		28,880,708		29,524,045
Capital Financing Activities		(3,527,120)		541,496
Investing Activities		(1,898,164)		75,808
Net Change in Cash	$	3,211,334	$	5,463,008
Cash, Beginning of Year		14,625,054		9,162,046
Cash, End of Year	$	17,836,388	$	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, 2014, the College had invested $ 151,894,650 in capital assets, net of accumulated depreciation. This represents an decrease of $1.1 million from last year, as shown in the table below.

Asset Type		June 30, 2014		June 30, 2013		Change
Land	$	8,558,859	$	8,558,859	$	-
Construction in Progress		1,906,469		30,598,654		(28,692,185)
Buildings, net		138,024,139		110,920,576		27,103,563
Other Improvements and Infrastructure, net		211,099		316,267		(105,168)
Equipment, net		2,969,637		2,565,795		403,842
Library Resources, net		224,447		86,021		138,426
Total Capital Assets, Net	$	151,894,650	$	153,046,172	$	(1,151,522)

In FY 2013, the college began construction on the "Index replacement" project, Liberty Hall, which was completed in FY 2014. Also in FY 2013, the College began a remodel of the Corporate and Continuing Education Center (CCEC) facility on Seaway Boulevard in south Everett, which was completed in FY 2014. Completion of these projects resulted in a decrease to 'construction in progress' and an increase in 'buildings'.

For FY 2014, the College had just over $20 million in outstanding debt related to capital assets. A significant portion of this debt is related to the Student Fitness Center. The Fitness Center was financed with a 20 year Certificate of

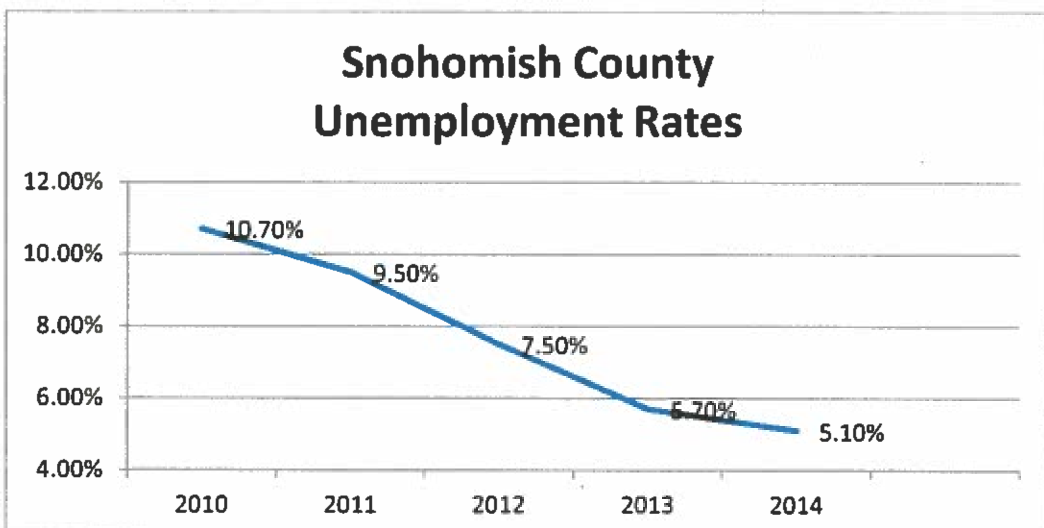
Participation (COP). In 2007, the student body approved a dedicated student fee as their contribution to payment of the Fitness Center COP. Additional debt includes the remodel of CCEC, on-going capital leases for equipment in Whitehorse Hall along with a fiber optic infrastructure project.

	June 30, 2014
Certificates of Participation	$ 20,515,000
Capital Leases	243,521
Total	**$ 20,758,521**

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. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2014 tuition flat for resident, non-resident and baccalaureate students. It is 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 prepares independent forecasts quarterly throughout the year[3]. In its most recent forecast (February 2015), the council reports that Washington employment is expected to grow 2.9% in 2015 compared to the 2.3% that was forecasted in their November 2014 forecast. The upward revision to growth in 2015 is mostly due to higher employment data through January. The February forecast for average annual employment growth from 2016 through 2019 is now 1.6% per year, up slightly from the 1.4% growth rate forecasted in November.



Local economic factors impact the College's enrollments, which impact revenue. Traditionally, the College has high enrollment during economic downturns, punctuated by lower enrollment when the job market rebounds. The job market in Washington has shown significant improvement in the last five years as reflected in the unemployment rate.

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

The College's enrollments continue to be strong and show some growth at about 3% each year. This is due to the College's strategy to diversify its sources of enrollment to expand course offerings in East County / Monroe. Additionally, the College has invested to expand international student recruiting efforts which will help to offset fluctuations in enrollment due to the local economy. Locally, the college engages local high school students in many ways, including the annual Students of Color Career Conference, attended by 2,500 students in 2015. Additionally, the College expanded its Ocean Research College Academy, a program that provides integrated study in marine science, resulting in dual high school and college credit. Other dual credit options including Running Start and College in the High school continue to grow, providing great educational opportunity to students and additional enrollments to the College.

Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

Everett Community College

For the period July 1, 2013 through June 30, 2014

Published September 14, 2015

Report No. 1014847

Washington State Auditor's Office

September 14, 2015

Board of Trustees
Everett Community College
Everett, Washington

Report on Financial Statements

Please find attached our report on the Everett Community College's financial statements.

We are issuing this report in order to provide information on the College's financial condition.

Sincerely,

Jan M Jutte

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

Insurance Building, P O Box 40021 ☐Olympia, Washington 98504-0021 ☐(360) 902-0370 ☐TDD Relay (800) 833-6388

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Everett Community College
July 1, 2013 through June 30, 2014

Board of Trustees
Everett Community College
Everett, Washington

We have audited, 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, the financial statements of the business-type activities and the aggregate discretely presented component units of the Everett Community College, Snohomish County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated August 11, 2015. Our report includes a reference to other auditors who audited the financial statements of the Everett Community College Foundation as described in our report on the College's financial statements. This report does not include the results of the other auditor's testing of internal controls over financial reporting or compliance and other matters that are reported separately by those other auditors. The financial statements of the Everett Community College Foundation were not audited in accordance with *Governmental Auditing Standards*.

The financial statements of the Everett Community 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, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we have reported to the management of the College in a separate letter dated September 10, 2015.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 11, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Everett Community College
July 1, 2013 through June 30, 2014

Board of Trustees
Everett Community College
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Everett Community College, Snohomish County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Everett Community College Foundation, which represents 100 percent of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Everett Community 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 Everett

Community College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Everett Community College, as of June 30, 2014, 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 Everett Community 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, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 11, 2015

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

Everett Community College
Statement of Net Position
June 30, 2014

Assets		
Current assets		
Cash and cash equivalents		16,719,201
Restricted cash		1,117,187
Short-term investments		-
Accounts Receivable		6,674,913
Student Loans Receivable		-
Interest Receivable		20,266
Inventories		95,152
Prepaid Expenses		-
	Total current assets	**24,626,719**
Non-Current Assets		
Long-term investments		12,021,443
Student Loans Receivable		-
Capital assets, net of depreciation		151,894,650
	Total non-current assets	**163,916,093**
	Total assets	**188,542,812**
Deferred Outflows of Resources		-
Total Deferred Outflows of Resources		-
Liabilities		
Current Liabilities		
Accounts Payable		1,455,418
Accrued Liabilities		2,658,442
Compensated absences		-
Deposits Payable		21,388
Unearned Revenue		3,523,699
Leases and Certificates of Participation Payable		1,061,251
	Total current liabilities	**8,720,198**
Noncurrent Liabilities		
Compensated Absences		2,611,916
Long-term liabilities		19,697,270
	Total non-current liabilities	**22,309,186**
	Total liabilities	**31,029,384**
Deferred Inflows of Resources		
Total Deferred Inflows of Resources		
Net Position		
Net Investment in Capital Assets		131,383,126
Restricted for:		
Nonexpendable		78,557
Expendable		1,126,654
Student Loans		-
Unrestricted		24,925,091
Total Net Position		**157,513,428**
Total Liabilities and Net Position		**188,542,812**

(See accompanying note to the financial statements)

Everett Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Operating Revenues	
Student tuition and fees, net	25,842,330
Auxiliary enterprise sales	1,664,385
State and local grants and contracts	13,342,176
Federal grants and contracts	3,459,863
Other operating revenues	1,588,593
Total operating revenue	45,897,347
Operating Expenses	
Operating Expenses	7,415,534
Salaries and wages	34,912,196
Benefits	10,937,424
Scholarships and fellowships	7,798,539
Supplies and materials	1,882,201
Depreciation	4,555,700
Purchased services	4,227,184
Utilities	925,954
Total operating expenses	72,654,732
Operating income (loss)	(26,757,385)
Non-Operating Revenues	
State appropriations	23,678,189
Federal Pell grant revenue	7,885,985
Investment income, gains and losses	84,858
Net non-operating revenues	**31,649,032**
Non-Operating Expenses	
Building fee and Innovation fee	2,355,559
Loss on disposal of fixed assets	246,997
Interest on indebtedness	936,548
Net non-operating expenses	**3,539,104**
Income or (loss) before other revenues, expenses, gains, or losses	1,352,543
Capital Revenues	
Capital appropriations	1,705,626
Increase (Decrease) in net position	3,058,169
Net Position	
Net position, beginning of year, as restated	154,455,259
Net position, end of year	157,513,428

See accompanying notes to financial statements

Everett Community College
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flow from operating activities	
Student tuition and fees	25,866,100
Grants and contracts	16,803,171
Payments to vendors	(3,873,713)
Payments for utilities	(782,486)
Payments to employees	(34,486,010)
Payments for benefits	(10,818,608)
Auxiliary enterprise sales	2,163,825
Payments for scholarships and fellowships	(7,798,539)
Other receipts (payments)	(7,317,832)
Net cash used by operating activities	(20,244,092)
Cash flow from noncapital financing activities	
State appropriations	23,350,282
Pell grants	7,885,985
Building and Innovation Fee	(2,355,559)
Net cash provided by noncapital financing a	28,880,708
Cash flow from capital and related financing activities	
Capital appropriations	2,517,255
Purchases of capital assets	(3,945,759)
Principal paid on capital debt	(1,162,068)
Interest paid	(936,548)
Net cash used by capital and related financi	(3,527,120)
Cash flow from investing activities	
Purchase of investments	(4,983,022)
Proceeds from sales and maturities of investments	3,000,000
Income of investments	84,858
Net used by investing activities	(1,898,164)
Increase in cash and cash equivalents	3,211,334
Cash and cash equivalents at the beginning of the year	14,625,054
Cash and cash equivalents at the end of the year	17,836,388

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(26,757,385)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	4,555,700
Changes in assets and liabilities	
Receivables , net	1,224,859
Inventories	30,234
Accounts payable	649,501
Accrued liabilities	(80,322)
Unearned revenue	49,990
Compensated absences	69,224
Deposits payable	14,107
Net cash used by operating activities	(20,244,092)

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 (Audited) and 2013 (Reviewed)

ASSETS

	2014	2013 (As Restated)
CURRENT ASSETS:		
Cash and cash equivalents	$ 748,273	$ 659,178
Short-term investments	370,423	447,426
Current portion of pledges receivable, net	76,207	28,382
TOTAL CURRENT ASSETS	1,194,903	1,134,986
OTHER ASSETS:		
Pledges receivable, net of current portion	59,144	122,156
Equipment, net	42,831	45,278
Long-term investments	2,523,498	2,213,600
Cash restricted for endowment	365,298	471,514
Assets held in charitable trust	0	55,766
Collection items	176,601	176,601
TOTAL OTHER ASSETS	3,167,372	3,084,915
	$ 4,362,275	$ 4,219,901

LIABILITIES AND NET ASSETS

	2014	2013 (As Restated)
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 20,000	$ 81,951
LIABILITY UNDER CHARITABLE TRUST	0	6,649
NET ASSETS:		
Unrestricted	930,551	897,830
Temporarily restricted	1,348,674	1,226,203
Permanently restricted	2,063,050	2,007,268
TOTAL NET ASSETS	4,342,275	4,131,301
	$ 4,362,275	$ 4,219,901

See accompanying notes to the financial statements.

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014 (Audited)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Contributions	$ 61,179	$ 375,602	$ 48,400	$ 485,181
In-kind contributions	171,181	36,433	0	207,614
Special events revenue	71,866	0	0	71,866
Contract revenue	50,160	0	0	50,160
Investment income	9,384	52,210	0	61,594
Net realized and unrealized gain on investments	29,385	206,861	0	236,246
Change in value of split-interest agreement	0	0	7,382	7,382
Net assets released from restrictions	548,635	(548,635)	0	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	941,790	122,471	55,782	1,120,043
EXPENSES:				
College program support	284,885	0	0	284,885
Scholarships	277,238	0	0	277,238
Total program support	562,123	0	0	562,123
Administration	194,421	0	0	194,421
Fundraising	152,525	0	0	152,525
Total support services	346,946	0	0	346,946
TOTAL EXPENSES	909,069	0	0	909,069
CHANGE IN NET ASSETS	32,721	122,471	55,782	210,974
NET ASSETS AT BEGINNING OF YEAR	897,830	1,226,203	2,007,268	4,131,301
NET ASSETS AT END OF YEAR	$ 930,551	$ 1,348,674	$ 2,063,050	$ 4,342,275

See accompanying notes to the financial statements.

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013 (Reviewed), As Restated

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Contributions	$ 60,349	$ 371,165	$ 211,000	$ 642,514
In-kind contributions	83,301	81,248	0	164,549
Special events revenue	68,058	0	0	68,058
Contract revenue	46,996	0	0	46,996
Investment income	8,944	51,072	0	60,016
Net realized and unrealized gain on investments	18,777	132,517	0	151,294
Change in value of split-interest agreement	0	0	1,747	1,747
Net assets released from restrictions	899,745	(899,745)	0	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,186,170	(263,743)	212,747	1,135,174
EXPENSES:				
College program support	753,922	0	0	753,922
Scholarships	227,576	0	0	227,576
Total program support	981,498	0	0	981,498
Administration	187,271	0	0	187,271
Fundraising	69,865	0	0	69,865
Total support services	257,136	0	0	257,136
TOTAL EXPENSES	1,238,634	0	0	1,238,634
CHANGE IN NET ASSETS	(52,464)	(263,743)	212,747	(103,460)
NET ASSETS AT BEGINNING OF YEAR, as previously reported	1,050,294	1,489,946	1,794,521	4,334,761
PRIOR PERIOD ADJUSTMENT - see Note 16	(100,000)	0	0	(100,000)
NET ASSETS AT BEGINNING OF YEAR, as restated	950,294	1,489,946	1,794,521	4,234,761
NET ASSETS AT END OF YEAR	$ 897,830	$ 1,226,203	$ 2,007,268	$4,131,301

See accompanying notes to the financial statements.

Notes to the Financial Statements

June 30, 2014

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, 2014, the Foundation distributed approximately $562,123 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

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 college did not make any change as a result of this pronouncement.

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 June 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 nonexchange transactions. GASB 70 is effective for fiscal years beginning after June 15, 2013. The colleges did not make any changes as a result of this pronouncement.

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. Where applicable, accounts receivable includes proceeds from Certificates of Participation that have not yet been received from the State Treasurer. 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. 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, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized.

Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources and 2 to 10 years for most equipment and 11 to 40 years for heavy duty equipment, aircraft, locomotives 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, 2014, 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 Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *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, 2014 are $7,176,527.

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 Expenses
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, 2014, the carrying amount of the College's cash and equivalents was $17,836,388 as represented in the table below.

Table 1: Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	$7,845
Bank Demand and Time Deposits	$17,760,217
Local Government Investment Pool	$68,326
Total Cash and Cash Equivalents	**$17,836,388**

Investments consist of U.S. Agency bonds. All bonds held by the College are obligations of the United States or its agencies. As of June 30, 2014, the fair value of investments was $12,021,443 with maturities ranging from 1 -5 years.

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, 2014, 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, 2014, accounts receivable were as follows:

Table 2: Accounts Receivable		Amount
Student Tuition and Fees	$	2,268,308
Due from the Federal Government	$	119,000
Due from Other State Agencies	$	4,531,181
Auxiliary Enterprises	$	201,846
Subtotal	$	7,120,335
Less Allowance for Uncollectible Accounts	$	(445,422)
Accounts Receivable, net	**$**	**6,674,913**

4. Inventories

Inventories, stated at cost using first in, first out method, consisted of consumable inventories in the amount of $95,152 of June 30, 2014.

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $4,555,700.

Table 3: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 8,558,859	$ -	$ -	$ 8,558,859
Construction in progress	30,598,654	215,063	28,907,248	1,906,469
Total nondepreciable capital assets	39,157,513	215,063	28,907,248	10,465,328
Depreciable capital assets				
Buildings	142,434,361	30,036,885	234,980	172,236,266
Other improvements and infrastruc	813,213	0	345,572	467,641
Equipment	7,046,015	1,251,161	16,372	8,280,804
Library resources	1,924,713	0	1,425,057	499,656
Subtotal depreciable capital assets	152,218,302	31,288,046	2,021,981	181,484,367
Less accumulated depreciation				
Buildings	31,513,785	3,694,110	995,768	34,212,127
Other improvements and infrastruc	496,946	15,588	255,992	256,542
Equipment	4,480,220	846,002	15,055	5,311,167
Library resources	1,838,692	0	1,563,483	275,209
Total accumulated depreciation	38,329,643	4,555,700	2,830,298	40,055,045
Total depreciable capital assets	113,888,659	26,732,346	(808,317)	141,429,322
Capital assets, net of accumulated depreciation	**$ 153,046,172**	**$ 26,947,409**	**$ 28,098,931**	**$ 151,894,650**

6. Accounts Payable and Accrued Liabilities

At June 30, 2014, accrued liabilities are the following.

Table 4: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,570,107
Accrued Liabilities	$ 1,014,022
Accounts Payable	$ 1,455,418
Amounts Held for Others and Retainage	$ 95,701
Total	**$ 4,135,248**

7. Unearned Revenue

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

Table 5: Unearned Revenue	Amount	
Summer Quarter Tuition & Fees	$	3,422,979
Housing and Other Deposits		100,720
Total Unearned Revenue	$	3,523,699

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, 2013 through June 30, 2014, were $102,316.

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 $1,345,863 and accrued sick leave totaled $1,266,053 at June 30, 2014.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

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, 2014, the minimum lease payments under capital leases and operating leases consist of the following.

Table 6: Leases Payable Fiscal year	Capital Leases	Operating Leases
2015	86,155	489,870
2016	89,455	493,295
2017	87,155	410,632
2018	0	174,827
2019	0	57,147
2020-2024	0	168,056
2025-2029	0	168,056
2030-2034	0	168,056
2035-2039	0	168,056
2040 -2044	0	92,431
Total minimum lease payments	262,765	2,390,426
Less Amount representing interest	19,243	
Net present value	**$ 243,522**	**$ 2,390,426**

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 listed below.

12. Annual Debt Service Requirements

Future debt service requirements at June 30, 2014 are as follows:

Annual Debt Service Requirements

Fiscal year	Certificates of Participation Principal	Interest	Total	Capital Leases Principal	Interest	Total
2015	$ 985,000	$ 890,263	$ 1,875,263	$ 76,251	$ 9,904	$ 86,155
2016	1,015,000	859,513	1,874,513	82,943	6,512	89,455
2017	1,050,000	826,033	1,876,033	84,327	2,828	87,155
2018	1,090,000	783,383	1,873,383			
2019	1,140,000	739,108	1,879,108			-
2020-2024	6,445,000	2,937,694	9,382,694			-
2025-2029	8,040,000	1,348,610	9,388,610			-
2030-2034	750,000	60,800	810,800			-
2035-2039	-	-	-			-
2040 -2044	-	-	-			-
Total	**20,515,000**	**8,445,404**	**28,960,404**	**243,521**	**19,244**	**262,765**

13. Schedule of Long Term Debt

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificates of Participation	$ 21,470,000	$ -	$ 955,000	$ 20,515,000	$ 985,000
Capital leases	450,589	0	207,068	243,521	76,251
Compensated Absences	2,542,692	1,225,499	1,156,275	2,611,916	0
Total	**$ 24,463,281**	**$ 1,225,499**	**$ 2,318,343**	**$ 23,370,437**	**$ 1,061,251**

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 FY2013-14, the payroll for the College's employees was $10,461,542 for PERS, $365,469 for TRS, and $20,000,958 for SBRP. Total covered payroll was $30,827,969.

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 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, 2014, 2013, and 2012 are as follows:

Contribution Rates at June 30						
	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.08%	6.00%	7.21%	6.00%	9.21%
Plan 2	4.64%	7.08%	4.64%	7.21%	4.92%	9.21%
Plan 3	5 - 15%	7.08%	5 - 15%	7.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	10.39%
Plan 2	0.00%	0.00%	0.00%	0.00%	4.96%	10.39%
Plan 3	5-15%	8.04%	5-15%	8.05%	5-15%	10.39%

Required Contributions						
	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 14,652	$ 17,555	$ 11,323	$ 13,606	$ 11,732	$ 18,003
Plan 2	$ 341,974	$ 530,973	$ 357,658	$ 555,760	$ 413,465	$ 773,899
Plan 3	$ 73,922	$ 83,999	$ 88,725	$ 101,607	$ 117,836	$ 167,846
TRS						
Plan 1	$ 11,813	$ 15,513	$ 11,909	$ 15,975	$ 12,177	$ 20,644
Plan 2	$ 3,311	$ 5,723	$ 3,475	$ 5,964	$ 626	$ 1,074
Plan 3	$ -	$ -	$ 3,895	$ 4,620	$ 9,694	$ 15,116

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.

Contributions. 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, 2014 were each $1,755,270.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $8,280.54. 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 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $99,894.26. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 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 actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $13,997,121 with an annual required contribution (ARC) of $1,367,526. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $257,305. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $1,110,221. This amount is not included in the College's financial statements.

The College paid $5,220,390 for healthcare expenses in 2014, 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, 2014.

Expenses by Functional Classification		
Instruction	$	36,665,786
Academic Support Services		4,770,350
Student Services		5,070,101
Institutional Support		7,572,593
Operations and Maintenance of Plant		5,087,333
Scholarships and Other Student Financial Aid		5,792,043
Auxiliary enterprises		3,189,657
Depreciation		4,506,869
Total operating expenses	**$**	**72,654,732**

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 *(Moore vs. HCA)*. 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.

In fall 2013, the college received notice of error in calculating the license costs associated with a Novell software product. To correct the error, the college paid Novell $290,849.

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 $2,504,432 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

17. Subsequent Events

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 2014, the college had notice of claim of $337,701.20. This figure included back pay for the impacted employees, return of unemployment compensation overpayment, and attorney's fees.

18. Net Position Restatement

As of July 1, 2013, net position as previously reported was restated as follows:

Table 7: Net Position Restatement	Amount
July 1, 2013 Net position as previously reported	$152,212,856
Appropriations receivable from State Treasurer	2,610,290
Less Building fee and innovation fee payable to State Treasurer and other misc. payables	367,887
July 1, 2013 Net position as restated	**$154,455,259**