Edmonds Community College

Gateway Hall, new entrance, December 2014

Annual Financial Report

July 1, 2013 - June 30, 2014

Edmonds Community College Financial Report for Fiscal Year 2013-2014

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Trustees and Administrative Officers

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Trustees
Edmonds Community College
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Edmonds 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 audit. We did not audit the financial statements of the Edmonds Community College Foundation, which represents 100 percent, of the assets, net position, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Edmonds 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 Edmonds 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 other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the Edmonds Community College, as of June 30, 2014, and the changes in financial position and 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 Edmonds 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 portion of 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, 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.

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 June 1, 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, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 1, 2015

Management's Discussion and Analysis

Edmonds Community College

The following discussion and analysis provides an overview of the financial position and activities of Edmonds Community College (the College) for the fiscal year ended June 30, 2014 (FY 2014). The 2014 report constitutes the college's inaugural audited financial statements. As a result, comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2013 (FY 2013), where available.

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

Edmonds 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 12,000 students per quarter. The College confers associates degrees, certificates and high school diplomas. The College was established in 1967 and its mission is to strengthen our diverse community by helping students access educational and career opportunities in a supportive environment that encourages success, innovation, service, and lifelong learning.

The College's main campus is located in Lynnwood, Washington, a community of about 35,836 residents. 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. In accordance with Washington State law governing technical colleges, the College's board includes one member from business and one member from labor. In addition, the college has a Governor-appointed student trustee who is prohibited from voting on personnel or collective bargaining matters. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, the Edmonds Community College Foundation. The College's financial statements include:

- The Statement of Net Position
- The Statement of Revenues, Expenses and Changes in Net Position
- 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 activities 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(unaudited)
Assets		
Current Assets	28,469,912.00	27,202,199
Capital Assets, net	97,654,828.00	99,037,957
Other Assets, non-current	9,603,872.00	7,657,672
Total Assets	**135,728,612.00**	**133,897,828**
Liabilities		
Current Liabilities	9,082,128.00	9,400,204
Other Liabilities, non-current	15,088,704.00	16,001,981
Total Liabilities	**24,170,832.00**	**25,402,185**
Deferred Inflows/Outflows	-	-
Net Position	**111,557,780**	**108,495,643**

Current assets consist primarily of cash, investments and various accounts receivables. The primary increase of current assets in FY 2014 can be attributed to an increase of short-term investments of $1,316,522.

Net capital assets decreased by $1,383,129 from FY 2013 to FY 2014. The decrease is primarily the result of current depreciation expense of $4,099,119 combined with the removal of buildings and infrastructure net assets of $199,933, which no longer met the Office of Financial Management's (OFM) $100,000 minimum capitalization level. This decrease was offset in part by four construction-in-process projects totaling $2,301,493, the ongoing acquisitions of capital equipment and library assets of $513,540 and capitalized interest of $100,890. All equipment and library disposals were fully depreciated.

Non-current assets consist primarily of the long-term portion of investments and approximately $290,000 of deposits held in custody for others (capital retainage). The college increased its long-term investments by $1,950,424 in 13/14. This was mainly due to an increase of available cash.

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.

The decrease in current liabilities from FY 2013 to FY 2014 is mostly due to the maturity of the 20-year Title III, grant #2. The College's fiscal agent responsibilities for this grant ended in 13/14 at this maturity.

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 College's non-current liabilities continue to decrease as the College pays down the principal owed on Certificates of Participation for buildings, energy projects and equipment.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in three 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 -*** These restrictions on net position are imposed by either an external source or through enabling legislation. The two primary restricted expendable funds for the College are for student loans and the Institutional Financial Aid fund. All non-expendable restricted funds are directed to the Edmonds Community College's Foundation.
>
> ***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. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees. The College has a board approved $3.2M reserved for emergencies and other purposes, which is maintained in the Debt Service Reserve account. At June 30th the College also had $7,667,599 in uncommitted unrestricted funds held as working capital for several locally funded projects. They include $3.2M for Gateway Hall renovation, $3M for Snohomish Hall remodel, $1,069,105 for President's Cabinet approved projects identified by the College's Strategic Councils and the Operational Simple Plan, $190,000 for student achievement improvements and $100,000 for technology refresh.

Condensed Net Position, as of June 30th	FY 2014	FY 2013 (Unaudited)
Invested in Capital Assets, net of related debt	86,150,822.00	86,458,919
Restricted - Expendable	89,905.00	183,769
Non-Restricted	25,317,053.00	21,852,955
Total Net Position	**111,557,780.00**	**108,495,643**

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in 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 and grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from other government agencies without directly giving equal value to that government 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.

In addition to operating and non-operating revenues and expenses the College is reporting $99,043 in Special and Extraordinary Changes in Capital. This prior-period adjustment includes a decrease in the aforementioned changes needed to meet OFM's minimal capitalization level for $199,933 and previously unrecorded capitalized interest increase of $100,890.

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 & Changes in Net Position, as of June 30th	FY 2014
Operating Revenues	74,807,816.00
Operating Expenses	(104,758,105.00)
Net Operating Loss	**(29,950,289.00)**
Non-Operating Revenues	31,767,440.00
Non-Operating Expenses	(504,381.00)
Gain (Loss) Before Other	**1,312,770.00**
Special & Extraordinary Changes in Capital	(99,043.00)
Capital Appropriations	1,848,410.00
Increase (Decrease) in Net Position	**3,062,137.00**
Net Position, Beginning of Year	108,495,643.00
Net Position, End of Year	**111,557,780.00**

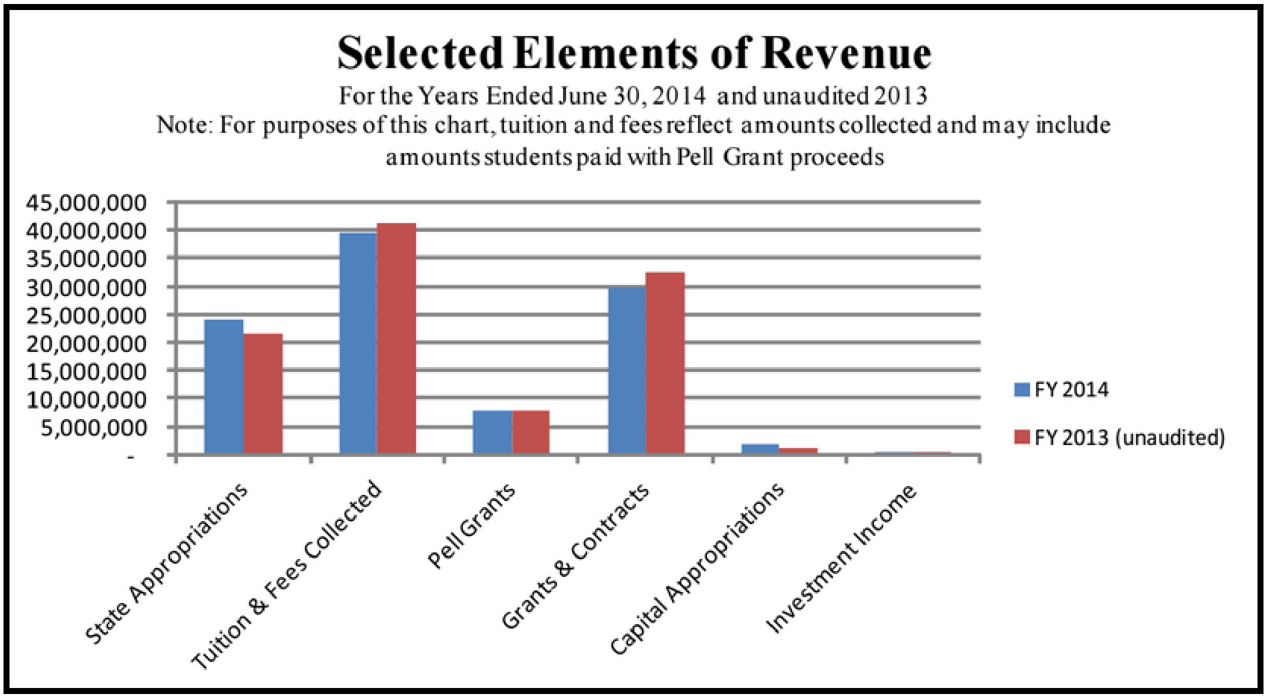
Revenues

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times up through 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 height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY 2014, the Legislature reinstated a small portion of the previous cuts.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Since enrollments decreased in FY 2014, the College's increase in tuition revenue is primarily attributable to the decreased in excess enrollment revenues (118 full-time equivalent students or FTE), since tuition rate increases were held at 0%. The College experienced a 9% FTE increase in their self-support International Program, but a decrease of contract FTE associated with the Washington State Training Center (WATR) as the economy improved and students went back to work. In 2014 the total number of FTEs decreased by 435. Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2014, so did the College's Pell Grant revenue. For FY 2014, the College attempted to keep hold other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College offers some programs on a fee-only basis, as allowed by law. Examples include Creative Retirement, and Intensive English Second Language.

In FY 2014, grant and contract revenues decreased by $2.5M when compared with FY 2013. This reflects a decrease overall in grant-funded programs and activities, and a $1M reduction in state-supported contracts. Although the revenues decreased in 2014, the College continues to manage more grants and contracts than any other single community college in the state. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars as mentioned 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 budget cuts over the past five years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased allocation forced reviews of spending and services and was subjected to various state spending freezes and employee salary reductions. To replace the loss of state dollars, the College pursued local funding resources to supplement its operating budget. With this approach the College was able to maintain a stable, but essentially non-growing budget over that five year period.

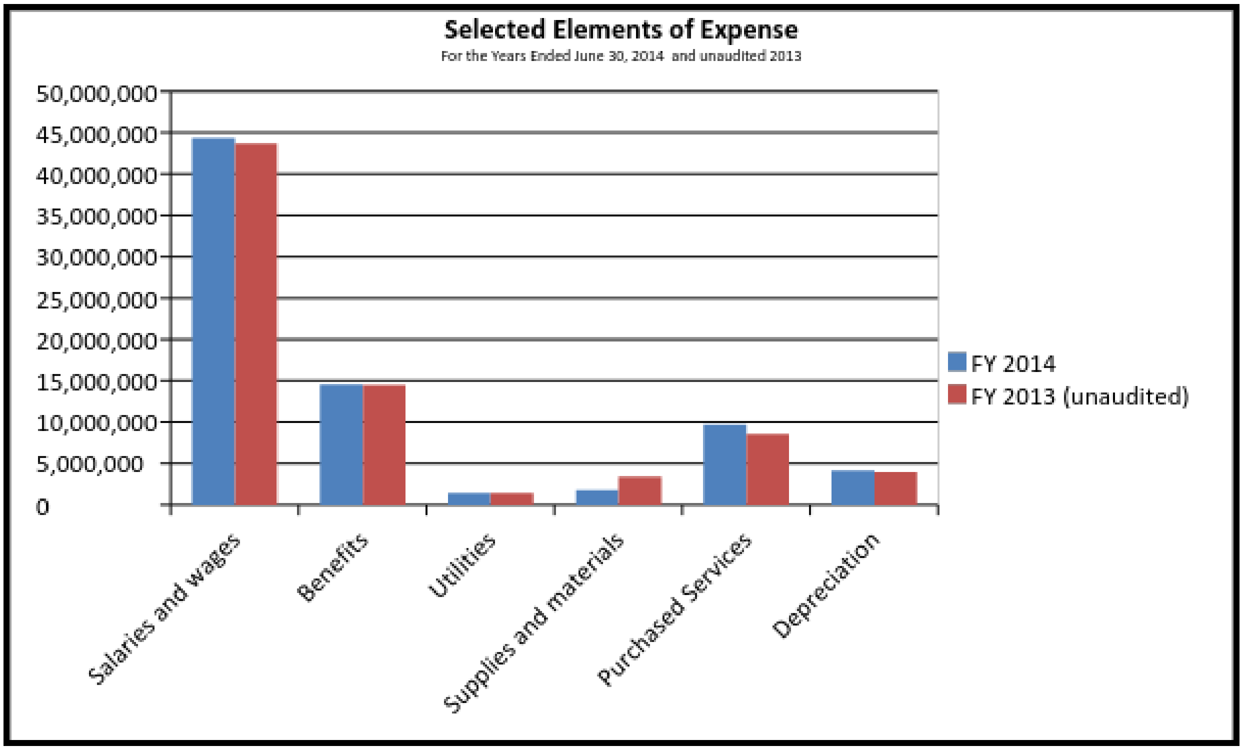
Fiscal Year	State Allocation	Tuition	Other Support	Total	All FTEs
FY 09/10	27,183,952	9,069,947	8,933,157	45,187,056	9,298
FY 10/11	25,920,612	10,215,740	9,628,336	45,764,688	9,720
FY 11/12	22,551,641	11,675,403	10,761,324	44,988,368	9,171
FY 12/13	21,565,383	12,954,549	10,153,858	44,673,790	8,997
FY 13/14	23,907,003	13,533,796	8,859,853	46,300,652	8,562

More recently, in FY 2014, salary and benefit costs increased as result of adding strategically identified positions, negotiated increases for full and part-time faculty, having to compete in the job market in order to replace retiring exempt employees and/or faculty and new grant or contract -funded positions.

Despite utility rate increases for electricity, heating fuel, container hauling and water/sewage, these costs have been offset by the Colleges efforts to manage utility usage with the help of several energy projects supported by grants, local funds and state capital allocation. Utility costs in 2014 were $145K less than what was expensed in 2013. Supplies and materials are significantly lower in FY 2014, primarily as a result of the College bookstore being contracted out to Barnes & Noble at mid-year. Purchased service costs increased in 2014, as a result of higher usage of personal service contracts, and by reclassifying international student’s pre-departure orientation expenses to purchased services. Certain capital project costs do not meet accounting criteria for capitalization, such as part of the cost of the building, repair or maintenance, and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service.

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.



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, cash related to federally-funded Pell grants and cash related to the Innovation and Building fees. This section would also include 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 would also include cash proceeds, loan origination costs, interest and principal payments related to Certificates of Participation (COP). In 2014, the College neither refinanced nor acquired any new COPs. Since colleges periodically use local funds to supplement COP financing activities, it is not unusual for this section to show more cash used than provided.

The fourth section shows cash received and spent on investing activities, including the purchase and sale of investment instruments, interest earnings and realized gains or losses from investments.

The statement goes on to detail the current year's change in cash combined with the prior year's cash balance results in the ending cash and cash equivalents balance shown on the College's Statement of Net Position. Finally, the statement includes a detailed reconciliation of operating activity only, between the operating loss shown as a subtotal on the Statement of Revenues, Expenses and Changes in Net Position and the net cash used by operating activities shown on the Cash Flow Statement.

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 2014
Operating Activities	(25,862,222.00)
Non-Capital Financing Activities	33,371,017.00
Capital Financing Activities	(4,315,066.00)
Investing Activities	(2,821,348.00)
Net Change in Cash	**372,381.00**
Cash & Cash Equivalents, Beginning of Year	22,371,352.00
Cash & Cash Equivalents, End of Year	**22,743,733.00**

The College's cash and cash equivalents at June 30th increased in 2014 by $372,381. Primary contributing factors include the increase of reserves for capital spending commitments and savings from the College's operating budget, which was mainly due to unfilled positions and a decline in part-time faculty costs. In FY 2014 only 94% of the operating budget was expended.

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 capital leases. The primary funding source for college capital projects are state general obligation bonds. In recent years the declining state revenues significantly reduced the state's debt capacity, which in turn negatively impacts the number of new projects that can be financed.

At June 30, 2014, the College had invested $97,654,828 in capital assets, net of accumulated depreciation. This represents an increase decrease of $1,484,019 from last year, as shown in the table below.

Asset Type	June 30, 2014	June 30, 2013 (unaudited)	Change
Land	5,844,267.00	5,844,267.00	0.00
Construction in Progress	2,581,014.00	279,521.00	2,301,493.00
Buildings, net	80,860,950.00	83,911,709.00	(3,050,759.00)
Other Improvements & Infrastructure, net	5,531,528.00	6,155,251.00	(623,723.00)
Equipment, net	2,692,025.00	2,787,347.00	(95,322.00)
Library Resources, net	145,043.00	160,752.00	(15,709.00)
Total Capital Assets, Net	**97,654,828.00**	**99,138,847.00**	**(1,484,019.00)**

The decrease in net capital assets can be attributed to the depreciation and decreases made in the College's Fixed Asset system (FAE) to reflect current OFM capitalization levels. The decrease for the capitalization level only affected buildings (net $41,062) and Other Improvements and Infrastructure (net $158,871). This decrease was offset by the four projects in construction, ongoing acquisition of equipment and library resources and the capitalization of interest from prior year COP projects. The four projects in construction include Gateway Hall at $1,654,500, the Science/Technology/Engineering (SET) building at $808,600, the Maltby building at $104,362 and Snohomish Hall at $13,552. Both the capitalization level decrease, net $199,933, and the increase from COP interest capitalization, net $100,890, are considered prior year adjustments and are reported on the Statement of Revenues, Expenses and Changes in Net Position as a Special and Extraordinary Changes in Capital.

At June 30, 2014, the College had $14,653,903. in outstanding debt. The College did not enter into any new Certificate of Participations (COP) for 2014. The College has no other capital leases at this time.

Debt	June 20, 2014
Certificates of Participation	14,653,903
Capital Leases	0
Total	**14,653,903**

See the Notes to the Financial Statements for additional information concerning capital assets and long-term debt.

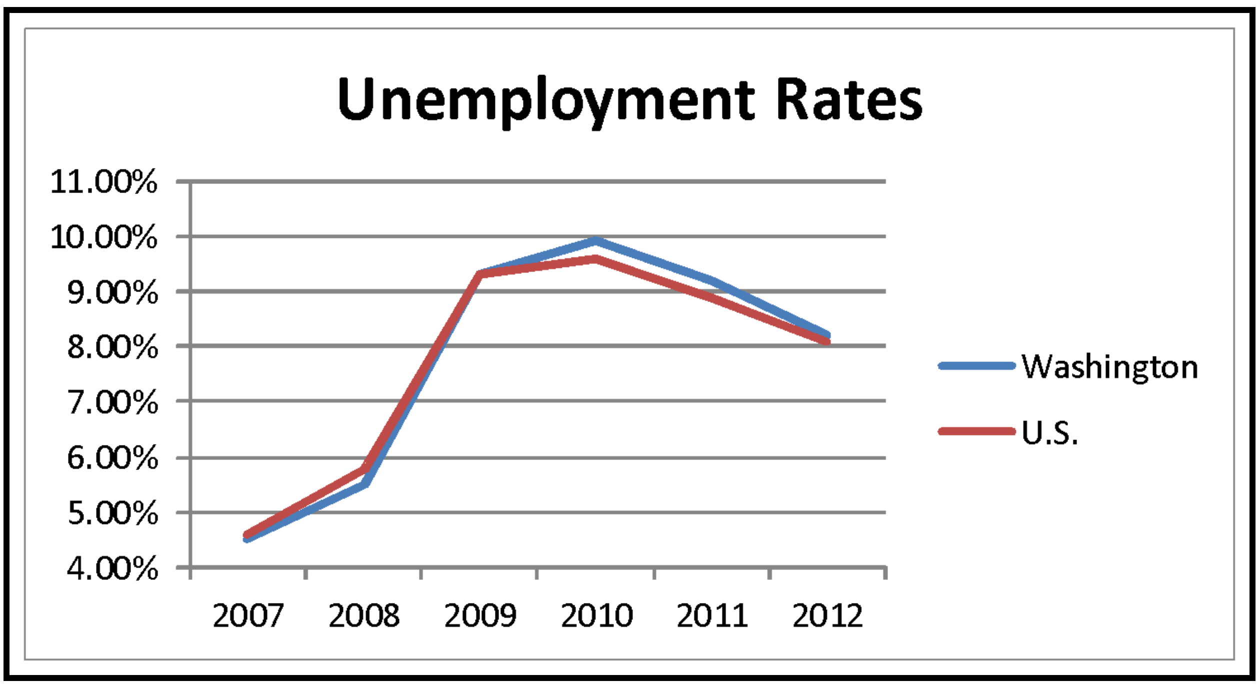
Economic Factors That Will Affect the Future

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 and non-resident students. 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 prepares independent forecasts quarterly throughout the year. In its February 2014 forecast, 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. However, the passage of the federal budget and the recent suspension of the debt ceiling reduce uncertainty surrounding federal fiscal policy.

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-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.

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. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. Enrollment headcount is down slightly about 1.3% from Fall quarter 2013, which, if this trend continues, will result in a reduction in tuition revenue.



Edmonds Community College
Statement of Net Position
June 30,2014

Assets				
Current assets				
Cash and cash equivalents				22,743,733
Short-term investments				1,960,891
Accounts Receivable, net				3,761,198
Interest Receivable				4,091
		Total current assets		28,469,912
Non-Current Assets				
Restricted Cash and Investments				287,186
Long-term investments				9,316,686
Capital assets, net of depreciation				97,654,828
		Total non-current assets		107,258,700
			Total assets	**135,728,612**
Deferred Outflows of Resources				0
Liabilities				
Current Liabilities				
Accounts Payable				721,036
Accrued Liabilities				3,570,932
Compensated absences				984
Unearned Revenue				3,671,680
Leases and Certificates of Participation Payable				1,117,497
		Total current liabilities		9,082,128
Noncurrent Liabilities				
Deposits Held in Custody for Others				287,186
Compensated Absences				4,415,009
Long-term liabilities				10,386,509
		Total non-current liabilities		15,088,704
			Total liabilities	**24,170,832**
Deferred Inflows of Resources				0
Net Position				
Net Investment in Capital Assets				86,150,822
Restricted for:				
Institutional Financial Aid				9,958
Student Loans				79,947
Unrestricted				25,317,053
Total Net Position				**111,557,780**

The footnote disclosures are an integral part of the financial statements.

Edmonds 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		39,359,135
Auxiliary enterprise sales, net		4,274,570
State and local grants and contracts		18,280,410
Federal grants and contracts		11,538,531
Other operating revenues		1,355,170
	Total operating revenue	74,807,816
Operating Expenses		
Operating Expenses		12,696,628
Salaries and wages		44,583,922
Benefits		14,523,237
Scholarships and fellowships		13,603,660
Supplies and materials		1,796,035
Depreciation		4,099,119
Purchased services		12,024,231
Utilities		1,431,273
	Total operating expenses	104,758,105
	Operating income (loss)	(29,950,289)
Non-Operating Revenues		
State appropriations		23,907,003
Federal Pell grant revenue		7,801,869
Investment income, gains and losses		58,567
	Net non-operating revenues	**31,767,440**
Non-Operating Expenses		
Interest on indebtedness		504,381
	Net non-operating expenses	**504,381**
Income or (loss) before other revenues, expenses, gains, or losses		1,312,769
Capital appropriations		1,848,410
	Increase (Decrease) in net position	3,161,180
Special and Extraordinary Changes in Capital		
OFM Capitalization Change		(199,933)
Capitalized Interest		100,890
		(99,043)
	Increase (Decrease) in net position	3,062,137
Net Position		
Net position, beginning of year		108,495,643
Net position, end of year		111,557,780

The footnote disclosures are an integral part of the financial statements.

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

Cash flow from operating activities	
Student tuition and fees	39,320,539
Grants and contracts	30,346,877
Payments to vendors	(27,351,080)
Payments for utilities	(1,199,859)
Payments to employees	(44,309,246)
Payments for benefits	(14,479,667)
Auxiliary enterprise sales	4,330,269
Payments for scholarships and fellowships	(13,603,660)
Other receipts (payments)	1,083,606
Net cash used by operating activities	(25,862,222)
Cash flow from noncapital financing activities	
State appropriations	23,412,019
Pell grants	7,801,869
Innovation and Building Fees	2,157,128
Net cash provided by noncapital financing activities	33,371,017
Cash flow from capital and related financing activities	
Capital appropriations	79,379
Purchases of capital assets	(2,815,033)
Principal paid on capital debt	(1,075,031)
Interest paid	(504,381)
Net cash used by capital and related financing activities	(4,315,066)
Cash flow from investing activities	
Purchase of investments	(2,879,915)
Income of investments	58,567
Net cash provided by investing activities	(2,821,348)
Increase in cash and cash equivalents	372,381
Cash and cash equivalents at the beginning of the year	22,371,351
Cash and cash equivalents at the end of the year	22,743,733

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(29,950,289)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	4,099,119
Changes in assets and liabilities	
Receivables , net	149,839
Accounts payable	34,278
Accrued liabilities	(527,286)
Unearned revenue	123,636
Compensated absences	208,481
Net cash used by operating activities	(25,862,222)

The footnote disclosures are an integral part of the financial statements.

Edmonds Community College Foundation
Statement of Financial Position
June 30, 2014

Assets			
Current Assets			
Cash and cash equivalents			574,258
Short-term investments			20,000
Accounts Receivable, net			42,900
		Total Current Assets	637,158
Other Assets			
Other Assets			14,848
Receivables, net of current portion			28,835
Long-term investments			4,887,305
Property and equipment, net			7,946
Title III assets held by Edmonds Community College			754,066
Split-interest agreements			744,475
		Total Other Assets	6,437,475
		Total Assets	7,074,633
Liabilities			
Current Liabilities			
Accounts payable and accrued expenses			252,562
Net Assets			
Unrestricted			
Designated for endowment			578,547
Undesignated			726,433
		Total Unrestricted	1,304,980
Temporarily restricted			1,804,209
Permanently restricted			3,712,882
		Total Net Assets	6,822,071
		Total Liabilities and Net Assets	7,074,633

The footnote disclosures are an integral part of the financial statements.

Edmonds Community College Foundation
Statement of Activities
For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Contributions	63,120	548,895	234,527	846,542
In-kind contributions	263,862	-	-	263,862
Special events revenue	183,947	-	-	183,947
Investment income	50,934	113,093	-	164,027
Net realized and unrealized gain on investments	132,974	434,031	-	567,005
Change in value of split-interest agreements	-	-	82,159	82,159
Net assets released from restrictions	297,733	(297,733)	-	-
Total revenues, gains, and other support	992,570	798,286	316,686	2,107,542
Expenses				
College program support	119,072	-	-	119,072
Scholarships	279,506	-	-	279,506
Total Program support	398,578	-	-	398,578
Administration	166,451	-	-	166,451
Fundraising	390,310	-	-	390,310
Total support services	556,761	-	-	556,761
Total expenses	955,339	-	-	955,339
Change in Net Assets	37,231	798,286	316,686	1,152,203
Net Assets at Beginning of Year	1,267,749	1,005,923	3,396,196	5,669,868
Net Assets at End of Year	1,304,980	1,804,209	3,712,882	6,822,071

The footnote disclosures are an integral part of the financial statements.

Notes to the Financial Statements

June 30, 2014

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Edmonds 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, and one student Trustee, all 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 Edmonds Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's mission supports access, success, and excellence for students, faculty, and staff at the College. Visit the Foundation's home page at http://www.edcc.edu/foundation/. 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 $398,578 to the College for restricted and unrestricted purposes. The Foundation statements used in this report have been audited by an independent accounting firm. A copy of the Foundation's audited financial report may be obtained from the Foundation's Administrative Offices, 425-640-1274, or by emailing at foundation@edcc.edu.

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 changes 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 non-exchange 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 liquid asset funds. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. The College records all investments at amortized cost, which approximates fair value. The College acts as a fiscal agent for a twenty year federal endowment matching grant, called Title III Challenge grant, which contains investments that are classified as noncurrent assets, and is recorded at market value. Cash in the Title III investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is distributed annually to contributing funds with the remainder allocated for general operating needs of the College. The internal investment pool is comprised of cash, cash equivalents, certificates of deposit, U.S. Treasuries and U.S. Agency securities. The internal investment pool does not include the federal endowment grant, called Title III Challenge grant.

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. When 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.

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, infrastructure 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 building 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.

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 advanced grant proceeds 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 property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets.
- *Restricted.* These restrictions on net position are imposed by either an external source or through enabling legislation. The two primary restricted expendable funds for the College are for student loans and the Institutional Financial Aid fund. All non-expendable restricted funds are directed to the Edmonds Community College's Foundation.
- *Unrestricted*. This 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. These resources are 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, federal PELL grants 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 $5,170,341.

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 non-operating 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, inter-agency deposits-in-transit and liquid asset investments.

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $22,743,733 as represented in the table below.

Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	15,026
Inter-agnecy Deposits in Transit	100,252
Bank Demand and Time Deposits	227,543
Liquid Asset Accounts	22,400,913
Total	**22,743,734**

General college investments consist of time certificates of deposit, U.S. Treasury and Agency securities. Time certificates of deposit have repurchase agreements with the respective financial institutions. Investments in U.S. Treasury and Agency securities are recorded net of discount or premium. The Title III Challenge grant follows federal authority to invest in equities, fixed income, real estate and tangible assets. The Title III long-term investments are recorded at market value and are subject to investment and inflation risk.

Investment Maturities	Fair Value	One Year or Less	1-5 Years	6-10 Years	10 or More Years
Time Certificate of Deposits	Not Available		500,000		
U.S. Government Treasury	691,032		693,279		
U.S. Agency Obligations	9,316,112	1,960,891	7,369,343		
Equities	452,536				452,536
Fixed Income/Bond	205,126				205,126
Real Estate	48,587				48,587
Tangible Assets	24,509				24,509
Other	23,306				23,306
Total Investments	10,761,208	1,960,891	8,562,622	0	754,064

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 College's Cash and Investment Management Policy states that investments will be handled in a manner which provides maximum security with the highest investment return, while meeting the daily cash flow demands of the college and conforming to all state laws governing the investment of public funds. The majority of the College's demand deposits are with the U.S. Bank of Washington. 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 (WPDPC).

Interest Rate Risk—Investments

The College manages its exposure to changes in interest rates by staggering portfolio maturity dates. Unless matched to a specific grant (Title III), the college will not directly invest in securities maturing more than four years from the date of purchase.

The federal Department of Education, the Title III Matching Endowment grant was established with the College as the fiscal agent for the Edmonds Community College Foundation. The college Foundation acts in an advisory role for these investments. The investment follows the Department of Education guidelines. Pursuant to Title III rules, disbursement of earnings cannot exceed 50% of the total aggregate earnings for a twenty-year period after the Title III grant is awarded.

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. The exception to this is the Title III grant, which follows federal guidelines for investment. 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, $10,458,316 of the College's operating fund investments were held by U.S. Bank of Washington as the agent for the College, $65,197 are held by Morgan Stanley as agent for the college, and $754,064 are held by Bank of America (Title III grant only) as agent for the College, are exposed to custodial credit risk as follows.

Investments Exposed to Custodial Risk	Fair Value
U.S Bank of Washington (1)	10,442,052
Bank of America	754,064
Morgan Stanley	65,092
Total Investments	11,261,208

Footnote:

(1) The fair value difference between *Investment Maturities* (previous table) and *Investments Exposed to Custodial Risk* (this table) is the $500K Certificate of Deposit. That amount was added (to this table) for custodial risk disclosure purposes.

Foreign Currency Risk

The College has no foreign currency risk.

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2014 were $3,935.08.

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.

Accounts Receivable	Amount
Student Tuition and Fees	385,337
Due from the Federal Government	1,205,710
Due from other State Agencies	1,248,046
Auxiliary Enterprises	121,211
Other	1,030,670
Subtotal	**3,990,974**
Less Allowance for Uncollectable Accounts	(229,776)
Accounts Receivable, net	**3,761,198**

4. 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 $4,099,119.

Capital Assets	Beginning Balance	Additions / Transfers	Retirements	Ending Balance
Nondepreciable Capital Assets				
Land	5,844,267	0	0	5,844,267
Construction in Progress	279,521	2,301,493	0	2,581,014
Total Nondepreciable Capital Assets	**6,123,788**	**2,301,493**	**0**	**8,425,281**
Depreciable Capital Assets				
Buildings	118,849,940	0	(228,903)	118,621,037
Other Improvements & Infrastructure	23,320,863	0	(432,969)	22,887,894
Equipment	5,973,544	484,795	(8,000)	6,450,339
Library Resources	1135209	28745	-24580	1139374
Subtotal Depreciable Capital Assets	**149,279,556**	**513,540**	**(694,452)**	**149,098,644**
Less Accumulated Depreciation				
Buildings	34,938,232	3,009,696	(187,841)	37,760,087
Other Improvements & Infrastructure	17,165,612	464,852	(274,098)	17,356,366
Equipment	3,186,196	580,117	(8,000)	3,758,313
Library Resources	974,457	44,454	(24,580)	994,331
Total Accumulated Depreciation	**56,264,497**	**4,099,119**	**(494,519)**	**59,869,097**
Total Depreciable Capital Assets	**93,015,059**	**(3,585,579)**	**(199,933)**	**89,229,547**
Capital Assets, net of Accumulated Depreciation	**99,138,847**	**(1,284,086)**	**(199,933)**	**97,654,828**

5. Accounts Payable and Accrued Liabilities

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

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	1,206,041
Accounts Payable	721,036
Amounts Held for Others	2,364,891
Total Accounts Payable and Accrued Liabilities	**4,291,968**

6. Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	1,210,391
Advance Grant Fees & Other Deposits	2,461,289
Total Accounts Payable and Accrued Liabilities	**3,671,680**

7. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees; except student employees. Liabilities for claims from July 1, 2013 through June 30, 2014, were $290,124. Cash reserves for unemployment compensation for all employees at June 30, 2014, were $10,628.

Schedule of Unemployment Compensation

Cash Reserves	Beginning Balance 6/30/2014	Additions	Reductions	Ending Balance 6/30/2014
Unemployment Compensation	72,929	250,285	312,586	10,628

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.

8. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. Exempt employees also get their accumulated vacation time credited to their VEBA account. 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 $1,843,981, accrued sick leave totaled $2,571,028 and accrued compensatory leave totaled $924 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.

9. Leases Payable

The College finances some capital asset purchases and energy improvements through the Washington State Treasurer's leasing program. These are commonly called Certificates of Participation (COP) and are classified as capital leases.

Nearly all COP debt service payments are funded by the Debt Service Reserve (DRS). The exception to this is Brier Hall COP, which is funded by a dedicated fee assessed by the students to pay principal and interest costs. With Board approval, the College initiated a Debt Service Reserve for COP debt service payments in fiscal year 2009/10. The following year, the board approved transferring the Reserve Fund Balance ($3.2M) to the DSR. The initial Board approval also included the availability of inter-fund borrowing. The ending balance at June 30th, 2013 was $5,606,336. Debt payments from this reserve totaled $1,043,599 for fiscal year 13/14. Additions to the DRS in 13/14 included $1,648,990 from the closure of the college ran Bookstore, $426,759 in inter-fund loan repayments and $14,046 in investment interest income. Currently no debt service is funded by the general operating budget.

As of June 30, 2014, the current COPs included:

Certificates of Participation	Lease End Date	Original Amount	2013/2014 Payment
Clearview/Maltby	6/1/2015	1,650,000	280,000
Energy Improvements	6/1/2016	1,600,000	151,486
Grounds Equipment	6/1/2016	17,883	3,545
Mill Creek Hall	12/1/2018	4,265,000	115,000
Black Box Theatre	12/1/2026	3,050,000	130,000
Brier Hall	6/1/2027	9,055,000	395,000

The College also has leases for office/program space, residence halls, parking and office equipment with various vendors. These leases are classified as operating leases.

The College's operating leases and debt service requirements for capital leases, as of June 30, 2014, are listed in item #10 below.

10. Annual Debt Service and Operating Lease Requirements

Future debt service and operating lease requirements at June 30, 2014 are as follows.

Annual Debt Service and Operating Lease Requirements				
Certificates of Participation				Operating Leases
Fiscal Year	**Principal**	**Interest**	**Total**	
2015	1,117,497	464,075	1,581,572	3,802,781
2016	1,038,204	421,060	1,459,264	3,295,048
2017	1,069,292	381,243	1,450,535	2,202,981
2018	1,116,856	340,143	1,456,999	2,180,205
2019	815,499	297,209	1,112,708	0
2020-2024	3,786,658	1,027,460	4,814,118	0
2025-2029	2,560,000	218,707	2,778,707	0
2030-2034	0	0	0	0
Total	**11,504,006**	**3,149,897**	**14,653,903**	**11,481,015**

11. Schedule of Long Term Debt

	Beginning Balance 6/30/2013	Additions	Restrictions	Beginning Balance 6/30/2014	Current Portion
Certificates of Participation	16,233,315	0	1,579,412	14,653,903	1,581,572
Compensated Absences	4,206,564	2,286,485	2,078,040	4,415,009	N/A
Total	**20,439,879**	**2,286,485**	**3,657,452**	**19,068,912**	**1,581,572**

12. Deferred Inflows

After reviewing several Bookstore arrangements and conferring with other Washington public higher education institutions, we have concluded that Bookstores usually do not meet the GASB 60 SCA criteria for several reasons. The consideration provided by the operator usually takes the form of sales commissions and possibly a small commitment to make capital improvements to the Bookstore space. These do not generally meet the criteria of being “significant”, especially since the impetus for entering into such an arrangement is usually to reduce future costs because the contractor has better economies of scale than individual colleges especially when it comes to competing with online providers. GASB 60 addresses a similar situation in the Basis for Conclusions section, #40, saying that: The Board acknowledged that a government may enter into an arrangement in which it conveys to an operator the right and related obligation to provide public services through the operation of a capital asset; however it does so to gain economic relief by reducing future costs, rather than in exchange for consideration. As there is not significant up-front consideration provided by the operator, the Board believes that these arrangements comprise SMAs

(Service Management Arrangements) rather than SCAs and therefore are excluded from the scope of this statement.

13. 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 $12,379,124 for PERS, $576,658 for TRS, and $25,552,119 for SBRP. Total covered payroll was $38,311,639.

PERS and TRS

Plan Descriptions

PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible non-academic 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 non-academic 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 two faculty members with pre-existing eligibility who continue to participate in TRS 1.

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 30th						
	FY 2012		**FY 2013**		**FY 2014**	
	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 3	5-15%	8.04%	5-15%	8.05%	5-15%	10.39%

Required Contributions						
	FY 2012		**FY 2013**		**FY 2014**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	39,449	47,283	37,124	44,583	27,490	42,108
Plan 2	409,644	636,264	415,147	644,008	445,726	834,781
Plan 3	178,395	193,236	181,121	196,606	189,287	256,772
TRS						
Plan 1	7,157	9,344	7,202	9,662	8,135	13,652
Plan 3	26,949	25,807	31,442	29,747	38,006	44,857

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 $208,447 for 5%, $1,328,861 for 7.5% and $2,903,048 for 10%.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, no supplemental benefits were paid by the SBCTC on behalf of the College. 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 $1,271,048. 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 $19,080,981, with an annual required contribution (ARC) of $1,864,222. 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 $(350,760). The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $1,513,461. This amount is not included in the College's financial statements.

The College paid $7,127,681 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

14. 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	44,574,456
Academic Support Services	6,198,825
Student Services	10,609,359
Instructional Support	9,797,116
Operations & Maintenance of Plant	7,417,902
Auxiliary Services	8,357,816
Student Financial Aid	13,703,512
Public Service	0
Research	0
Depreciation	4,099,119
Total Operating Expenses	**104,758,105**

15. Special and Extraordinary Changes in Capital

There were two prior period adjustments recorded by the college, which resulted in a net decrease of $99,043 on the Statement of Revenues, Expenses and Changes in Net Position. The first capital change was from adapting our fixed assets system to the capitalization level required by the state. This action removed several small buildings and infrastructure assets and their accumulated depreciation. The result was a net decrease to the Net Position by $199,933. The second capital change was the recording of capitalized interest from past Certificates of Participation (COP). This action added value and accumulated depreciation to prior capitalized buildings. The result was a net increase to the Net Position by $100,890.

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.

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 $47M for various capital improvement projects that include (currently scheduled to receive) $40M in construction funding for the Science, Technology, Engineering and Math (STEM) building and renovations of existing buildings ($7M).

We would like to acknowledge the following staff responsible for the content of this report:

- Marian Paananen, Director of Finance