

South Puget Sound Community College

2014 Annual Financial Report

Fiscal Year Ended June 30, 2014





South Puget Sound

COMMUNITY COLLEGE

Fiscal 2014 Financial Report

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South Puget Sound Community College
2011 Mottman Road SW
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Visit the home page at <http://www.spscc.ctc.edu>

Trustees and Executive Officers

BOARD OF TRUSTEES

Ms. Judith L. Hartman, Chair
Ms. Leonor R. Fuller, Vice Chair
Ms. Judith A. Blinn
Ms. Alberta Barbara Clarkson
Mr. Brian L. Vance
Dr. Timothy Stokes, ex-officio Secretary

EXECUTIVE OFFICERS

Dr. Timothy Stokes, President
Dr. Michelle Andreas, Vice President for Instruction
Mr. Albert Brown, Vice President for Administrative Services
Dr. Rhonda Coats, Vice President for Student Services
Ms. Cecelia Loveless, Vice President for Planning and College Advancement
Ms. Lori Casile, Chief Information Officer
Mr. Kenneth Harden, Chief Human Resources Officer

Trustees and Officer list effective as of December 31, 2014



Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT

May 31, 2016

South Puget Sound Community College
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the South Puget Sound Community College, Thurston 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 South Puget Sound Community College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the South Puget Sound 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 South Puget Sound 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 respective financial position of the business-type activities and the aggregate discretely presented component units of the South Puget Sound 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 the South Puget Sound 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.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

Management's Discussion and Analysis

South Puget Sound Community College

The following discussion and analysis provides an overview of the financial position and activities of South Puget Sound Community College (the College) for the 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 financial statements and accompanying notes which follow this section.

Reporting Entity

South Puget Sound 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 6,000 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1962 and its primary purpose is to support student success in post-secondary academic transfer and workforce education that responds to the needs of the South Sound region.

The College's main campus is located in Olympia, Washington, a community of about 50,000 residents. The College has a smaller campus in the neighboring town of Lacey, Washington. The College is governed by a five member Board of Trustees appointed by the Governor 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.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, the South Puget Sound Community College Foundation. 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 fiscal 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. SPSCC's component unit, the South Puget Sound Community College Foundation (Foundation) is a separate legal entity and reports its financial results under Financial Accounting Standards Board (FASB) principles. The Foundation's financial statements are reported separately within this report. The Foundation's fiscal year is the calendar year.

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 position at year-end and includes all assets and liabilities of the College. The College's financial position remained stable during the fiscal year ended June 30, 2014. Its combined net position increased \$1,430,856. 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	15,881,772	18,529,574
Capital Assets, net	135,546,249	133,079,842
Other Assets, non-current	107,584	107,854
Total Assets	\$ 151,535,605	\$ 151,717,270
Liabilities		
Current Liabilities	3,100,826	4,778,307
Other Liabilities, non-current	3,856,167	3,791,207
Total Liabilities	\$ 6,956,993	\$ 8,569,514
Deferred Inflows/Outflows	\$ -	
Net Position	\$ 144,578,612	\$ 143,147,756

Current assets consist primarily of cash, investments, various accounts receivables and inventories. Current assets decreased by approximately \$2,650,000 when compared to unaudited balances from FY 2013. This is mainly due to investing in technology upgrades and the beginning stages of a remodel of the Lacey Campus.

Net capital assets increased by \$2,466,407 from FY 2013 to FY 2014. The majority of the increase is the result of the renovation of Building 22 which is expected to be completed in 2015.

Non-current assets are the long-term portion of student loans receivable.

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 due to fluctuations in amounts owed on vendor invoices at the end of the fiscal year.

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.

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 four categories:

Net Investment in Capital Assets – 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. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the College’s foundation. As a result, the College is not reporting any balance in this category.

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 restricted funds for the College are student loans.

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.

Condensed Net Position As of June 30th	FY 2014	FY 2013 (Unaudited)
Invested in Capital Assets, net of related debt	\$133,781,249	\$131,019,841
Restricted		
Expendable - Student Loans	\$140,116	\$140,116
Unrestricted	\$10,657,247	\$11,987,799
Total Net Position	\$144,578,612	\$143,147,756

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 a governmental entity, such as the state of Washington or the federal government, 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. When operating revenues (which exclude state appropriations and Pell Grants) are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

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

Condensed Statement of Revenue, Expenses and Changes in Net Position	
As of June 30th	FY 2014
Operating Revenues	24,276,867
Operating Expenses	52,018,842
Net Operating Loss	(27,741,975)
Non-Operating Revenues	22,038,299
Non-Operating Expenses	81,500
Gain (Loss) Before Other	(5,785,176)
Capital Appropriations	7,506,725
Change in State Capitalization Level	(290,693)
Increase (Decrease) in Net Position	1,430,856
Net Position, Beginning of the Year	\$ 143,147,756
Net Position, End of the Year	\$ 144,578,612

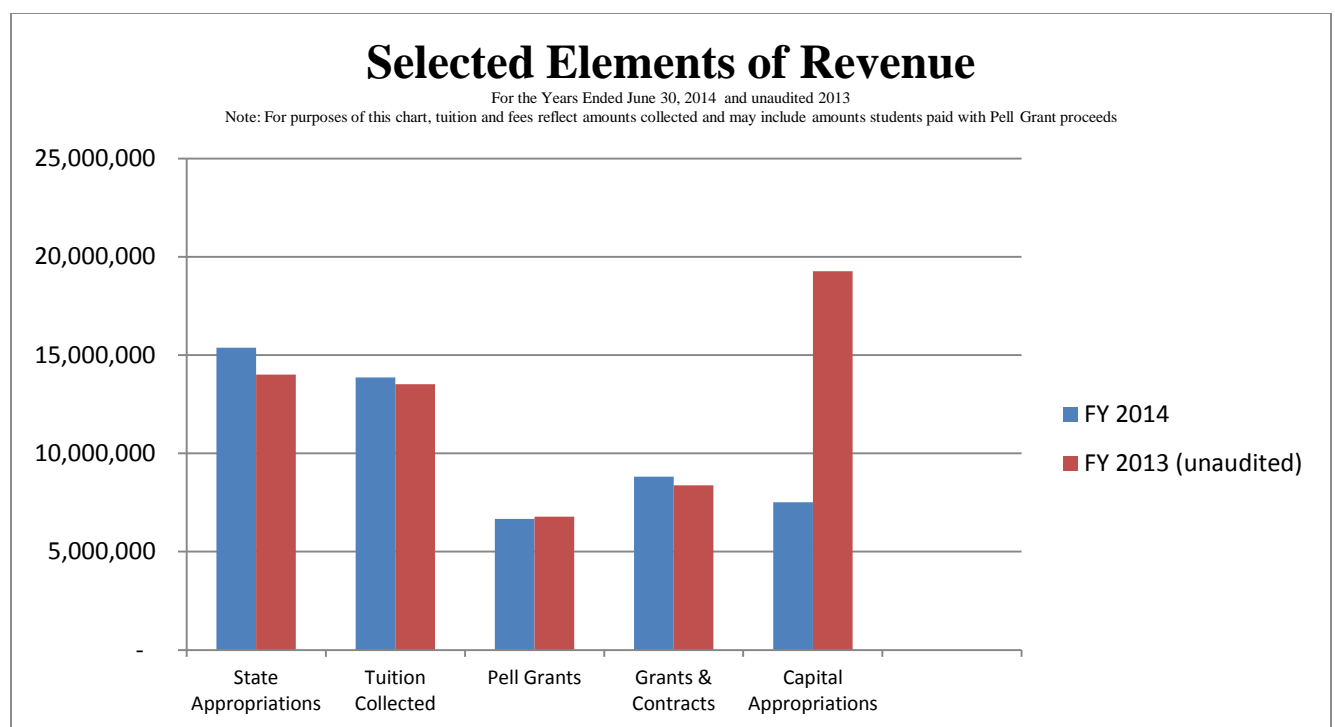
Revenues

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 height in FY 2009 and, as a result of the great recession, were reduced by 24% by FY 2013. 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 slightly in FY 2014, the College's increase in tuition and fee revenue is primarily attributable to the increased tuition rates. Pell grant revenues generally follow enrollment trends. As the College's enrollment

decreased, so did the College's Pell Grant revenue. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The increase in Running Start enrollments more than offset the reduction in grant and other contract revenues.

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 life of the asset.



Expenses

Faced with severe budget cuts between 2009 and 2013, the College sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

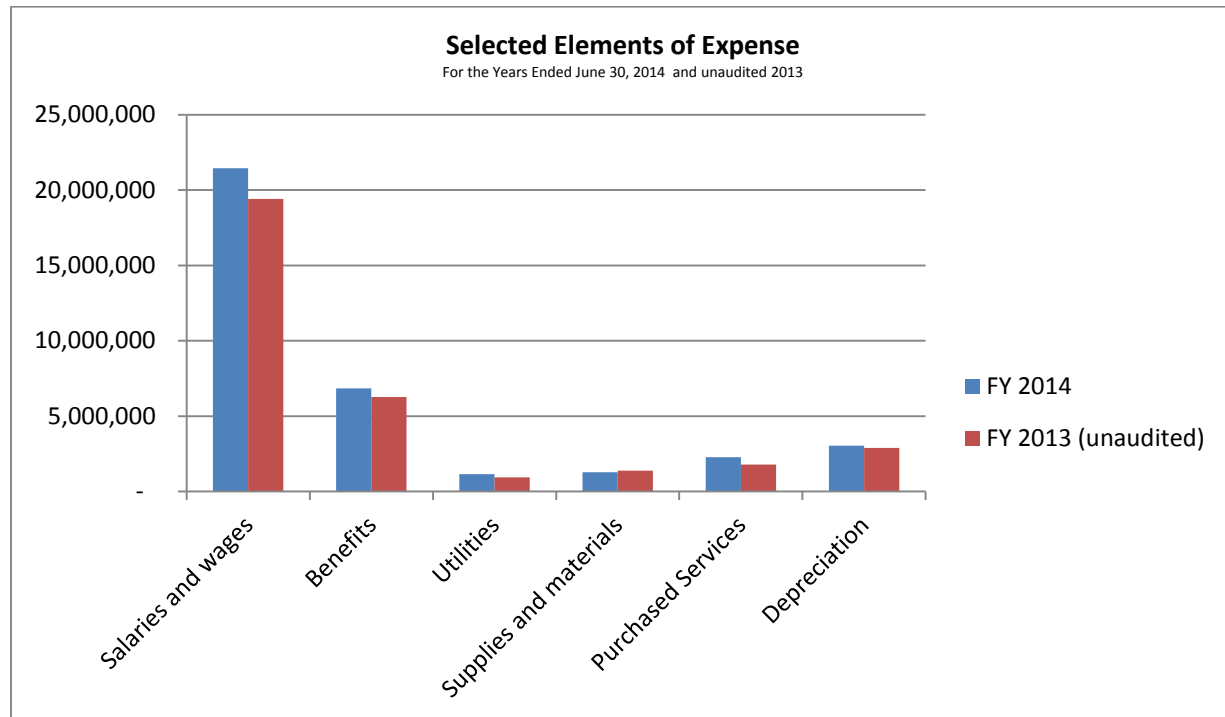
More recently, in FY 2014, salary and benefit costs increased as a result of negotiated pay increases for faculty and staff and having to compete in the job market in order to replace retiring exempt employees.

Utility costs have also increased as a result of rate increases. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are normal.

Depreciation expense is primarily driven by capital activity, with the annual depreciation expense showing an 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 and cash related to federally-funded Pell grants. This section also includes any activity that cannot be reported in one of the other sections.

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

Next the statement shows how 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	(26,151,144)
Non-Capital Financing Activities	21,952,044
Capital Financing Activities	1,446,010
Net Change in Cash	\$ (2,753,090)
Cash, Beginning of Year	16,199,889
Cash, End of Year	\$ 13,446,799

The College's cash and cash equivalents at June 30th decreased in FY 2014 by \$2,753,090. Primary contributing factors include board approved reserve funded projects. (*Computer Manufacturing Program, five IT projects, Nursing Accreditation, and the start of remodeling Lacey Campus Building 1*).

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 capital projects that can be financed.

At June 30, 2014, the College had \$135,546,249 invested in capital assets, net of accumulated depreciation. This represents an increase of \$2,466,407 from last year, as shown in the table below.

Asset Type	June 30, 2014	June 30, 2013 (unaudited)	Change
Land	\$9,524,796	\$9,524,796	\$0
Construction in Progress	\$26,848,438	\$26,711,143	\$137,295
Buildings, net	\$95,106,114	\$92,740,255	\$2,365,859
Other Improvements and Infrastructure, net	\$2,117,707	\$2,175,278	-\$57,571
Equipment, net	\$1,709,755	\$1,621,030	\$88,725
Library Resources, net	\$239,439	\$307,340	-\$67,901
Total Capital Assets, Net	\$135,546,249	\$133,079,842	\$2,466,407

The increase in net capital assets can be attributed to the capitalized renovation work done to Building 22.

At June 30, 2014, the College had \$1,765,000 in outstanding debt in the form of a Certificate of Participation (COP) for the renovation of the Student Union Building. Additional information on long-term debt can be found in the Notes to the Financial Statements: Note 13 – Annual Debt Service Requirements, & Note 14 – Schedule of Long Term Debt.

	June 30, 2014
Certificates of Participation	\$1,765,000
Total	\$1,765,000

Economic Factors That Will Affect the Future

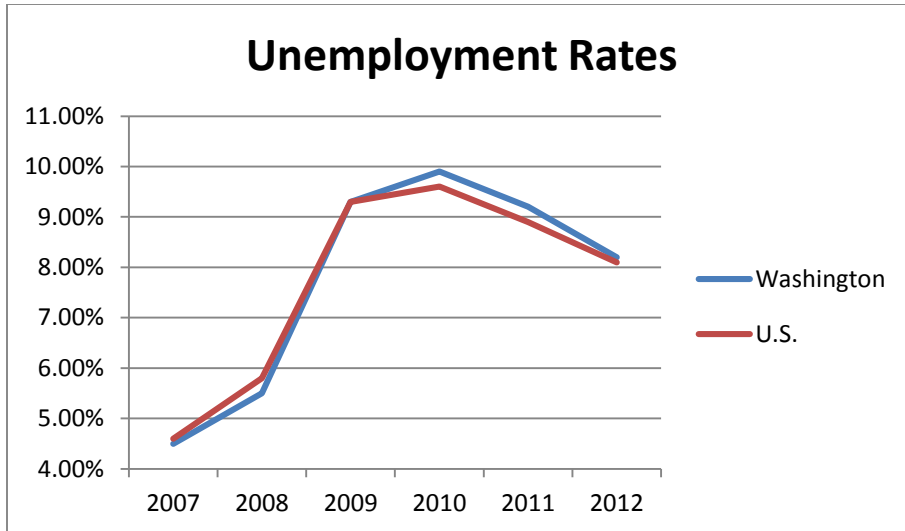
Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature made some modest re-investments in community and technical colleges and continued this trend 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'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 most recent forecast (February 2014), the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies. However, the passage of a federal budget in January 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. State-supported enrollment is down about 16% from its most recent peak in FY11, which, if this trend continues, will result in a significant reduction in tuition revenue.



South Puget Sound Community College
Statement of Net Position
June 30, 2014

Assets

Current assets

Cash and cash equivalents	13,446,799
Accounts Receivable	1,287,273
Student Loans Receivable	32,532
Inventories	646,133
Prepaid Expenses	469,035
Total current assets	15,881,772

Non-Current Assets

Student Loans Receivable	107,584
Capital assets, net of depreciation	135,546,249
Total non-current assets	135,653,833

Total assets **151,535,605**

Deferred Outflows of Resources

Total Deferred Outflows of Resources -

Liabilities

Current Liabilities

Accounts Payable	604,176
Accrued Liabilities	1,131,325
Compensated absences	490
Deposits Payable	11,579
Unearned Revenue	1,088,256
Leases and Certificates of Participation Payable	265,000.00
Total current liabilities	3,100,826

Noncurrent Liabilities

Compensated Absences	2,356,167
Long-term liabilities	1,500,000
Total non-current liabilities	3,856,167

Total liabilities **6,956,993**

Deferred Inflows of Resources

Total Deferred Inflows of Resources -

Net Position

Net Investment in Capital Assets	133,781,249
Restricted for Student Loans	140,116
Unrestricted	10,657,247
Total Net Position	144,578,612

Total Liabilities and Net Position **151,535,605**

(See accompanying notes to the financial statements)

South Puget Sound 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		11,396,602
Auxiliary enterprise sales		1,934,903
State and local grants and contracts		8,372,390
Federal grants and contracts		115,039
Other operating revenues		2,454,701
Interest on loans to students		3,232
	Total operating revenue	<u>24,276,867</u>
Operating Expenses		
Operating Expenses		6,026,227
Salaries and wages		21,440,092
Benefits		6,852,907
Scholarships and fellowships		8,627,863
Supplies and materials		2,390,031
Depreciation		3,053,877
Purchased services		2,471,547
Utilities		1,156,298
	Total operating expenses	<u>52,018,842</u>
	Operating income (loss)	<u>(27,741,975)</u>
Non-Operating Revenues		
State appropriations		15,371,060
Federal Pell grant revenue		6,667,239
	Net non-operating revenues	<u>22,038,299</u>
Non-Operating Expenses		
Interest on indebtedness		81,500
	Net non-operating expenses	<u>81,500</u>
		<u>(5,785,176)</u>
Capital Revenues		
Capital appropriations		7,506,725
Extraordinary/Special Items		
Change in State capitalization level		(290,693)
	Increase (Decrease) in net position	<u>1,430,856</u>
Net Position		
Net position, beginning of year		<u>143,147,756</u>
Net position, end of year		<u>144,578,612</u>

(See accompanying notes to the financial statements)

South Puget Sound Community College
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flow from operating activities	
Student tuition and fees	11,233,422
Grants and contracts	8,703,110
Payments to vendors	(5,720,329)
Payments for utilities	(1,921,952)
Payments to employees	(21,088,539)
Payments for benefits	(6,802,885)
Auxiliary enterprise sales	1,919,635
Payments for scholarships and fellowships	(8,627,863)
Loans issued to students and employees	3,232
Other receipts (payments)	(3,848,975)
Net cash used by operating activities	(26,151,144)
 Cash flow from noncapital financing activities	
State appropriations	13,603,151
Pell grants	6,667,239
Innovation and Building Fee	1,681,654
Net cash provided by noncapital financing activities	21,952,044
 Cash flow from capital and related financing activities	
Proceeds of capital debt	0
Capital appropriations	7,816,479
Purchases of capital assets	(6,033,969)
Certificate of participations proceeds	0
Principal paid on capital debt	(255,000)
Interest paid	(81,500)
Net cash used by capital and related financing activities	1,446,010
 Cash flow from investing activities	
Purchase of investments	0
Proceeds from sales and maturities of investments	0
Income of investments	0
Net cash provided by investing activities	0
Decrease in cash and cash equivalents	(2,753,090)
Cash and cash equivalents at the beginning of the year	16,199,889
Cash and cash equivalents at the end of the year	13,446,799

(See accompanying notes to the financial statements)

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	<u>(27,741,975)</u>
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	3,053,877
Changes in assets and liabilities	
Receivables , net	198,997
Inventories	41,093
Other assets	(345,379)
Accounts payable	(1,667,431)
Accrued liabilities	73,548
Deferred revenue	(93,834)
Compensated absences	329,960
Deposits payable	0
Loans to students and employees	0
Net cash used by operating activities	<u>(26,151,144)</u>

South Puget Sound Community College Foundation (Component Unit)
Statement of Financial Position
December 31, 2013

ASSETS

Cash and cash equivalents	\$	868,583
Certificates of deposit		396,728
Investments		5,707,476
Promises to give, net		47,126
Prepaid expenses		7,246
Equipment, net of accumulated depreciation		<u>11,200</u>
Total assets	\$	<u>7,038,359</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts Payable	\$	56,511
Scholarships and grants payable		<u>206,116</u>
Total liabilities		262,627
Net Assets		
Unrestricted		1,420,653
Temporarily restricted		1,782,724
Permanently restricted		<u>3,572,355</u>
Total net assets		<u>6,775,732</u>
Total liabilities and net assets	\$	<u>7,038,359</u>

South Puget Sound Community College Foundation (Component Unit)
Statement of Activities
Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Revenues, Gains & Other Support</i>				
Contributions				
Individuals	\$ 45,167	\$ 254,195	\$ 84,887	\$ 384,249
In-kind	306,212	-	-	306,212
Dividend and interest income	25,884	113,647	-	139,531
Unrealized and realized gains on investments	109,561	593,459	-	703,020
Special events income	196,630	-	-	196,630
Net assets released from restrictions	547,607	(532,626)	(14,981)	-
Total revenues, gains, and other support	<u>1,231,061</u>	<u>428,675</u>	<u>69,906</u>	<u>1,729,642</u>
 <i>Expenses</i>				
Scholarships and grants	479,211	-	-	479,211
Other college support	82,808	-	-	82,808
Management and general	163,279	-	-	163,279
Fund-raising	77,510	-	-	77,510
In-kind services and occupancy	306,212	-	-	306,212
Total expenses	<u>1,109,020</u>	<u>-</u>	<u>-</u>	<u>1,109,020</u>
 Change in net assets	 122,041	 428,675	 69,906	 620,622
 <i>Net Assets</i>				
Beginning of year	<u>1,298,612</u>	<u>1,354,049</u>	<u>3,502,449</u>	<u>6,155,110</u>
End of year	<u>\$ 1,420,653</u>	<u>\$ 1,782,724</u>	<u>\$ 3,572,355</u>	<u>\$ 6,775,732</u>

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

South Puget Sound 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 South Puget Sound 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 charitable purpose is to enhance the educational quality and accessibility at the College by soliciting financial and in-kind support for the institution. 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 component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A 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 calendar year ended December 31, 2013, the Foundation distributed approximately \$561,952 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 (360) 596-5430.

Basis of Presentation

The College follows all GASB pronouncements. 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 nonexchange transactions. GASB 70 is effective for fiscal years beginning after June 15, 2013. The College 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 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. The College records all cash, cash equivalents, and investments at 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 after covering banking expenses. The internal investment pool is comprised of cash, and cash equivalents.

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 merchandise for resale in the college bookstore are valued at cost using the first-in, first-out (FIFO) method.

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the College, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, 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, 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 tuition revenue has been collected prior to the end of the fiscal year but is related to the subsequent fiscal year. The College has recorded the next summer and fall quarter tuition and fees 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, 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 \$4,117,632.

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 \$13,446,799 as represented in the table below.

Table 1: Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	\$6,952
Bank Demand and Time Deposits	\$4,832,498
Investments with Original Maturity of 90 days or less	\$104,143
Local Government Investment Pool	\$8,503,206
Total Cash and Cash Equivalents	\$13,446,799

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 U.S. 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).

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	\$ 462,082
Tuition/Fees Due from Governmental entitites	\$ 242,813
Tuition/Fees Future Year	\$ 216,816
Auxiliary Enterprises	\$ 63,714
Grants and Contracts	\$ 514,752
Other	\$ 126,818
Subtotal	\$ 1,626,994
Less Allowance for Uncollectible Accounts	\$ (339,721)
Accounts Receivable, net	\$ 1,287,273

4. Loans Receivable

Loans receivable as of June 30, 2014 consisted primarily of student loans, as follows.

Table 3: Loans Receivable	Amount
Student Loans Receivable	\$ 65,064
Less Allowance for Uncollectible Accounts	\$ (32,532)
Loans Receivable, net	\$ 32,532

5. Inventories

Inventories, stated at cost using FIFO, consisted of the following as of June 30, 2014.

Table 4: Inventories	Amount
Merchandise Inventories	\$ 646,133
Inventories	\$ 646,133

6. 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 \$3,053,877.

Table 5: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	\$ 9,524,796	\$ -	\$ -	\$ 9,524,796
Construction in progress	26,711,143	359,351	(222,056)	26,848,438
Total nondepreciable capital assets	36,235,939	359,351	(222,056)	36,373,234
Depreciable capital assets				
Buildings	115,460,002	4,840,742	(127,478)	120,173,266
Other improvements and infrastructure	6,360,250	181,430	(398,736)	6,142,944
Equipment	5,369,284	583,425	(90,151)	5,862,558
Library resources	2,268,526	11,496	-	2,280,022
Subtotal depreciable capital assets	129,458,062	5,617,093	(616,365)	134,458,790
Less accumulated depreciation				
Buildings	22,719,747	2,445,820	(98,415)	25,067,152
Other improvements and infrastructure	4,184,972	123,037	(282,772)	4,025,237
Equipment	3,748,254	405,623	(1,074)	4,152,803
Library resources	1,961,186	79,397	-	2,040,583
Total accumulated depreciation	32,614,159	3,053,877	(382,261)	35,285,775
Total depreciable capital assets, net	96,843,903	2,563,216	(234,104)	99,173,015
Capital assets, net of accumulated depreciation	133,079,842	2,922,567	(456,160)	135,546,249

7. Accounts Payable and Accrued Liabilities

At June 30, 2014, accounts payable and accrued liabilities consist of the following.

Table 6: Accounts Payable and Accrued Liabilities	Amount
Accounts Payable	\$ 604,176
Amounts Owed to Employees	\$ 818,805
Other Accrued Liabilities	\$ 312,520
Total	\$ 1,735,501

8. Unearned Revenue

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

Table 7: Unearned Revenue	Amount
Summer & Fall Quarter 2015 Tuition & Fees	\$ 1,088,256
Total Unearned Revenue	\$ 1,088,256

9. 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 \$127,697.

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.

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation. Depending upon employment type, employees who retire get 25% of the value of their accumulated sick leave received either as a cash payment, or credited to a Voluntary Employees’ Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. 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 \$1,051,298, and accrued sick leave totaled \$1,304,869 at June 30, 2014.

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

11. Leases Payable

The College has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2014, the minimum lease payments under operating leases consist of the following.

Table 7: Leases Payable	
Fiscal year	Operating Leases
2014	55,841
2015	55,954
2016	55,954
2017	55,954
2018	55,954
2019-2023	22,111
Total Minimum Operating Lease Payments	\$ 301,768

12. Notes Payable

In June 1999, the College obtained financing in order to remodel Building 27, the Student Union Building, through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$4,620,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in Fiscal Year 1997. The interest rate charged is approximately 5%.

In January 2004, the College obtained financing in order to remodel Parking Lot J through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$370,000. Annual revenue from the parking fund was used to service the debt. The interest rate charged is approximately 3.2%.

Fees related to these COP(s) are accounted for in dedicated funds, which are used to pay principal and interest, not coming out of the general operating budget.

The College's debt service requirements for these note agreements for the next five years and thereafter are as follows:

13. Annual Debt Service Requirements

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

Annual Debt Service Requirements			
	Certificates of Participation		
Fiscal year	Principal	Interest	Total
2015	\$ 265,000	\$ 70,600	\$ 335,600
2016	275,000	60,000	335,000
2017	285,000	49,000	334,000
2018	300,000	37,600	337,600
2019	315,000	25,600	340,600
2020-2024	325,000	13,000	338,000
Total	1,765,000	255,800	2,020,800

14. Schedule of Long Term Debt

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificates of Participation	2,060,000	0	(295,000)	1,765,000	265,000
Total	\$ 2,060,000	\$ -	\$ (295,000)	\$ 1,765,000	\$ 265,000

15. 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 \$5,515,551 for PERS, \$759,593 for TRS, and \$11,702,672 for SBRP. Total covered payroll was \$17,977,816.

PERS and TRS

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

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

The college also has 3 faculty members with pre-existing eligibility who continue to participate in TRS 1 or 2.

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 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	4.69%	8.04%	4.69%	8.05%	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	\$19,656.74	\$23,560.27	\$20,032.96	\$24,057.40	\$17,735.39	\$27,214.93
Plan 2	\$179,764.46	\$279,038.32	\$187,130.30	\$289,989.73	\$208,975.07	\$391,419.89
Plan 3	\$39,799.47	\$48,352.60	\$44,156.27	\$52,219.59	\$60,537.12	\$89,175.72
TRS						
Plan 1	\$11,830.47	\$15,470.80	\$10,591.68	\$14,209.08	\$8,162.96	\$13,640.17
Plan 2	\$901.95	\$1,546.26	\$2,833.47	\$4,863.07	\$4,531.48	\$9,360.99
Plan 3	\$24,786.39	\$26,923.08	\$24,173.53	\$25,603.85	\$48,022.85	\$54,812.59

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 \$1,011,234.

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 \$7,937. 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 \$58,513. 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 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 \$8,275,028, with an annual required contribution (ARC) of \$808,475. 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 \$152,118. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately \$656,357. This amount is not included in the College's financial statements.

The College paid \$3,334,802 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

16. 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	\$ 16,828,262
Academic Support Services	2,924,429
Student Services	4,201,248
Institutional Support	9,143,856
Operations and Maintenance of Plant	11,177,263
Scholarships and Other Student Financial Aid	1,850,971
Auxiliary enterprises	2,508,976
Compensated Absences	329,960
Depreciation	3,053,877
Total operating expenses	\$ 52,018,842

17. 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 may be 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 \$15,378,941 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.