Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Evergreen State College Residential Services

For the period July 1, 2016 through June 30, 2017

Published May 21, 2018

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Office of the Washington State Auditor

Pat McCarthy

May 21, 2018

Evergreen State College Residential Services
Olympia, Washington

Report on Financial Statements

Please find attached our report on the Evergreen State College Residential Services' financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Evergreen State College Residential Services
July 1, 2016 through June 30, 2017

Evergreen State College Residential Services
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Evergreen State College Residential Services (Residential Services), a department of The Evergreen State College, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Residential Services' basic financial statements, and have issued our report thereon dated May 4, 2018.

The financial statements of the Evergreen State College Residential Services, a department of The Evergreen State College, 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 Evergreen State College that is attributable to the transactions of the Residential Services. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, 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.

The Residential Services has omitted the management's discussion and analysis information, Schedules of the Evergreen State College Residential Services' Share of Net Pension Liability and Schedules of Contributions that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the

Residential Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Residential Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

May 4, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Evergreen State College Residential Services
July 1, 2016 through June 30, 2017

Evergreen State College Residential Services
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Evergreen State College Residential Services (Residential Services), a department of The Evergreen State College, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Residential Services' basic financial statements as listed on page 10.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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 Residential Services' 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 Residential Services' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Evergreen State College Residential Services, as of June 30, 2017, 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 Evergreen State College Residential Services, a department of The Evergreen State College, 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. They do not purport to, and do not, present fairly the financial position of The Evergreen State College as of June 30, 2017, 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

Management has omitted the management's discussion and analysis information, Schedules of the Evergreen State College Residential Services' Share of Net Pension Liability and Schedules of Contributions that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2018 on our consideration of the Residential Services' 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 Residential Services' internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

May 4, 2018

FINANCIAL SECTION

Evergreen State College Residential Services
July 1, 2016 through June 30, 2017

BASIC FINANCIAL STATEMENTS

The Evergreen State College
Residential Services
Statement of Net Position
June 30, 2017

Assets		**2017**
Current Assets		
Cash and cash equivalents	$	6,356,712
Accounts receivable, net		204,687
Inventories		60,124
Total Current Assets		6,621,523
Non-Current Assets		
Capital assets, net of depreciation		10,886,269
Total Non-Current Assets		10,886,269
Total assets		17,507,792
Deferred Outflows		
Related to pension (Note #10)		102,124
Deferred outflow on refundings		26,653
Total Deferred Outflows		128,777
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses		224,800
Compensated absences		70,541
Unearned revenue		282,429
Current portion, long-term debt		340,000
Total Current Liabilities		917,770
Non-Current Liabilities		
Compensated absences		22,546
Net pension liability		668,200
Long-term debt		3,000,000
Total Non-Current Liabilities		3,690,746
Total liabilities		4,608,516
Deferred Inflows		
Relating to pension (Note #10)		143,117
Total Deferred Inflows		143,117
Net Position		
Net investment in capital assets		7,572,923
Unrestricted		5,312,013
Total net position	**$**	**12,884,936**

See Accompanying Notes to the FInancial Statements

The Evergreen State College
Residential Services
Statements of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

		2017
Operating Revenues		
Sales of auxiliary services	$	5,467,697
Total operating revenue		5,467,697
Operating Expenses		
Salaries and wages		1,562,753
Depreciation		1,437,835
Supplies and Materials		364,770
Utilities		313,274
Benefits		768,404
Repairs and maintenance		569,266
Total operating expenses		5,016,302
Operating income		451,395
Non-Operating Revenue (Expenses)		
Investment income		20,422
Interest on indebtedness		(97,751)
Net non-operating revenue (expenses)		(77,329)
Increase in net position		374,066
Net Position		
Net position, beginning of year		12,510,870
Net position, end of year	$	12,884,936

See Accompanying Notes to the FInancial Statements

The Evergreen State College
Residential Services
Statements of Cash Flows
For the Year Ended June 30, 2017

		2017
Cash Flows from Operating Activities		
Sales of auxiliary services	$	5,431,650
Payments for employees (salary & benefits)		(1,830,775)
Payments to vendors		(1,041,837)
Net cash provided by operating activities		**2,559,038**
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets		(620,936)
Principal payments on long-term debt		(325,000)
Interest payments		(47,751)
Net cash used by capital and related financing activities		(993,687)
Cash Flows from Investing Activities		
Investment income		20,422
Net cash provided by investing activities		20,422
Net Change in Cash and Cash Equivalents		1,585,773
Cash and Cash Equivalents, Beginning of the Year		4,770,939
Cash and Cash Equivalents, End of the Year	**$**	**6,356,712**

Reconciliation of Operating Income to Net Cash provided by Operating Activities

Operating Income	$	451,395
Adjustment to reconcile operating income to net cash provided by operating activities		94
Depreciation and amortization expense		1,441,173
Net Pension Expense		479,217
Changes in assets and liabilities		
Bond discount and issue costs		
Accounts receivable		(67,643)
Inventory		(1,112)
Accounts payable and accrued expenses		203,152
Accrued employee expense		21,166
Unearned revenues		31,596
Net cash provided by operating activities	**$**	**2,559,038**

See Accompanying Notes to the FInancial Statements

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity
Residential Services is an auxiliary enterprise fund, and separate department within The Evergreen State College (College), a comprehensive institution of higher education offering baccalaureate and master's degrees. The College, an agency of the State of Washington, is governed by an eight member Board of Trustees appointed by the Governor and confirmed by the State Senate. Residential Services provides housing and other associated services for students of the College.

Financial Statement Presentation
The financial statements for the Residential Services for the years ended June 30, 2017 have been prepared in conformity with generally accepted accounting principles generally accepted in the United States of America and follows guidance given by the Governmental Accounting Standards Board (GASB). These statements are special purpose reports reflecting the net position, results of operations and cash flows of Residential Services, an auxiliary enterprise of the College. The statements presented are: Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. These financial statements present only a selected portion of the activities of the College. As such, they are not intended to and do not present either the financial positions, results of operations or changes in the net position of the College.

Basis of Accounting
For financial reporting purposes, the Residential Services is considered as a special purpose government engaged in business type activities. Accordingly, the Residential Services financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The Residential Services reports capital assets net of accumulated depreciation, and reports depreciation expense in the Statement of Revenues, Expenses, and Changes in Net Position.

Cash and Cash Equivalents. For the purposes of the statements of cash flow, the Residential Services considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. Cash and cash equivalents include bank demand deposits, an overnight sweep account, petty cash held at the College and unit shares in the Local Government Investment Pool. Except for petty cash held at the College, all others are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Accounts Receivable. Accounts receivable consist of Residential Services charges to students. Accounts receivable is recorded net of estimated uncollectible amount.

Inventories. Inventories consist of consumables held by Residential Services maintenance. They are valued at lower of cost (first in, first out method) or market.

Capital Assets. Land, buildings, and equipment are stated at cost or, if acquired by gift, at acquisition value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized.

The capitalization threshold is $100,000 or greater for buildings and infrastructure but must also meet the requirement of at least 10% of the value of the asset, and $5,000 or greater for equipment. The purchase of land is capitalized regardless of cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, and 20 to 50 years for infrastructure and land improvements and 5 to 7 years for equipment.

Unearned Revenue. Unearned revenues occur when funds have been collected in advance of an event, such as advance ticket sales, and summer quarter Residential Services rent.

Compensated Absences. Employees accrue annual leave at rates based on length of service and sick leave at the rate of one day (8 hours) per month. Both are included in long-term liabilities. Employees are entitled to either the present value of 25% of his/her unused sick leave balance upon retirement or 25% of his/her net accumulation for the year in which it exceeds 480 hours.

Operating Revenues/Expenses. Operating revenues consist of auxiliary services such as room and equipment rentals, fees, fines and washer and dryer income. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and services and depreciation. All other revenue and expenses of Residential Services are reported as non-operating revenues and expenses including investment income, and interest expense.

Net Investment in capital assets: This represents the Residential Services total investment in capital assets, less accumulated depreciation, and net of outstanding debt obligations related to capital assets.

Unrestricted Net Position: The portion of the net position which is not subject to externally imposed restrictions, but which may be designated for specific purposes by management, or the Board of Trustees.

Tax Exemption. As a part of the College, the operations of Residential Services are exempt from federal income tax on related income under the provisions of Section 115(a) of the Internal Revenue Code.

Violations. The Residential Services does not have any material violations of finance-related legal or contractual provisions.

Note 2. Accounts Receivable

Accounts receivable which consists of Residential Services rent charges to students and auxiliary enterprise services and the related allowance for uncollectibles are as follows:

	2017
Student receivables	$209,746
Allowance for uncollectibles	(5,059)
Net accounts receivable	$204,687

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2017 is summarized below.

Capital assets	Balance June 30, 2016	Additions/ Transfers	Retirements & Adjustments	Balance June 30, 2017
Construction in progress	420,776	(31,625)		389,151
Total non-depreciable asset	420,776	(31,625)	-	389,151
Infrastructure	1,214,644	-	-	1,214,644
Improvements other than buildings	-	475,125	-	475,125
Buildings	23,846,557	-	-	23,846,557
Furniture, fixtures and equipment	2,538,874	177,437	-	2,716,311
Total depreciable assets	27,600,076	652,562	-	28,252,636
Less accumulated depreciation				
Infrastructure	1,168,428	4,402	-	1,172,830
Improvements other than buildings		792		792
Buildings	13,390,648	946,748	-	14,337,396
Furniture, fixtures and equipment	1,758,608	485,894	-	2,244,502
Total accumulated depreciation	16,317,684	1,437,835	-	17,755,519
Net capital assets	11,703,168	(816,899)	-	10,886,269

Note 4. Accrued Leave Liabilities

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by Residential Services employees are accrued when earned. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. Accrued vacation leave totaled $70,541 and sick leave totaled $22,546 at June 30, 2017.

Note 5. Long-Term Liabilities

The table below shows the changes in long-term liabilities for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion	Long-Term Portion
Long-Term Liabilities						
Accrued leave liabilities	$71,932	$70,541	$49,386	$93,087	$70,541	$22,546
Bonds payable	3,665,000	-	325,000	3,340,000	340,000	3,000,000
Total	$3,736,932	$70,541	$374,386	$3,433,087	$410,541	$3,022,546

Note 6. Bonds Payable

On March 14, 2016, the College refinanced the 2006 series bond in order to obtain a lower finance rate. It was refinance for $4.13 million and will mature in 2026. The 2006 bonds carried interest rates ranging from 3.75% to 4.25%, the refinanced rate is 2.39%. The proceeds from the original bond, which was refinanced in 2016, were used to fund the building of housing dorms.

	Interest Rate	Original Issue	Balance June 30, 2017
System revenue bonds			
Series 2015	2.39%	$4,130,000	$3,340,000

Debt Service Requirements

The scheduled maturities of system revenue bonds are as follows:

Fiscal Year	Principal	Interest	Total
2018	340,000	79,826	419,826
2019	345,000	71,700	416,700
2020	355,000	63,455	418,455
2021	365,000	54,970	419,970
2022	370,000	46,247	416,247
2023-2026	1,565,000	94,764	1,659,764
	$ 3,340,000	$ 410,961	$ 3,750,961

Internal Revenue Code regulations prohibit investing the proceeds from the issuance of debt, whose interest is exempt for income tax purpose at a higher rate of return than what the interest rate paid on the debt. This is known as Arbitrage, an exemption to this regulation exists for a temporary period for which proceeds are used to finance capital expenditures in accordance within a 3-year period. The Residential Services is in compliance with Arbitrage regulations as of June 30, 2017.

Note 7. Commitments

There were no unfinished construction projects for Residential Services for the year ended June 30, 2017. Encumbrances for June 30, 2017 are $2,779,016.

Note 8. Contingencies

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the College.

The College is a party to various litigations and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position of the College. Hence, the amounts of settlements, if any, have not exceeded insurance coverage in each of the past three years.

In accordance with State policy, the College self-insures unemployment compensation for all employees. The College is on a pay-as-you-go basis, in which claims are paid in the period incurred.

Note 9. Deferred Compensation

Residential Services as part of 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 until termination, retirement, death or unforeseeable financial emergency.

Note 10. Retirement Plans

The College offers three contributory pension plans, which cover eligible faculty, staff and administrative employees: The Washington State Public Employees' Retirement System (PERS) the Teachers Retirement System (TRS) and the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) are multiple-employer, defined benefit, public retirement systems administered by the State of Washington, Department of Retirement Systems (DRS), as established in the Revised Code of Washington (RCW) chapter 41.50.

The Evergreen State College Retirement Plan (TESCRP) is a defined contribution plan for the faculty and some exempt staff, with supplemental payment, when required.

For 2017, the payroll for Residential Services' employees was $354,622 for PERS and $344,163 for TESCRP. Total covered payroll for 2017 was $698,785 for 2016, the payroll for Residential Services' employees was $332,863 for PERS and $312,168 for TESCRP. Total covered payroll for 2017 was $645,031.

Residential Services implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Pensions for fiscal year 2017 financial reporting. Residential Services' defined benefit pension plans were created by statutes. With the exception of the supplemental component of the TESCRP plan, they are administered in a way equivalent to pension trusts as defined by the GASB.

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

Basis of Accounting

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of all plans and additions to/deductions from all plan fiduciary net positions have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Residential Services, for fiscal year 2017:

Aggregate Pension Amounts - Pers 2/3	
Pension liabilities	668,200
Pension assets	-
Deferred outflows of resources related to pensions	102,124
Deferred inflows of resources related to pensions	143,117
Pension expense/expenditures	479,217

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

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

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

Public Employees Retirement System (PERS)

Plan 1 - defined benefit
Plan 2 - defined benefit
Plan 3 – defined benefit/defined contribution

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

Administration of the PERS plans is funded by an employer rate of 0.18 percent of employee salaries.

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

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

A. DEFINED BENEFIT AND CONTRIBUTION PLANS

PERS Plan Descriptions

PERS are multiple-employer, defined benefit pension plans administered by the State of Washington, Department of Retirement Systems (DRS).

PERS Plan I
This plan provides retirement and disability benefits, and minimum benefits increase beginning at any age, with 30 years of service, or at age 55, with 25 years of service, or at age of 60 with five years of service to eligible members hired prior to October 1, 1977.

PERS Plan II
This plan provides retirement and disability benefits, and a cost-of-living allowance, beginning at age 65 with five years of service, or actuarially reduced benefit beginning at age 55 with 20 years of service to service to eligible members hired on or after October 1, 1977.

PERS Plan III

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

As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15% of salaries, on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

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

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

PERS defined benefit plan benefits are vested after an employee completes five years of eligible service.

Funding Policy

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determine the actuarially required contribution rates for PERS except where employee contribution rates are set by statute. All employers are required to contribute at the level established by State law. All required employee and employer contributions have been made to the above plans. The contribution rates may be found in Table B1.

The Evergreen State College Retirement Plan Description

The plan is a defined contribution plan administered by the College and covers most faculty and exempt staff. Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100% vested interest in their accumulations.

Employee contribution rates, which are based on age, range from 5% to 10%. The Residential Services matches the employee contributions. Employer and employee contributions for the years ended June 30, 2017 and 2016 were $2,147,118 and $2,018,282 respectively. All required employee and employer contributions have been made.

The benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% contribution after age 50, the benefit goal is 1.5% for each year of full-time service for the years in which the lower contribution was selected. No significant changes were made in the faculty benefit provisions for the year ended June 30, 2017.

The plan has a supplemental payment plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The College makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component of TESCRP is financed on a pay as you go basis. Effective for new employees hired on or after July 1, 2011, State law no longer offers this supplemental component benefit of TESCRP.

B. STATE PARTICIPATION IN PLANS ADMINISTERED BY DRS

Public Employees' Retirement System

Plan Description

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

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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

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

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

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

PERS Plan 1 members are vested after the completion of five years of service, or at the age of 55 with 25 years of service. The monthly benefits is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

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

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

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

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

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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

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

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

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

Required contribution rates for fiscal year 2016 are presented in the table B2 of this note.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2015 with the results rolled forward to the June 30, 2016 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

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

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

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%
Total	100.00%	

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long- term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the fiscal year 2017 reporting period.

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

Collective Net Pension Liability/Asset. At June 30, 2017, Residential Services reported $513,146 for its proportionate share of the collective net pension liability for PERS 1 and $155,053 for its proportionate share of the collective net pension liability for PERS 2/3. The proportions are based on Residential Services' contributions to the pension plan relative to the contributions of all participating employers.

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

PERS 1 Residential Services Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$618,242
Current Discount Rate	$513,146
1% Increase	$421,840

PERS 2/3 Residential Services Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$285,224
Current Discount Rate	$155,053
1% Increase	($80,641)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to pensions. For the year ended June 30, 2017, Residential Services recognized a PERS 1 pension expense adjustment of ($56,894) and PERS 2/3 pension expense adjustment of ($17,365). At June 30, 2017, PERS 1 and PERS 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Residential Services PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	12,908	-
Change in proportion	-	-
State Contributions subsequent to the measurement date	4,781	-
Total	$ 17,689	$ -

Residential Services PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 8,249	$ 5,114
Changes of assumptions	1,601	
Net difference between projected and actual earnings on pension plan investments	18,957	-
Change in proportion	34,438	138,003
State Contributions subsequent to the measurement date	21,190	-
Total	$ 84,435	$ 143,117

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

PERS 2/3		
2017	$	5,603
2018		5,603
2019		758,886
2020		470,390
2021		-
Therafter	$	-

TABLE B1: Required Contribution Rates

The required contribution rates (expressed as a percentage of current year covered payroll) at June 30, 2017 are as follows:

	Employer (College)			Employee		
Required Contribution Rates	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
PERS						
State agencies, local governmental units	11.00%	11.00%	11.00% *	6.00%	6.12%	**
	0.18%	0.18%	0.18%			
Total	11.18%	11.18%	11.18%			
*Plan 3 defined benefit portion only. ** Variable from 5% to 15% based on rate selected by the member.						

TABLE B2: Required Contributions

The required contributions for the years ending June 30, 2017, 2016 and 2015 are as follows:

		2017		2016		2015
PERS						
Employee	$	1,037,849	$	977,636	$	784,903
College	$	1,883,599		1,781,882		1,395,852

Note 11. Risk Management

The College purchases commercial insurance for auxiliary enterprise buildings, which were acquired with bond proceeds where the bond agreement requires the College to insure property and earnings. The College participates in a State of Washington risk management program based on the concept of self-insurance for coverage of its other properties. The College self-insures unemployment compensation for all non-student employees.

Note 12. Other Post Employment Benefits

The Residential Services adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expenditures and related liabilities (assets), note disclosures, and required supplementary information in the financial reports of state and local governmental employers. Statement No. 45 requires systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service. The Statement also provides information about actuarial accrued liabilities (AAL) associated with OPEB and whether and to what extent progress is being made in funding the plan.

The College funds OPEB obligations at a college-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB 45, does not exist at department levels, and as a result, the AAL is not available for auxiliary entities. The College is ultimately responsible for the obligation; therefore, the annual required contribution (ARC) is not recorded on Residential Services' financial statements.

Note 13. Pledged Revenues

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

Source of Revenue Pledged	Current Year Revenues Pledged (net)	Current Year Debt Service	Total Future Revenues Pledged	Description of Debt	Purpose of Debt	Term of Commitment
Student housing rentals	$ 1,794,818	$ 412,594	$ 3,750,962	2015 Housing Bond	Refunding of 2006 Bond Issue	2026

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov