Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

The Evergreen State College

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

Published May 21, 2018

Report No. 1021189

Office of the Washington State Auditor

Pat McCarthy

May 21, 2018

Board of Trustees
The Evergreen State College
Olympia, Washington

Report on Financial Statements

Please find attached our report on The Evergreen State College's 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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The Evergreen State College
July 1, 2016 through June 30, 2017

2017-001 The College did not have adequate internal controls in place to ensure it accurately reported its financial statements and notes.

Background

College management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure the College follows all generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) statements.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The College did not have a process to ensure sufficient research was performed to correctly implement new GASB standards. As a result, the College did not properly implement GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which affects accounting and financial reporting for pensions.

- The College did not dedicate the necessary time and resources to ensure all financial statement calculations were reported correctly on the face of the financial statements. Tuition revenues should have been reported net of discounts and allowances.

Cause of Condition

The College accounting department experienced turnover during the financial statements' preparation. As a result, the College did not have the staff or resources to perform a detailed, independent review of the financial statements to ensure proper implementation of GASB 73 and to ensure the statements agreed to supporting documents for tuition discounts and allowances.

Effect of Condition

Our audit identified the following errors in the financial statements and schedules provided for audit. The College did not:

- Include the cumulative effect in change of accounting principle due to GASB 73 on the Statement of Revenues, Expenses, and Change in Net Position. The misstatement amount was $2,456,768.

- Record the correct amount for deferred inflows of resources related to pensions on the Statement of Net Position. The misstatement amount was $1,446,000.

- Record the proper amount for scholarship discounts and allowances as prescribed by the National Association of College and University Business Officers (NACUBO). The College used the amount of refunds applied to student aid as the scholarship expenses instead of the scholarship allowance less the tuition waivers already booked. This resulted in revenues being understated and expenses being overstated, both by $3,048,486.

Other, less significant errors were also identified in the financial statements provided for audit. All material misstatements noted above were corrected.

Recommendations

We recommend College management develop and maintain adequate internal controls over financial statement reporting that ensure accurate and complete financial statements and footnotes. Specifically, the College should:

- Develop a process to ensure sufficient research is performed to correctly and promptly implement new GASB standards

- Develop a process including a detailed, independent review of the financial statements to ensure that the statements and the scholarship discounts and allowance calculation are reported properly and agree to supporting documentation

College's Response

The College agrees with the finding and the cause of the finding cited by the SAO, which identifies a lack of staff resources due to staff turnover in key positions during the financial statement preparation. The College understands the importance of strong internal controls and adequate review of the financial statements.

To address the cause and ensure adequate review in the future, the College is in the process of hiring an Assistant Accounting Manager (AAM). The AAM will be responsible for researching and correctly implementing new GASB standards and assisting in the preparation and review of year-end financial statements.

Auditor's Remarks

We appreciate the College's commitment to resolving the issues noted. We will review the status during the next audit.

Applicable Laws and Regulations

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, states in part:

> (4) In addition, the director of financial management, as agent of the governor, shall:
>
> (a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its *Codification of Statements on Auditing Standards,* Section 265 as follows:

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. 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.
>
> .A11 Indicators of material weaknesses in internal control include:
>
> - Identification of fraud, whether or not material, on the part of senior management. For the purpose of this indicator, the term "senior management" includes the principal executive and financial officers as well as any other members of senior management who play a significant role in the entity's financial reporting process;
> - Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
> - Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control; and
> - Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

> Section 20.15.30.a *Who is responsible for internal control?*
>
> > The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.
>
> Section 20.15.40.c *Control Activities*
>
> > Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.
>
> Section: 20.15.50.a - Annual assurance
>
> > A risk assessment and internal control review process provides management with reasonable assurance that controls are operating as expected. In addition, the process should be used to determine if internal control modifications are needed by considering events that have occurred, processes or procedures that have changed, new projects or programs that are being planned or implemented, and other changes within the agency that may have additional risks. If the review uncovers internal control weaknesses or if prior

weaknesses still exist, they should be documented and addressed.

Periodically, an agency should conduct a comprehensive review of the internal control structure to determine if it is adequately addressing agency risks. This can be done agency-wide at one time or by sections of the agency over a period of time.

Agencies must maintain adequate written documentation of activities conducted in connection with risk assessments, review of internal control activities and follow-up actions. This documentation includes any checklists and methods used to complete these activities. Refer to Subsection 20.25.50 for required documentation. For sample checklists and procedures, refer to the OFM Administrative and Accounting Resources website at: http://www.ofm.wa.gov/resources/default.asp.

Agencies have the flexibility to assign appropriate staff to complete the risk assessments and review of internal control activities required by this policy. The internal control officer is the person appointed by the agency head who is assigned responsibility for coordinating and scheduling the agency-wide effort of evaluating and reporting on reviews and improving control activities. The internal control officer also provides assurance to the agency head that the agency has performed the required risk assessments and the necessary evaluative processes. This communication may be ongoing and informal, but at least once per year, this assurance must be made in writing to the agency head. The internal control officer is responsible for ensuring that the required documentation is maintained and available for review by agency management, the State Auditor's Office (SAO), and OFM.

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

The Evergreen State College
July 1, 2016 through June 30, 2017

Board of Trustees
The Evergreen State College
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 business-type activities and the aggregate discretely presented component units 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 College's basic financial statements, and have issued our report thereon dated May 4, 2018.

As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of The Evergreen State College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

The financial statements of The Evergreen State 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, 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

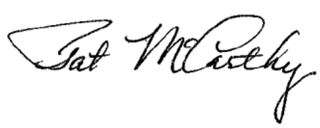
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

COLLEGE'S RESPONSE TO FINDINGS

The College's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

May 4, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Evergreen State College
July 1, 2016 through June 30, 2017

Board of Trustees
The Evergreen State 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 units 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 College's basic financial statements as listed on page 17.

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

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of The Evergreen State College, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2017, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of The Evergreen State 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, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2018 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.

Pat McCarthy

State Auditor

Olympia, WA

May 4, 2018

FINANCIAL SECTION

The Evergreen State College
July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

The Evergreen State College

The following discussion and analysis provides an overview of the financial position and activities of The Evergreen State College (the College) for the fiscal year (FY) ended June 30, 2017 with comparative June 30, 2016 financial information. Management's Discussion and Analysis (MD &A) provides the readers 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.

Reporting Entity

The Evergreen State College is one of six state-assisted public institutes of higher education in the state of Washington, providing baccalaureate and graduate educational programs to approximately 3,800 students. The College was established in 1967 and its primary purpose is to prepare individuals for successful contributions to society through their careers and in their leadership roles as citizens.

The College's campus is located in Olympia, Washington, a community of about 51,500 residents. The College also has operations in Tacoma and along the Olympic Peninsula on the Quinault Indian Reservation. The College is governed by an eight member Board of Trustees appointed by the governor of the state with the consent of the state Senate. One of the members is a full-time student of the College. By statute, the Board of Trustees has full control of the College and its property of various kinds, except as otherwise provided by law.

Using the Financial Statements

The College reports as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, as amended. Under this model, the financial report consists of three financial statements, the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flow. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

GASB has issued Statement No. 39, Determining Whether Certain Organizations are Component Units. This requires the College to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under these requirements, The Evergreen State College Foundation is a component unit of the College and the foundation financial statements and the notes to their financial statements are included with the College's financial statements and notes to the financial statements, respectively.

Financial Highlights

In FY 2017 the College's net position increased by about $1.2 million and in FY 2016 the College's net position increased by $14.5 million. Both increases are mostly due to state capital appropriations of $10.5 million in FY 2017 and $16.5 million in FY 2016 to fund renovations and new construction.

In December 2016 the College refinanced the Certificate of Participation originally issued in 2009 to finance the remodel of the Campus Activities Building. By refinancing the debt, the College secured a lower interest rate, 1.91% for the 2016 issue compared to 5.16% for the 2009 issue, saving the College $1,294,125 over the life of the debt.

In November of 2015, the College purchased land and a building for a permanent location for the Tacoma program at a total cost of $12,575,152.

Statements of Net Positions

The Statements of Net Positions provides information about the College's financial position, and presents the College's assets, liabilities, and net positions at year-end and includes all assets and liabilities of the College.

A condensed comparison of the Statements of Net Positions as of June 30, 2016 and 2017 follows:

Condensed Statements of Net Positions As of June 30 (in thousands)		2017		2016
Assets				
Current assets	$	52,371	$	55,294
Capital, net		189,791		189,322
Other non-current assets		6,216		6,486
Total Assets		248,378		251,102
Deferred Outflows		5,479		2,558
Liabilities				
Current liabilities		14,850		17,620
Other non-current liabilities		45,247		42,787
Total liabilities		60,097		60,407
Deferred Inflows		1,595		2,267
Total Net Position	$	192,165	$	190,986

Assets

Current assets consist primarily of cash and cash equivalents, short-term investments, various accounts receivables, net and inventories. Current assets decreased by $2.9 million from FY 2016 to FY 2017, primarily the result of a decrease of $5.4 million in the amount due from the state treasurer for capital projects offset by an increase in accounts receivable of $1.5 million.

The decrease in the amount due from the state treasurer is expected. The majority of the amount due at the end of FY 2016, about $5.4 million, was being held for the completion of the renovation on the Purce Lecture Hall and for the remodel of Lab 2, both of which, were completed in FY 2017. At the end of FY 2017 we did not have any large uncompleted capital projects. The increase of $1.5 million in accounts receivables is mostly due to year over year increases in the receivable balances of summer school, title IV, the bookstore and food services.

Capital assets increased slightly in FY 2017 by about $469 thousand. Total capitalized assets were $8.9 million including, $4.4 million to remodel Lab 2, $2.9 million of assets under construction and the purchases of other smaller capital assets less, current year depreciation of $8 million and a reclass of a $500 thousand library asset.

Deferred outflows related to implementation of GASB 68 increased by $2.9 million. The College uses the Participating Employer Financial Information report prepared by the state Department of Retirement Services to determine deferred outflows.

Liabilities

Liabilities include amounts payable to suppliers for goods and services, accrued payroll, leave and related liabilities, bond debt, deposits held for others and unearned revenue.

Current liabilities decreased by about $2.8 million from FY 2016 to FY 2017 primarily due to a decrease in accounts payable of $4 million offset by an increase in unearned revenue of $1 million.

The decrease in payables is expected as capital projects authorized during the FY 2015-17 biennium were completed during the year reducing the amount owed to contractors. The increase in deferred revenue is money received for the Longhouse Education and Culture Center project.

Noncurrent liabilities increased by $2.5 million from FY 2016 to FY 2017 primarily due to an increase in the net pension liability of $4 million as a the result of the continued application of GASB No. 68 and GASB 73, Accounting and Financial Reporting for Pensions, that requires the College to recognize its long-term obligation for its share of the actuarially calculated net pension liability for the retirement plans administered through a trust by the State of Washington Department of Retirement Systems. These increase was offset by current year principle payments reducing long term debt balances by $1.5 million.

Deferred inflows related to implementation of GASB 68 and GASB 73 decreased by $700 thousand. The College uses the Participating Employer Financial Information report prepared by the state Department of Retirement Services and the TESC Supplemental Retirement Plan 2017 Actuarial Valuation to determine deferred inflows.

Net Position

Net position represents the difference between the College’s assets and deferred outflows, less liabilities and deferred inflows. The change in net position measures whether the overall financial condition has improved or deteriorated during the year and is driven by the difference between revenues and expenses.

The College reports its net position in four categories:

Invested in Capital Assets (Net of Related Debt) –
This is the College’s total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted Net Position-Expendable –
This consists of resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties that have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are student loans, capital project funds and the expendable portion of endowments.

Non Expendable –
Consists of funds in which the donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only.

Unrestricted Net Position –
These are all the other funds available to the College for the general and educational obligations to meet current expenses for any lawful purpose. Unrestricted net position are not subject to externally imposed stipulations; however, the College has designated the majority of unrestricted net position for various academic and college support functions.

During FY 2017 and FY 2016, the College's net position increased by $1.2 and $14.5 million, primarily due to capital revenues. In FY 2017 the College received $10.5 million in capital appropriations and in FY 2016 the College received $16.5 million in capital appropriations. The amount of capital appropriations received had a direct effect on the, Invested in capital assets, net of related debt net position, increases of $1.9 million in FY 2017 and $9.5 million in FY 2016.

Unrestricted net position decreased in FY 2017 by $340 thousand and increased by $5 million in FY 2016.

Evergreen's net position as of June 30, 2017 and 2016 are summarized as follows:

Condensed Net Positions Net Positions (in thousands)		2017		2016
Invested in capital assets, net of related c	$	166,656	$	164,773
Restricted:				
Pensions		160		279
Non-expendable: Scholarships		2,120		2,175
Expendable		6,806		6,997
Unrestricted		16,422		16,762
Total net position	$	192,165	$	190,986

Statements of Revenues, Expenses and Changes in Net Positions

The Statements of Revenues, Expenses and Changes in Net Positions present the detail of the changes of total net position for the College. The objective of the statements are to present the revenue and expenditures, both operating and non-operating, along with any other revenue, expenses, gains and losses of the College. Generally, operating revenues are revenues earned by the College in exchange for providing goods and services. Operating expenses are defined as expenses incurred in the normal operation of the College, including a provision for allowance of depreciation on property and equipment assets. The difference between operating revenues and operating expenses is the operating loss. The College will always be expected to show an operating loss since state appropriations are shown as non-operating revenues as required by the Governmental Accounting Standards Board (GASB), the rule setting body for accounting standards for the College.

A summary of the College's Statements of Revenues, Expenses and Changes in Net Positions for the Years Ended June 30, 2017 and 2016 follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Positions For the years ended June 30 (in thousands)	2017	2016
Operating revenues	$ 63,372	$ 61,437
Operating expenses	108,078	99,322
Net operating loss	(44,706)	(37,885)
Non-operating revenues	38,245	35,880
Non-operating expenses	-	-
Gain(loss) before other revenues	(6,461)	(2,005)
Other revenues and expenses	10,520	16,527
Increase in net assets	4,059	14,522
Net assets at beginning of year	190,986	175,906
Prior Period Adjustment Note 19	(2,880)	558
Net assets at end of year	$ 192,165	$ 190,986

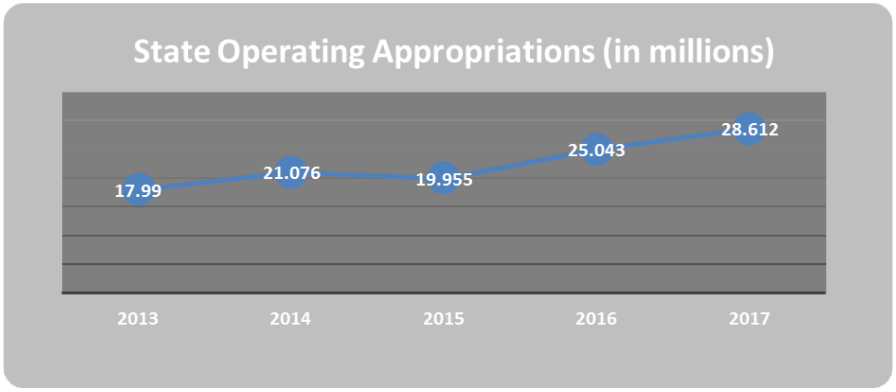
Operating and Non-operating Revenues

Tuition and fees, net (of scholarship discounts and allowances), and state operating appropriations are the primary sources of funding for the College's operations.

In FY 2017, the College's operating revenue increased by $1.9 million.

Net tuition revenues (tuition and fees less scholarship allowances) increased by $2.5 million or 8% compared to FY 2016. Both the federal grants and contracts (including the federal Pell Grant) and the State Need Grant revenues decreased in FY 2017. The federal grants and contracts (including the federal Pell Grant) decreased by about $789 thousand and the State Need Grant decreased by about $702 thousand. The decreases in federal and state grants were primarily due to lower enrollment which reduced the number of students eligible for these grants.

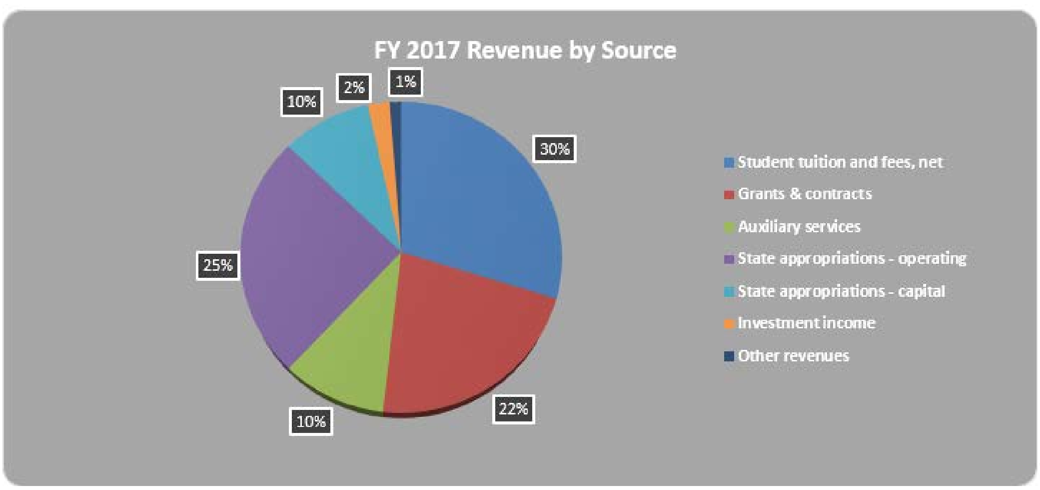
State appropriations used for operations increased by $3.6 million or 14%. The increase was to fund a 15% state mandated decrease in the cost of tuition to resident undergraduate students, a 1.8% salary increase for state employees as well as to fund a student success initiative.



The line graph above illustrates the recent state support provided to the College and is representative of the budget increases to Higher Education in FY 2017. The Washington State Legislature has tuition setting authority for resident undergraduate students and as such there was a 15% tuition decrease for these students in FY 2017 and a 5% tuition decrease in FY 2016. The College received increased state operating appropriations to offset the loss in resident undergraduate tuition created by the tuition decreases.

The College maintains tuition setting authority for non-resident undergraduate, resident graduates and non-resident graduates and as such tuition increased in each category, consistent with prior years.

The graph and table below reflect the percentage of revenue received by revenue source:

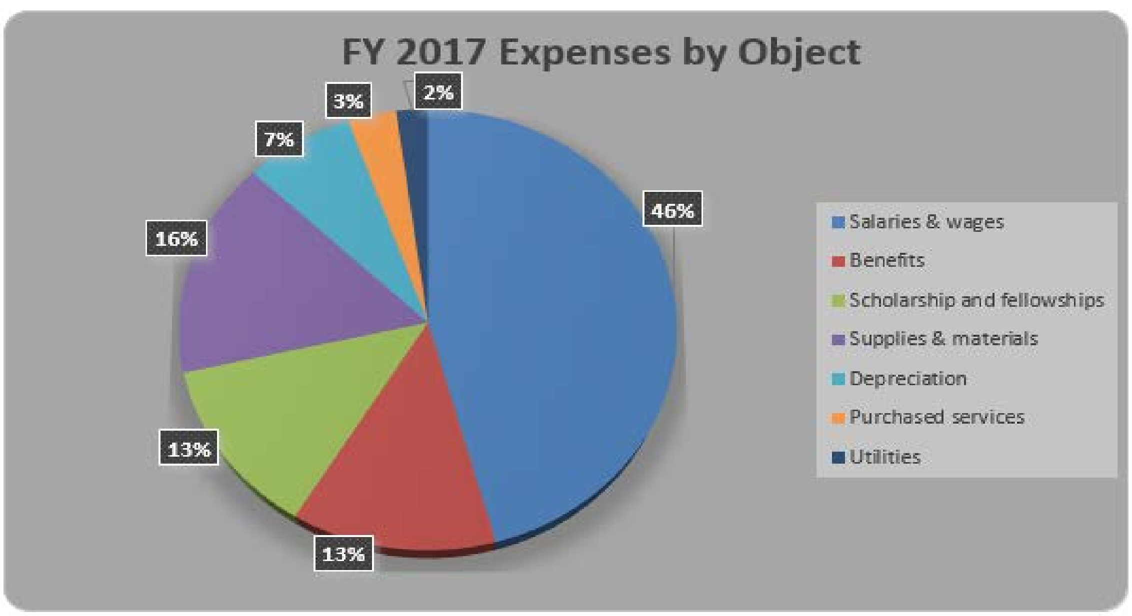


Revenues by Source (in thousands) For the years ended June 30, 2017 and 2016		2017			2016	
Student tuition and fees, net	$	33,704	30%	$	31,163	27%
Grants & contracts		24,826	22%		26,341	23%
Auxiliary services		11,525	10%		10,933	10%
State appropriations - operating		28,612	25%		25,043	22%
State appropriations - capital		10,520	9%		16,528	15%
Investment income		2,563	2%		2,657	2%
Other revenues		1,337	1%		1,180	1%
Total revenues	$	113,087	100%	$	113,845	100%

Operating Expenses

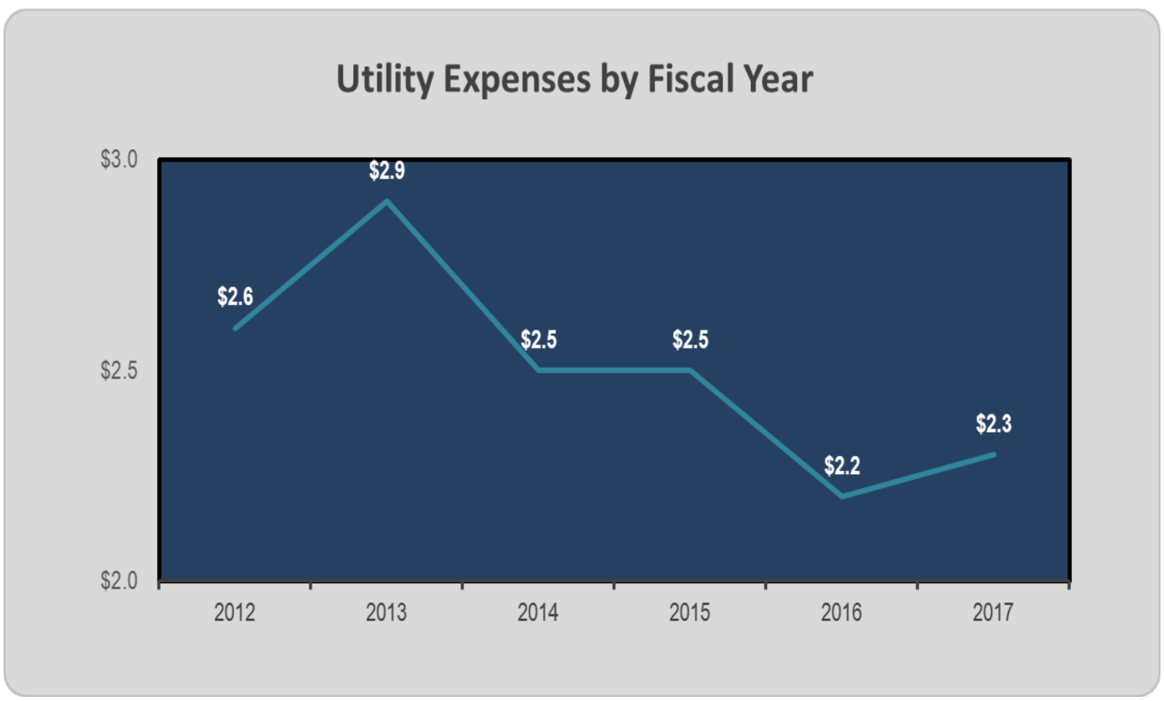
In 2017, the College's total operating expenses increased by about $8.7 million. The increases mainly due to an increase in salaries, wages and benefits of $3.2 million due to a state approved 1.8% salary increase for all state employees, an increase in maintenance costs (supplies and materials) of $2.1 million partly due to an increase of capital appropriations for maintenance and operations and a $4.1 million increase in scholarships. The increased maintenance costs includes about a $90 thousand increase in utility costs due to an increase in water rates and the completion of the lecture hall. Decreases in operating expenses included a $600 thousand decrease in benefits and a $500 thousand decrease in depreciation.

The graph and table below reflect the percentage of operating expenses by object:



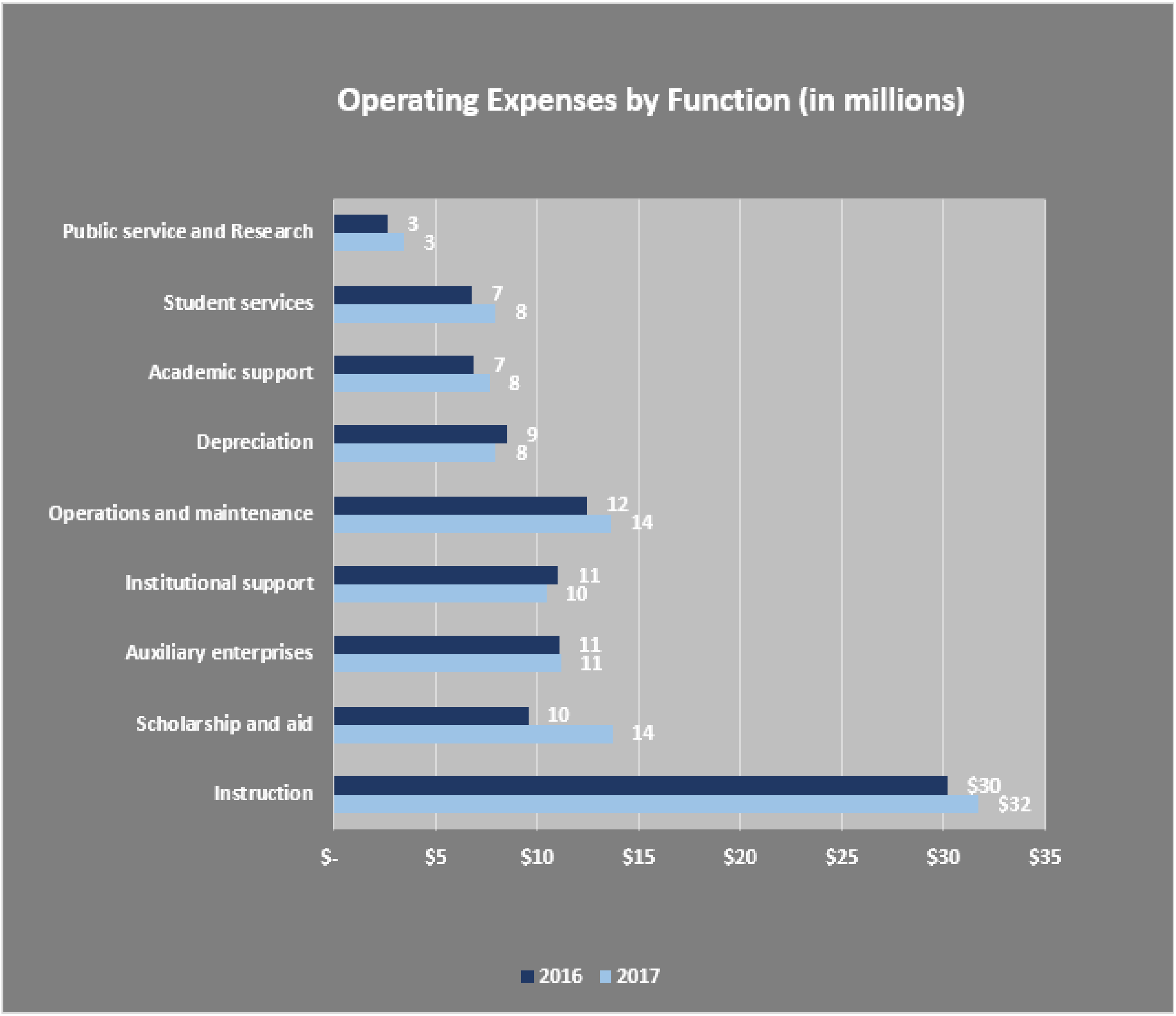
Operating Expenses By Object (in thousands) For the years ended June 30, 2017 and 2016	2017		2016	
Salaries & wages	$ 49,431	46%	$ 46,256	47%
Benefits	14,001	13%	14,579	15%
Scholarship and fellowships	13,697	13%	9,541	10%
Supplies & materials	17,151	16%	15,073	15%
Depreciation	8,005	7%	8,524	9%
Purchased services	3,506	3%	3,152	3%
Utilities	2,287	2%	2,197	2%
Total Expenses	**$ 108,078**	**100%**	**$ 99,322**	**100%**

The College is a national leader in the area of environmental sustainability, with an institutional goal of being carbon neutral. To achieve this, the students have assessed themselves a fee to purchase green electrical power. In addition, there is a conscious effort to lower utility costs by conservation and other measures. These efforts over the last six years have been very successful, as the chart below illustrates. The one-time increase in utility costs in FY 2013 was due to the completion of the COM building remodel. Through conservation efforts the COM building and other campus buildings utility costs steadily decreased from FY 2013 through FY 2016 but increased by about $90 thousand in FY 2017 due to an increase in water rates and the renovation of the lecture hall.



Comparison of Operating Expenses by Function

This chart shows the dollar amount for each functional area of operating expenses for 2017 and 2016.



Capital Asset and Debt Activities

During FY 2017 the College continued to increase its investment in capital assets and refinanced the lease of the CAB building at a lower interest rate.

In FY 2017, the Lab 1 building's basement and the Lab 2 second floor renovation projects were completed. During FY 2017 and 2016, the Lecture Hall underwent a $15.9 million renovation project which was completed at the beginning of FY 2017. These projects have been funded by capital appropriations received from the state.

In December of 2016, the College issued Notes Payable, in the amount of $9,965,000, in an advance refunding with the proceeds of the issue being used to refund (pay off) the outstanding lease s376-10-1, which was originally issued in 2009 to fund the renovation of the Campus Activities Building. The interest rate of the 2016 issue was 1.91% versus the previous rate of 5.16%. This refunding enabled the College to save $1,294 thousand over the life of the lease. (Note 10)

Financial Summary and Economic Factors That Will Affect the Future

In FY 2017 the College’s net position increased by about $1.2 million and in FY 2016 the College’s net position increased by $14.5 million. Both increases are mostly due to increased state capital appropriations of $10.5 million in FY 2017 and $16.5 million in FY 2016 to fund renovations and new construction.

The state of Washington continues to address the requirement of the Supreme Court’s 2012 McCleary ruling that found the state has not met its constitutional requirement to sufficiently fund basic education. The ruling may impact future funding for higher education.

For the 2015-17 biennium, the Washington State Legislature enacted legislation that revoked public universities’ authority to set their own undergraduate resident tuition rates requiring Evergreen to reduce resident undergraduate tuition by 5% in FY 2016 and 15% in FY 2017. These reductions were offset by increases in state appropriations,

Enrollment has been declining for the past five years but may have bottomed out. However, if enrollments continue to decline the College could experience a decline in tuition revenue.

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

	2017
Assets	
Current Assets	
Cash and cash equivalents	$ 40,464,016
Short-term investments	500,000
Due from State Treasurer	434,244
Funds held with State Treasurer	1,938,857
Accounts receivable, net	7,695,293
Student loan receivables, net	578,480
Inventories	759,958
Total current assets	**52,370,848**
Non-Current Assets	
Investments	2,778,588
Student loan receivables, net	3,278,054
Net Pension Asset	159,726
Capital assets, net of depreciation	189,790,739
Total non-current assets	**196,007,107**
Total assets	**248,377,955**
Deferred Outflows	
Relating to pension (Note 16)	5,452,496
Deferred Outflow on Refundings	26,654
Total deferred outflows	**5,479,150**
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	5,481,650
Unearned revenues	5,357,036
Deposits payable	262,567
Compensated absences	2,432,220
Current portion of bonds and notes payable	1,316,232
Total current liabilities	**14,849,705**
Non-Current Liabilities	
Compensated absences	844,500
Net pension liability (GASB 73)	6,510,000
Net pension liabilities (GASB 68)	16,047,834
Long Term Debt (Note 8)	21,845,184
Total non-current liabilities	**45,247,518**
Total liabilities	**60,097,223**

The accompanying notes are an integral part of these financial statements.

Deferred Inflows	
Relating to pension (GASB 73)	1,446,000
Relating to pension (GASB 68) Note 16	149,281
Total deferred inflows	**1,595,281**
Net Position	
Net Investment in capital assets	166,655,976
Restricted for:	
Pensions	159,726
Nonexpendable:	
Scholarships and professorships	2,120,118
Expendable:	
Loans	6,276,362
Endowment earnings	529,932
Other	-
Unrestricted	16,422,487
Total net position	**$ 192,164,601**

The accompanying notes are an integral part of these financial statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
Statement of Financial Position
Year Ended June 30, 2017

ASSETS

		2017
CURRENT ASSETS		
Cash, including restricted cash	$	3,078,398
Investments		249,538
Beneficial interest in lead trust		150,000
Unconditional promises to give, current		357,230
Total Current Assets		**3,835,166**
OTHER ASSETS		
Investments		14,273,546
Beneficial interest in lead trust		1,633,127
Long-term unconditional promises to give		180,857
Total Other Assets		**16,087,530**
Total Assets	**$**	**19,922,696**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	$	14,381
Payable to College		314,670
Total Current Liabilities		**329,051**
ANNUITY PAYMENT LIABILITY		**10,036**
Total Liabilities		**339,087**
NET ASSETS		
Unrestricted		1,904,757
Temporarily Restricted		8,565,556
Permanently Restricted		9,113,296
Total Net Assets		**19,583,609**
Total Liabilities and Net Assets	**$**	**19,922,696**

The accompanying notes are an integral part of these financial statements.

The Evergreen State College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

	2017
Operating Revenues	
Student tuition and fees	46,251,818
Less scholarship discounts and allowances	(12,547,962)
Auxiliary enterprise sales, net	10,761,655
State and local grants and contracts	9,118,651
Federal grants and contracts	3,918,304
Nongovernmental grants and contracts	3,769,671
Other operating revenue	1,149,213
Sales and services of educational activities	762,857
Interest on loans to students	187,581
Total operating revenue	**63,371,789**
Operating Expenses	
Salaries and wages	49,430,582
Benefits	14,000,618
Scholarships and fellowships	13,697,300
Supplies and materials	17,151,768
Depreciation	8,005,636
Purchased services	3,505,738
Utilities	2,286,829
Total operating expenses	**108,078,472**
Operating loss	**(44,706,683)**
Non-Operating Revenues (Expenses)	
State appropriations	28,612,000
Federal pell grant revenue	8,018,996
Investment income, gains and losses	2,563,433
Debt service	(949,706)
Net non-operating revenues	**38,244,723**
Income/(Loss) before contributions	**(6,461,960)**
Capital appropriations	10,520,588
Increase/(Decrease) in net position	**4,058,628**
Net Position	
Net position, beginning of year	190,986,084
Prior Period Adjustment (Note 18)	(423,343)
Cumulative effect of change in accounting principal	(2,456,768)
Net position, beginning of year - restated	188,105,973
Net position, end of year	**$ 192,164,601**

The accompanying notes are an integral part of these financial statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017
SUPPORT AND REVENUES				
Gifts and contributions	$ 262,033	$ 2,657,568	$ 230,115	$ 3,149,716
In-kind support from College	1,307,136	-	-	1,307,136
Investment income	216,168	1,348,929	-	1,565,097
Change in value of split-interest agreement	-	(2,475)	-	(2,475)
Gift fees	79,538	-	-	79,538
Reclassifications and transfers	-	(62,271)	62,271	-
Net assets released from restrictions	2,502,192	(2,502,192)		-
Total support and revenues	**4,367,067**	**1,439,559**	**292,386**	**6,099,012**
EXPENSES				
Program services:				
Grants and scholarships	2,229,074	-	-	2,229,074
Other College support	425,342	-	-	425,342
Total program services	2,654,416	-	-	2,654,416
Support Services:				
Management and General	861,088	-	-	861,088
Fundraising	617,793	-	-	617,793
Total support services	1,478,881	-	-	1,478,881
Total expenses	**4,133,297**	**-**	**-**	**4,133,297**
Increase (decrease) in net assets	**233,770**	**1,439,559**	**292,386**	**1,965,715**
NET ASSETS				
Beginning of year	1,670,987	7,125,997	8,820,910	17,617,894
Ending Net Assets	**$ 1,904,757**	**$ 8,565,556**	**$ 9,113,296**	**$ 19,583,609**

The accompanying notes are an integral part of these financial statements.

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

	2017
Cash flows from operating activities	
Student tuition and fees	42,540,120
Grants and contracts	16,806,627
Sales and services of educational activities	762,857
Auxiliary enterprise sales	10,761,655
Payments to employees	(65,318,397)
Payment to vendors	(27,089,896)
Payment for scholarships and fellowships	(21,032,451)
Net cash used by operating activities	**(42,569,485)**
Cash flows from noncapital financing activities	
State operating appropriations	28,612,000
Direct lending receipts	22,223,676
Direct lending disbursements	(22,223,676)
Agency fund receipts	(730,020)
Agency fund disbursements	749,634
Federal pell grant receipts	8,018,996
Net cash provided by noncapital financing activities	**36,650,610**
Cash flows from capital and related financing activities	
Capital appropriations	15,874,818
Certificate of participation proceeds net of refunding	9,565,000
Purchase of capital assets	(9,320,616)
Principal paid on capital debt	(10,982,690)
Debt Service Expenses and Interest	(1,055,901)
Net cash provided by capital and related financing activities	**4,080,611**
Cash flows from investing activities	
Purchase of investments	
Proceeds from sales and maturities of investments	5,500,000
Income from investments, net	3,715,734
Net cash provided by investing activities	**9,215,734**
Increase in cash and cash equivalents	**7,377,470**
Cash and cash equivalents at the beginning of the year	**33,086,546**
Cash and cash equivalents at the end of the year	**$ 40,464,016**

The accompanying notes are an integral part of these financial statements.

Reconciliation of Operating Loss to Net Cash used by Operating Activities

		2017
Operating Loss	$	(44,706,683)
Depreciation expense w Amortization		8,008,682
Net Pension Expense		(2,090,963)
Changes in assets and liabilities		
Accounts receivable		(1,476,738)
Loans receivable		517,287
Inventory		(69,521)
Bond discount and issue costs		-
Accounts payable and accrued expenses		(3,899,764)
Unearned revenues		1,016,226
Deposits		107,543
Net Pension Obligation Expense		24,446
Net cash used by operating activities		**(42,569,485)**
Noncash transactions:		
Purchase of endowment investments		(689,338)
Proceeds from sales and maturities of endowment investments		614,813

The accompanying notes are an integral part of these financial statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
Statement of Cash Flows
Year Ended June 30, 2017

		2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	1,965,715
Adjustments to reconcile change in net assets to net		
Cash provided by operating activities:		
Contributions restricted for long term purposes		(292,386)
Bad Debts		(50)
Donated marketable securities		(79,305)
Investment Income added to investments		(470,399)
Unrealized (gains) losses on investments		(1,094,698)
Decrease (Increase) in unconditional promises to give		235,148
Decrease (Increase) in Split-Interest Agreements		104,644
Decrease in accounts payable		(1,798)
Increase in payable to College		159,647
Net cash provided (used) by operating activities		**526,518**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from CDs		345,000
Proceeds from sale of donated stock		77,267
Purchases of investments		(130,715)
Net cash provided (used) by investing activities		**291,552**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes		292,386
Payment of annuity obligations		(3,035)
Net cash provided by financing activities		**289,351**
Net increase (decrease) in cash and cash equivalents		**1,107,421**
CASH AND CASH EQUIVALENTS		
Beginning of year		1,970,977
End of year	**$**	**3,078,398**

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Evergreen State College (the College) is a comprehensive institution of higher education offering baccalaureate and master's degrees. The College is an agency of the State of Washington, and is governed by an eight-member Board of Trustees appointed by the Governor and confirmed by the State Senate.

Financial Statement Presentation

The financial statements of the College for the year ended June 30, 2017 have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted accounting standard setting body for establishing governmental accounting and financial reporting principles. These financial statements have been prepared in accordance with GASB Statement No. 35, ***Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities***, and GASB No. 37 & 38.

The Governmental Accounting Standards Board has issued Statement No. 61, ***The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34***. This statement modifies certain requirements for inclusion of component units in the financial reporting entity.

Under GASB Statement Numbers 61 and 39 criteria, The Evergreen State College Foundation is considered a legally separate component unit of the College and is discretely presented in the College's financial statements. The Foundation is considered a discretely presented component unit because it has a separate board of directors, but is fiscally dependent on and provides benefits exclusively to the College.

During the fiscal year ended June 30, 2017, the Foundation distributed approximately $800 thousand to the College for restricted and unrestricted purposes. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. Audited financial statements of the Foundation may be found at www.evergreen.edu/foundation/.

Basis of Accounting

For financial reporting purposes, the College is considered as a special purpose government engaged in business type activities. Accordingly, the College's 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The College reports capital assets net of accumulated depreciation, and reports depreciation expense in the Statements of Revenues, Expenses, and Changes in Net Positions.

New Accounting Pronouncements

Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68. GASB Statement No. 73 addresses three separate subjects, two of which are effective for fiscal year 2016 reporting. It requires assets accumulated for pension purposes to be reported as assets of the employer. It also amends Statements 67 and 68 by:

- limiting disclosure of investment related factors that significantly affect trends in the amounts reported to factors that the pension plan or government have influence over;
- defining separately financed specific liabilities and financial reporting for those liabilities; and,
- requiring employers to recognize revenue for the support of non-employer contributing entities not in a special funding situation in the period in which the contribution is reported as a change in the net pension liability. Effective date is July 01, 2016.

Cash and Cash Equivalents

For the purposes of the statements of cash flow, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Funds invested through the State Treasurer's Local Government Investment Pool are also considered cash equivalents. Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

Investments
The College, through its investment policy, where applicable, manages its exposure to custodial credit risk, credit risk, concentration of credit risk and interest rate risk by investing only in eligible investments authorized by State statute found in RCW 39 and 43. Investments are discussed further in Note 2.

Accounts Receivable
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable is recorded net of any estimated uncollectible amount.

Inventories
Inventories consist primarily of merchandise and consumables held by auxiliary and internal service departments. They are valued at cost using the first in, first out method.

Capital Assets
Land, buildings, equipment, and library resources 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 for intangibles, such as computer software is $1 million, a $100,000 or greater threshold for buildings and infrastructure, 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, 20 to 50 years for infrastructure and land improvements, 15 years for library resources and 5 to 7 years for equipment.

Deferred Outflows of Resources and Deferred Inflows or Resources
Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Unearned Revenue
Unearned revenues occur when funds have been collected in advance of an event, such as advance ticket sales, summer quarter tuition, and unspent cash advances on certain grants.

Compensated Absences
College 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 recorded as liabilities. Employees are entitled to either the present value of 25% of his/her unused sick leave upon retirement or 25% of his/her net accumulation for the year in which it exceeds 480 hours.

Net Pension Liability
TESC records pension obligations equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the defined benefit plans have been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Pension expense is recognized for benefits earned during the measurement period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual performance and changes in assumptions about future economic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

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 Positions. 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.

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 Positions, and recognized as such when the related expenses are incurred.

Operating Revenues/Expenses

Operating revenues consist of tuition and fees, grants and contracts, sales and service of educational activities and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as non-operating revenues and expenses including State general appropriations, federal Pell Grant revenues and investment income and interest expense.

Net Position

The College's net position components are classified as follows:

Net Investment in Capital Assets: This represents the College's total investment in capital assets, less accumulated depreciation, and net of outstanding debt obligations related to capital assets.

Restricted Net Position – Nonexpendable: This consists of endowment and similar type funds in which the donor or other outside sources have stipulated, as a condition of the gift, that the principal is to be maintained by inviolate and in perpetuity, and invested for the purpose of present and future income, which may be either expended, or added to principal.

Restricted Net Position – Expendable: This consists of resources that the College is obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position: This consists of 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

The College is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income. The Foundation is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

Violations

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

Note 2. Valuation of Cash and Investments

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).

In accordance with GASB Statement No. 72 assets are valued at fair market value (FMV). They consist of time certificates of deposit in addition to investments in equities, bond funds and fixed income bonds. Time certificates of deposit have repurchase agreements with the respective financial institutions; investments in equities are subject to loss of all 100% of the balance of investments. The statement provides a hierarchy of reporting between Levels 1 and 3 which are defined below:

Investments classified as level 1. Investments classified as level 1 are exchange traded equity securities whose values are based on published market prices and quotations from national security exchanges as of the New York Stock Exchange close, as of each reporting period end.

Investments classified as level 2. Investments classified as level 2 in the above table are primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Investments classified as level 3. Private equity, real assets, and other investments classified in level 3 are valued using either discounted cash flow or market comparable techniques. This category includes hedge funds, limited partnerships, and other alternative investments. The college does not have any investments in this level.

GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

As noted earlier, in the Summary of Significant Accounting Policies section, the College, through its investment policy, manages its exposure to custodial credit risk, credit risk, concentration of credit risk and interest rate risk by investing only in eligible investments authorized by State statute found in RCW 39 and 43**.**

	June 30, 2017	June 30, 2016
Cash on hand	21,415	21,350
Bank demand and time deposits	5,032,322	23,029,315
Local government investment pool	35,410,278	10,035,881
Total cash and cash equivalents	40,464,016	33,086,546

Interest Rate Risk

The College manages its exposure to interest rate changes by limiting the duration of investments and structuring the maturities of investments to mature at various points in the year.

Concentration of Credit Risk

The College's Time Certificates of Deposit are insured through either the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the PDPC. The Endowment fund investment policy allows for the investments in equities of domestic publicly listed corporations on national exchanges.

Investment Maturities and Fair Market Value Reporting Level				
Investments	Fair value	One year or less	1-5 years	Fair Value Measurement: Level Inputs
Operating Funds				
Time certificate of deposits				
Heritage Bank	$ 500,000	$ 500,000	$ -	N/A
Bonds	-	-		Level 2
Cash Equivalents				
Bond Funds	2,778,588			Level 2
Equities	-	n/a	n/a	
Totals	$ 3,278,587			

At June 30, 2017 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is $778,588, which is reported as restricted, expendable on the Statement of Net Position. State law allows for spending of net appreciation on investments of donor-restricted endowments. Accordingly, the income distribution policy is 5% of the three year moving average value of the net assets.

Note 3. Funds with State Treasurer

Funds with the State Treasurer represent the College's share of net earnings of the Normal School Permanent Fund as well as tuition distribution, reduced by expenditures for capital projects and debt service over the years in addition to monies held for the sale of College license plates. The Normal School Permanent Fund, established under RCW 43.79.160 is a permanent endowment fund, which derives its corpus from the sale of State lands and timber. The Washington State Investment Board manages the investing activities of the fund and the State Department of Natural Resources manages the sale of State lands and timber. Interest earned from the investments is either reinvested or used exclusively for the benefits of Central Washington University, Eastern Washington University, The Evergreen State College and Western Washington University.

Note 4. Accounts and Student Loans 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 the federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to grants and contracts.

Accounts receivable at June 30 consisted of the following:

		2017
Student tuition and fees	$	4,789,306
Federal, state and private grants		1,400,825
State appropriation receivable		434,244
Auxiliary enterprises		1,521,674
Other operating activities		365,455
Subtotal		8,511,503
Allowance for uncollectibles		(381,966)
Net accounts receivable	$	8,129,538

Loans receivable at June 30 consisted primarily of student loan funds as follows:

		2017
Perkins loans	$	3,830,694
Other loans		33,466
Subtotal		3,864,159
Allowance for uncollectibles		(7,625)
Net student loans receivable	$	3,856,534

Note 5. Inventories

Inventories at June 30 consist of the following:

Inventories		Balance June 30, 2017
Enterprise funds	$	163,939
Working capital funds		596,019
Total inventory	$	759,958

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2017 is summarized as follows:

	Balance June 30,2016	Prior Period Adjustments	Balance June 30,2016	Additions/ Transfers	Retirements Transfers	Balance June 30,2017
1701 Land	$ 8,861,129		8,861,129	$ -	$ -	$ 8,861,129
1750 Construction in progress	20,691,025		20,691,025	7,739,423	4,840,046	23,590,402
Total non-depreciable assets	29,552,154		29,552,154	$ 7,739,423	4,840,046	32,451,531
1705 Infrastructure	13,765,378		13,765,378	-	-	13,765,378
1702 Buildings	235,210,845		235,210,845	4,382,790	-	239,593,635
1703 Improvements other than buildings	1,250,382		1,250,382	475,125	-	1,725,506
1704 Furniture, fixtures and equipment	15,803,100	6,746	15,809,846	845,041	17,742	16,637,144
1706 Library resources	20,787,944	(500,000)	20,287,944	295,621	-	20,583,565
1708 Intangibles	-		-	-	-	-
Total depreciable assets	286,817,649	(493,254)	286,324,394	5,998,577	17,742	292,305,229
1725 Infrastructure	9,025,001		9,025,001	467,047	-	9,492,048
1722 Buildings	87,045,323	(73,879)	86,971,444	6,047,916	-	93,019,361
1723 Improvements other than buildings	154,213		154,213	50,807	-	205,020
1724 Furniture, fixtures and equipment	13,092,269	6,746	13,099,014	1,063,498	17,742	14,144,769
1726 Library resources	17,731,232	(2,777)	17,728,455	376,367	-	18,104,822
1728 Intangibles	-		-	-	-	-
Total accumulated depreciation	127,048,038	(69,911)	126,978,127	8,005,636	17,742	134,966,021
	$ 189,321,764	$ (423,343)	$ 188,898,421	$ 5,732,364	$ 4,840,046	$ 189,790,739

Note 7. 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 or insurance. 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 changes in the accrued vacation and sick leave balances for the year ended June 30, 2017 are as follows:

Vacation Leave	$	2,432,220
Sick Leave	$	844,500
Total	**$**	**3,276,720**

Note 8. Long-Term Liabilities

Following are 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
Accrued leave liabilities	$ 3,097,397	$ 3,845,774	$ 3,666,451	$ 3,276,720	$ 2,432,220	$ 844,500
Certificate of Participation(Tacoma)	10,955,000	-	255,000	10,700,000	370,000	10,330,000
Certificate of Participation(Housing)	214,107	-	37,690	176,417	41,232	135,184
Certificate of Participation(CAB)	9,745,000	9,565,000	10,365,000	8,945,000	565,000	8,380,000
Pension liability	18,691,589	3,866,245	-	22,557,834	-	22,557,834
Housing Revenue Bonds payable	3,665,000	-	325,000	3,340,000	340,000	3,000,000
Total	$ 46,368,093	$ 17,277,019	$ 14,649,141	$ 48,995,971	$ 3,748,452	$ 45,247,518

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion	Long-Term Portion
Accrued leave liabilities	$ 3,005,461	$ 3,588,197	$ 3,496,261	$ 3,097,397	$ 2,271,861	$ 825,536
Certificate of Participation(Tacoma)	-	10,955,000	-	10,955,000	255,000	10,700,000
Certificate of Participation(Housing)	-	214,107	-	214,107	37,690	176,417
Certificate of Participation(CAB)	10,285,000	-	540,000	9,745,000	565,000	9,180,000
Pension liability	15,491,987	3,199,602	-	18,691,589	126,000	18,565,589
Housing Revenue Bonds payable	4,080,000	4,130,000	4,545,000	3,665,000	325,000	3,340,000
Total	$ 32,862,448	$ 22,086,906	$ 8,581,261	$ 46,368,093	$ 3,580,551	$ 42,787,542

Note 9. Bonds Payable

In September of 2015, the College issued Housing Revenue Bonds, in the amount of $4,130,000, in an advance refunding with the proceeds of the issue being used to refund (pay off) the outstanding Housing Series 2006 Bonds. The interest rate of the 2015 issue was 2.39% compared to the 2006 bond rates ranging from 3.75% to 4.25%. This refunding enabled the College to save $320 thousand over the life of the bonds. For the year ended June 30, 2014:

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
Totals	**$ 3,340,000**	**$ 410,962**	**$ 3,750,962**

Note 10. Notes Payable

In December of 2016, the College issued Notes Payable, in the amount of $9,565,000, in an advance refunding with the proceeds of the issue being used to refund (pay off) the outstanding lease s376-10-1, which was originally issued in 2009 to fund the renovation of the Campus Activities Building. The interest rate of the 2016 issue was 1.91% versus the previous rate of 5.16%. This refunding enabled the College to save $1,294 thousand over the life of the lease. For the year ended June 30, 2017

The scheduled maturities of system revenue bonds are as follows:				
		Original	Balance	Balance
System revenue bonds	Interest Rate	Issue	June 30, 2017	June 30, 2016
2016	1.91	$ 9,565,000	$ 8,945,000	$ -
2009	5.16	$ 13,175,000	$ -	$ 9,745,000

Notes Payable	Certificates of Participation (COP) CAB Building		
Fiscal Year	Principal	Interest	Total
2018	565,000	368,838	933,838
2019	595,000	340,588	935,588
2020	630,000	310,838	940,838
2021	655,000	279,338	934,338
2022	690,000	246,588	936,588
2023-2029	5,810,000	739,013	6,549,013
	$ 8,945,000	$ 2,285,201	$ 11,230,201

In March of 2016, the College obtained financing to cover the cost to purchase property in downtown Tacoma for a permanent home for the Tacoma Program through certificates of participation, issued by the Washington Office of State Treasurer (OST) in the amount of $10,955,000. The funding source for the repayment is the general operating funds. The interest rate charged is approximately 3%. The term of the COP is 20 years with payments due June 1 and December 1 annually. The College's first payment was December 1, 2016. The College's debt service requirements for this note agreement for the next five years and thereafter are as follows:

Notes Payable	Certificates of Participation (COP) Tacoma Campus		
Fiscal Year	Principal	Interest	Total
2018	$ 370,000	$ 416,875	$ 786,875
2019	385,000	402,075	787,075
2020	405,000	382,825	787,825
2021	425,000	362,575	787,575
2022	445,000	341,325	786,325
2023-2036	8,670,000	2,354,013	11,024,013
	$ 10,700,000	$ 4,259,688	$ 14,959,688

In March of 2016, the College obtained financing to cover the cost to an industrial conveyer type energy star dishwasher through certificates of participation, issued by the Washington Office of State Treasurer (OST) in the amount of $214,107. The interest rate charged is approximately 1.3%. The term of the COP is 5 years with payments due June 1 and December 1 annually. The College's first payment was December 1, 2016. The College's debt service requirements for this note agreement for the next four years and thereafter are as follows:

Notes Payable	Certificates of Participation (COP) Industrial Dishwasher		
Fiscal Year	Principal	Interest	Total
2018	$ 41,232	$ 8,409	$ 49,641
2019	42,882	6,759	49,641
2020	45,026	4,615	49,641
2021	47,277	2,364	49,641
	$ 176,417	$ 22,147	$ 198,564

Note 11. Committments
Encumbrances for current funds carried forward totaled $7,069 million at June 30, 2017.

Note 12. Operating Expenses by Function

Operating expenses by functional classification for the year end June 30, 2017are as follows:

Instruction	31,722,899
Scholarship and aid	13,697,301
Auxiliary enterprises	11,171,033
Institutional support	10,690,691
Operations and maintenance	13,662,416
Depreciation	8,005,636
Academic support	7,665,098
Student services	7,979,736
Public service	3,404,696
Research	78,968
Total operating expenses	108,078,472

Note 13. Contingencies and Risk Management

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.

The College participates in the State of Washington risk management self-insurance program. Premiums are based on actuarially determined projections. The College assumes its potential liability and property losses for all properties except for Housing, which were acquired with proceeds of bond issues where the bond agreement requires the College to carry insurance on Housing property.

In accordance with State policy, the College self-insures unemployment compensation for all employees. In 2012, the College established an unemployment reserve, funded by charging all labor and wage expenditures, except for work-study, a percentage in order to fund a reserve to pay unemployment claims. The rate charged was 0.25% in FY 2017. Prior to 2012 the College was on a pay as you go basis, in which claims are paid in the period incurred. Unemployment compensation claims paid by the College were $71,254 for 2017.

Note 14. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, effective for the year ending June 30, 2008. This pronouncement requires the recording of the accumulated liability for retiree health care and life insurance costs, which for the State of Washington, as a whole, has been recorded in the State's Comprehensive Annual Financial Report (CAFR).

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

State 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 paid by the agency during employees' working careers, subsidize the "underpayments" of retirees.

An actuarial study performed by the Washington Office of the State Actuary calculated the cost of the OPEB obligation of the State of Washington at June 30, 2017 to be $5.5 billion and that the annual cost was $530 million. The Actuary calculated the OPEB obligation based on individual State employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on Statewide historical data.

The Actuary's allocation of the overall State-wide liability related to the College was approximately $33 million, and the annual allocated estimated cost to the College is about $3.1 million. This estimated expense represents the amortization of the liability for fiscal year 2017 plus the current expense for active employees. This amount is not included in the College's financial statements.

The College was billed and paid approximately $7.6 million in 2016 for active and retiree healthcare expenses and $7 million in 2016.

Note 15. Deferred Compensation

The College, through the State of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code § 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The State 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.

Note 16. 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 the College's employees was $16,850,610 for PERS, $480,376 for TRS, $616,461 for LEOFF and $24,885,814 for TESCRP. Total covered payroll for 2017 was $49,430,582.

The College implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) "Accounting and Financial Reporting for Pensions" for fiscal year 2015 financial reporting. TESC's 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, TESC 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 TESC, for fiscal year 2016:

Aggregate Pension Amounts - All Plans

Aggregate Pension Amounts	
Net Pension Liabilities	(16,047,834)
Pension Assets	159,726
Deferred Outflows of Resources	5,452,496
Deferred Inflows of Resources	(149,281)
Pension Expense	(2,090,963)

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 TESC offers its employees are comprised of five defined benefit pension plans and two defined benefit/defined contribution plans. Below are the DRS defined benefit plans that TESC offers its employees:

- Public Employees Retirement System (PERS) Plans 1 & 2
- Teacher's Retirement System (TRS) Plans 1 & 2
- Law Enforcement Officers and Fire Fighters' Plan 2

Below are the DRS defined benefit/defined contribution plans that TESC offers its employees:

- Public Employees Retirement System (PERS) Plans 3
- Teacher's Retirement System (TRS) Plan 3

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, TRS and LEOFF systems and plans was funded by an employer rate of 0.18 % 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 CONTRIBUTION PLANS

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% 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.

Funding Policy

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determine the actuarially required contribution rates for PERS and LEOFF plans, 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 B2.

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 College 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.

The College received an actuarial valuation of the supplemental component of the TESCRP for fiscal year 2017. The previous valuation was performed in 2015. The fiscal year ending June 30, 2017, marks the first year of reporting GASB 73. The changes under GASB 73 are similar to those under GASB Statement No. 68, which applies to employer financial reporting plans pre-funded through a dedicated trust. Under GASB 73, the Total Pension Liability (TPL) replaces the actuarial accrued liability under GASB 27. TPL is based on an actuarial valuation performed as of June 30, 2017 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2017. The following table shows the TPL as of June 30, 2017.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY THE EVERGREEN STATE COLLEGE FISCAL YEAR ENDING JUNE 30, 2017		
Total Pension Liability - Beginning	**$**	**7,856,000**
Service Cost		296,000
Interest		230,000
Changes of benefit terms		-
Difference between expected and actual expense (1)		(1,326,000)
Changes of assumptions		(387,000)
Benefit Payments		(158,000)
Other		-
Net Change in Total Pension Liability	**$**	**1,346,000**
Total Pension Liability - Ending	**$**	**6,510,000**
TESC Covered-employee Payroll (2)	$	16,941,000
Total Pension Liability as a Percentage of Covered-Employee Payroll		38.43%

The discount rate used to measure the TPL was 2.85% as of June 30, 2016, and 3.58% as of June 30, 2017. This rate will change annually per GASB 73, which requires the discount rate to be tied to a bond index that meet certain criteria.

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 eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit 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 Plan 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, 201, 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 asset 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, 2015, 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 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, 2016, TESC reported $7.5 million for its proportionate share of the collective net pension liability for PERS 1 and $8.1 million for PERS 2/3. TESC's proportion for PERS 1 was 0.14 percent, no change over the prior reporting period, and 0.16 percent for PERS 2/3, no change to over prior year portion. The proportions are based on TESC's 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 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$9,025,429
Current Discount Rate	7,484,396
1% Increase	$6,158,242

PERS 2/3 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$14,933,172
Current Discount Rate	8,110,654
1% Increase	($4,222,063)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, TESC recognized a PERS 1 pension expense of ($477) thousand, and recognized a PERS 2/3 pension expense of ($1,498) thousand. At June 30, 2016, PERS 1 and PERS 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	188,445	-
Change in proportion	-	-
State Contributions subsequent to the measurement date	53,091	-
Total	$ 241,536	$ -

PERS 2/3	Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	$ 431,887	$ 215,469
Changes of assumptions	83,830	
Net difference between projected and actual earnings on pension plan investments	992,510	-
Change in proportion	1,566,989	-
State Contributions subsequent to the measurement date	1,806,930	-
Total	$4,882,147	$ 215,469

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 1		
2017	$	(46,399)
2018		(46,399)
2019		173,065
2020		108,175
2021		-
Therafter	$	-

PERS 2/3		
2017	$	12,917
2018		12,917
2019		1,749,499
2020		1,084,414
2021		-
Therafter	$	-

Teachers' Retirement System

Plan Description. The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-State agency employees.

TRS 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 defined benefit plan with a defined contribution component. 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.

TRS members who joined the system by September 30, 1977, are a Plan 1 member. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996 are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

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

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

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (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.

TRS Plan 2 retirement benefits 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. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. TRS Plan 2 members have the option to retire early with reduced benefits. The AFC is the average of the member's 60 highest paid consecutive months.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

TRS 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 TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan. TRS Plan 3 members have the option to retire early with reduced benefits.

TRS 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. TRS 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. The methods used to determine the contribution requirements are established under State statute.

Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment.

Required contribution rates for fiscal year 201 are presented in the table B.1 of this note.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 201 with the results rolled forward to the June 30, 201 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, 201, 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 201 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 asset 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 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 TRS Plan 2/3, whose rates include a component for the TRS 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, 201, TESC reported a liability of $321 thousand for its proportionate share of the collective net pension liability for TRS 1 and $132 thousand for TRS 2/3. TESC's proportion for TRS 1 was 0.009 percent, an increase of 0.007 percent since the prior reporting period, and 0.010 percent for TRS 2/3, an increase of 0.007 percent. The proportions are based on TESC's 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 per- cent) or 1 percentage point higher (8.50 percent) than the current rate.

TERS 1 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$394,615
Current Discount Rate	321,007
1% Increase	$257,604

TERS 2/3 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$298,240
Current Discount Rate	131,782
1% Increase	($153,090)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 201, TESC recognized a TRS 1 pension expense of $17 thousand, and recognized a TRS 2/3 pension expense of ($62) thousand. At June 30, 201, TRS 1 and TRS 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TRS 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	10,182	-
Change in proportion	-	-
State Contributions subsequent to the measurement date	-	-
Total	$ 10,182	$ -

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 9,969	$ 5,847
Changes of assumptions	1,342	
Net difference between projected and actual earnings on pension plan investments	21,213	-
Change in proportion	60,417	
State Contributions subsequent to the measurement date	63,160	-
Total	$ 156,101	$ 5,847

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:

TRS 1		
2017	$	(2,632)
2018	$	(2,632)
2019	$	9,525
2020	$	5,921
2021	$	-
Therafter	$	-

TRS 2/3		
2017	$	(1,270)
2018		(1,270)
2019		56,781
2020		34,208
2021		(1,355)
Therafter	$	-

Law Enforcement Officers' and Fire Fighters' Retirement System

Plan Description. The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was stablished in 1970 by the Legislature. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-State employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception.

LEOFF is a cost-sharing, multiple-employer retirement system, comprised of two separate defined benefit plans. LEOFF members who joined the system on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The board's duties include adopting contribution rates and recommending policy changes to the Legislature.

Benefits Provided. LEOFF Plan 2 provides retirement, disability, and death benefits to eligible members. LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service. FAS is based on the highest consecutive 60 months. Members who retire prior to the age of 53 receive reduced benefits.

A cost of living allowance (COLA) is granted based on the Consumer Price Index, capped at 3 percent annually.

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

Contributions. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the State pays through legislative appropriations.

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The methods used to determine the contribution requirements are established under State statute.

Members in LEOFF Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. For fiscal year 2014, the State contributed $55.6 million to LEOFF Plan 2.

Beginning in 2011, when State General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute.

Required contribution rates for fiscal year 2017 are presented in the table B1 in this note.

The following information applies to TESC as a LEOFF 2 employer.

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2014 with the results rolled forward to the June 30, 2015 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 asset 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 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 economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the 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 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. 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 contributions made subsequent to the measurement date utilizing a rate of return of 7.50 percent on plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/Asset
At June 30, 2016, TESC reported an asset of $160 thousand for its proportionate share of the collective net pension asset for LEOFF 2. TESC's proportion for LEOFF 2 was 0.027 percent, an increase of 0.003 percent since the prior period. The proportions are based on TESC's contributions to the pension plan relative to contributions of all participating employers and non-employer contributing entities.

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 employers' net pension liability/asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or higher (8.50 percent) than the current rate.

LEOFF 2 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$447,919
Current Discount Rate	(159,727)
1% Increase	($617,716)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, TESC recognized a LEOFF 2 pension expense of ($71) thousand.

At June 30, 2016, LEOFF 2 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 21,887	
Changes of assumptions	602	-
Net difference between projected and actual earnings on pension plan investments	57,396	-
Change in proportion	100,759	-
State Contributions subsequent to the measurement date	53,922	-
Total	$ 234,566	$ -

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:

LEOFF 2		
2017	$	(1,761)
2018	$	(1,761)
2019	$	107,245
2020	$	73,837
2021	$	3,084
2022		
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:

Required Contribution Rates	Employer (College) Plan 1	Employer (College) Plan 2	Employer (College) Plan 3	Employee Plan 1	Employee Plan 2	Employee 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%			
TRS						
State agencies, local governmental units	12.95%	12.95%	12.95% *	6.00%	5.95%	**
	0.18%	0.18%	0.18%			
Total	13.13%	13.13%	13.13%			
LEOFF						
Ports and universities	8.41%	8.41%	N/A	N/A	8.41	N/A
Administrative fee		0.18%				
Total	8.41%	8.59%				

* Plan 3 defined benefit portion only.** Variable from 5% to 15% based on rate selected by the member. N/A indicates data not applicable.

TABLE B2:
Required Contributions

The required contributions for the years ending June 30, 2017, 2016, 2015 and 2014 are as follows:

	2017	2016	2015	2014
PERS				
Employee	$ 1,037,849	$ 977,636	$ 784,903	$ 806,921
College	$ 1,883,599	1,781,882	1,395,852	1,420,781
TRS				
Employee	$ 35,419	30,809	10,396	15,476
College	$ 63,073	62,625	21,777	28,663
LEOFF				
Employee	$ 52,318	42,606	40,873	37,157
College	$ 53,438	43,518	40,873	37,953

All required employer and employee contributions have been made.

Note 17. 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

Note 18. Prior Period Adjustment

During the fiscal yearend review of the College's capital assets it was discovered that two FY16 assets and related depreciation had been booked incorrectly. In addition depreciation related to a FY16 adjustment to the Tacoma property had not been reflected. This resulted in a prior period correction for capital assets of $423,343. This adjustment decreased the net position beginning balance for fiscal year 2017 on the Statement of Revenue, Expenses and Changes in Net Positions.

Description	Amount
Prior year Expenses Adjusted in 2016	$ (493,254)
Net of Accumulated Depreciation	(69,911)
Decrease in Net Position	$ (423,343.00)

Note 19. Segment Information

The College operates residence halls "Residential Services" located on the College campus. Revenue bonds are issued from time to time to build or remodel facilities. Residential Services pledges net revenues to cover the costs of debt service for the bonds, therefore, for accounting purposes, the Residential Services is a segment of the College. Presented below are condensed financial statements for Residential Services as audited by The State Auditor's Office (SAO) as of and for the year ended June 30, 2017:

Condensed Statement of Net Positions

Assets	
Current assets	$ 6,621,523
Non-current assets	10,886,269
Total Assets	17,507,792
Deferred Outflows	128,777
Liabilities	
Current liabilities	917,770
Non-current liabilities	3,690,746
Total Liabilities	4,608,516
Deferred Inflows	143,117
Net Position	
Net investment in capital assets	7,572,923
Unrestricted	5,312,013
Total net position	$ 12,884,936

Condensed Statement of Revenues, Expenses and Changes in Net Position

Operating revenues	$ 5,467,697
Operating expenses	5,016,302
Net operating income	451,395
Non-operating revenues (expenses)	(77,329)
Changes in net position	374,066
Net Position	
Net position, beginning of year	12,510,870
Net position, end of year	$ 12,884,936

Condensed Statement of Cash Flows

Net cash flows provided by operating activities	$ 2,559,038
Net cash flows used by capital financing activites	(993,687)
Net cash flows provided by investing activities	20,422
Net increase to cash	1,585,773
Cash beginning of year	4,770,939
Cash end of year	$ 6,356,712

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Evergreen State College Foundation (Foundation) is a not-for-profit corporation organized under the laws of the State of Washington for the charitable and the educational benefit of The Evergreen State College (College). The Foundation was organized to function exclusively for the purposes of promoting, supporting, maintaining, developing, increasing and extending educational offerings, and the pursuit thereof, in connection with the College. A summary of the Foundation's significant accounting policies follows:

Basis of Presentation

The accompanying financial statements are presented using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The net assets, revenues, gains and losses, and other support and expenses in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Foundation and changes therein are classified as follows:

Unrestricted Net Assets
Net assets that are not subject to donor-imposed stipulations. They are available to support the Foundation's operations. Included within these net assets are board designated net assets which are to be used for specific purposes but may, at the board's discretion, subsequently be used for other purposes.

Temporarily Restricted Net Assets
Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Permanently Restricted Net Assets
Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or a part of the income earned on any related investments for general or specific purposes.

Gifts and Contributions

Gifts and contributions that have donor-imposed restrictions are listed based on the donor's intent. Temporarily restricted net assets are available for the purpose of scholarship and academic support. Permanently restricted net assets are restricted to investment in perpetuity; the income from which is expendable to support scholarships and academic program support.

The Foundation reports gifts and contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of a donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional Promises to Give

Contributions, including unconditional promises to give are recognized as revenues in the period received. Unconditional promises to give due within one year are reported at their net realizable value. FASB Statement 116 requires that an Allowance for Uncollectable Pledges be used; however, based on management judgment, past history, and the rare occurrences of pledges not being fulfilled, management has decided not to use an Allowance for Uncollectable Pledges account as any allowance would be immaterial.

Unconditional promises to give, due in subsequent years are reported on the present value of their net realizable value, using an appropriate discount rate. Amortization of discounts is included in contribution revenue.

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at fair value on the date of the donation. In the absence of any stipulations, contributions of property and equipment are recorded as unrestricted support.

Donated Materials and Services

Donated materials and services are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of receipt. Contributed services are recognized if they require specialized skills that would have been purchased had they not been contributed.

Cash

For purposes of reporting on the statements of cash flows, the Foundation considers all checking accounts as cash, except those held in an investment portfolio. As of June 30, 2017 and 2016, cash totaled $3,078,398 and $1,970,977 of which $1,172,550 and $270,007 was restricted for donor purposes.

Investments

The Foundation has investments which include certificates of deposits, an investment portfolio with Morgan Stanley and invested funds in the University of Washington's Consolidated Endowment Fund (CEF).

In 2014, the Foundation established an investment portfolio with Morgan Stanley:

Morgan Stanley	**2017**	**2016**
Cash	$ 469	$ 578
Mutual Funds	153,628	328,701
Certificates of Deposit	912,066	704,093
Total	**$ 1,066,163**	**$ 1,033,372**

Most investments are classified as noncurrent regardless of maturity due to the long-term nature of the portfolio. The estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed.

The annual change in market value of investments is recorded as "Investment income" in the statements of activities. The percentage participation allocation method is used to allocate all investment income, including realized and unrealized gains and losses, to the various funds based on a percentage of interest in the pooled investment.

The Foundation began investing in the University of Washington's Consolidated Endowment Fund in 2003.

Asset allocation of the CEF at June 30 was as follows:

University of Washington Consolidated Endowment Fund (CEF)
Fair Market Value as of June:

		2017		2016
Total Units at U of W		33,785,914		34,527,691
Value per Unit	$	93.050	$	85.960
Total value at U of W	$	3,143,790,117	$	2,968,000,318
TESC Foundation Portion				
Total Units		139,966		125,584
Value per Unit	$	93.050	$	85.960
Total TESC Foundation Portion	$	13,023,838	$	10,795,210

The fair value of the CEF is based on a per unit valuation, which is based on the estimated fair value of the underlying investments. The fair value of debt and equity securities with a readily determinable fair value is based on quotations from national securities exchanges. The alternative investments, which are not readily marketable, are carried at the estimate fair values provided by the investment managers. The Foundation can redeem units in the CEF at the end of a calendar quarter.

At June 30, 2017 and 2016, an additional $183,520 and $994,127 respectively, was held by the University of Washington pending investment purchases.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels. The three levels of the fair value hierarchy are defined as follows:

Level 1- Inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.

Level 3- Unobservable inputs for the asset or liability that reflect management's own assumptions about the assumptions that market participants would use in pricing the asset or liability as of the reporting date.

Assets listed at fair market value are listed in the note *(Fair Value of Financial Measurements)*.

Credit and Market Risk

The Foundation's investments consist of financial instruments including interest-bearing deposits, and investments in the CEF and with Morgan Stanley. These financial instruments may subject the Foundation to concentrations of credit risk, and from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. Management believes the risk with respect to the balances is minimal, due to the high credit rating of the institutions used.

Investment securities are exposed to various risks including, but not limited to, interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. To manage these risks, the Foundation has an investment policy designed to provide optimal return within reasonable risk tolerances.

Split-Interest Agreements

Under these agreements, donors initially make gifts directly to the Foundation. The Foundation has beneficial interest, and records an asset related to the agreements at fair market value.

In December 2015, the Foundation became a 50% beneficiary of a Charitable Lead Annuity Trust split-interest agreement. The basis of recognition for the revenue is the present value of the future cash flow for the expected annuity payment.

The Foundation has another agreement that has a liability equal to the present value of the expected future benefit distributions to the donor.

Federal Income Taxes

The Foundation is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. Income from certain activities not directly related to the Foundation's tax-exempt purpose would be subject to taxation as unrelated business income. The Foundation did not engage in any activity unrelated to its tax-exempt purpose; accordingly, no provision for income taxes is included in the accompanying financial statements. In accordance with requirements related to accounting for uncertainties in income taxes, the Foundation has determined they have no uncertain tax positions at June 30, 2017 and 2016. The fiscal years ended June 30, 2017, 2016, 2015 and 2014 remain open for examination by taxing authorities.

Financial Statement Estimates

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

Allocation of Functional Expenses

Expenses are charged to program services, fundraising and management and general categories based on direct expenditures incurred. Any expenditure not directly chargeable to a functional expense category is allocated based on labor costs, square footage rates for space, and the cost of shared usage of supplies and equipment.

Related Parties

The Foundation has a quid pro quo agreement with the College. The College provides personnel, including management, accounting and clerical support. The College also provides office space and various other non-personnel support of the Foundation. The services provided without cost are recognized as in-kind revenues and expenses.

Fund-Raising

Fund-raising expenses include costs to solicit donations through annual giving, major giving, planned giving, and corporation and Foundation giving.

New Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. ASU No. 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The Foundation is currently evaluating the impact this ASU will have on the financial statements.

In May 2014, the FASB issued *Revenue from Contracts with Customers*, (ASU No. 2014-09). This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Foundation is currently evaluating the impact this ASU will have on the financial statements.

In February 2016, the FASB issued *Leases,* (ASU No. 2016-02). This Update was issued to increase the transparency and comparability among organizations by requiring lessees to recognize the assets and liabilities associated with all leases on the statement of financial position. The amendments in this Update are effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact this ASU will have on the financial statements.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30 are as follows:

	2017	2016
Receivable in less than one year	$ 357,230	$ 386,126
Receivable in one to five years	187,615	397,098
Long-term pledge receivable discount	(6,758)	(9,989)
Total Unconditional Promises to Give	$ 538,087	$ 773,235

The discount rates are based on what the risk free applicable federal long-term rates were at the time each unconditional promise to give was made. The rates range from 2.19% and 3.37% and the total discount for the long-term promises to give as of June 30, 2017, and June 30, 2016, is $6,758 and $9,989, respectively.

NOTE 3 – INVESTMENTS

Long and short term investments are as follows at June 30:

	2017	2016
Cash	$ 469	$ 578
Certificates of deposit	950,944	1,049,093
Mutual funds	364,313	328,701
Investment in the University of Washington Consolidated Endowment Fund	13,207,358	11,789,337
Total Investments	$ 14,523,084	$ 13,167,709

Investment income included on the accompanying statement of activities is as follows for the years ended June 30:

	2017	2016
Interest and dividend income	$ 470,399	$ 404,699
Net realized/ unrealized gains on investments	1,094,698	(586,879)
Total Investment Loss/income	$ 1,565,097	$ (182,180)

NOTE 4 – ENDOWMENTS

The net asset classification of donor restricted endowment funds for a not-for-profit is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Disclosure about endowment funds, both donor-restricted and board designated endowment funds are required.

The Foundation endowment funds include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor imposed restrictions. The Foundation has interpreted the enacted version of UPMIFA for Washington State and determined that requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, is appropriate. As a result of this interpretation, the Foundation classifies as permanently restricted net assets, a) the original value of the gifts donated to the permanent endowment, b) the original value of subsequent gifts, if any, to the permanent endowment, and c) accumulations to the permanent endowment, as applicable, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Changes in endowment net assets for the year ended June 30, 2017

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	$ 1,744,999	$ 8,820,910	$10,565,909
Adjustment for reclassified funds	-	-	-
Investment return	1,344,918	-	1,344,918
Contributions, net of transfers	(361,249)	292,386	(68,863)
Net assets released	9,477	-	9,477
Endowment net assets, June 30, 2017	$ 2,738,145	$ 9,113,296	$11,851,441

Changes in endowment net assets for the year ended June 30, 2016

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	$ 2,241,112	$ 7,360,586	$ 9,601,698
Adjustment for reclassified funds	-	-	-
Investment return	(158,454)	-	(158,454)
Contributions, net of transfers	(354,891)	1,460,324	1,105,433
Net assets released	17,232	-	17,232
Endowment net assets, June 30, 2016	$ 1,744,999	$ 8,820,910	$ 10,565,909

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are required to be reported in unrestricted net assets. There were no deficiencies of this nature as of June 30, 2017 and 2016.

Return Objectives and Risk Parameters

The Foundation's objectives are: 1) to provide permanent funding for endowed programs, 2) maintain the purchasing power of any endowments after spending and inflation. The objective of preserving purchasing power emphasizes the need to take a long-term perspective in formulating, 3) to provide a predictable and stable source of income for endowed programs, and 4) to provide a maximum level of return consistent with prudent risk levels. This objective assumes the construction of a global, equity-oriented, diversified portfolio coupled with active risk management.

Strategies Employed for Achieving Objectives

To achieve its investment objective, the Foundation invests most of its funds in the University of Washington's CEF. It is divided into sub-categories, each with its own targeted allocation. Over the long run, the allocation between and within the subcategories may be the single most important determinant of the CEF's investment performance.

Investment Strategy	Long-term Target
Emerging Markets Equity	20%
Developed Markets Equity	38%
Private Equity	12%
Real Assets	6%
Opportunistic	2%
Absolute Return	15%
Fixed Income	7%

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distributions each year based on the following allocation:

The Foundation uses a weighted average or hybrid method of determining spending from Foundation Endowments. Spending is calculated by taking a weighted average comprising 80 percent of the prior year's spending adjusted by an inflation factor and 20 percent of the amount that results when the endowment's spending rate is applied to the endowment market value. The Foundation spending rate shall generally be 5%. The spending rate for new endowments shall be established beginning the end of the second year of investment. The initial endowment spending shall be based on 5% of the first two years rolling average.

In calculating the spending, the market value of the endowment shall be reduced by the total value of new contributions given to the endowment in the past fiscal year. The inflation factor shall be equal to the CPI except that it shall never fall below 0% nor exceed 5%. The minimum scholarship award level is $1000. If the spending formula for a scholarship endowment generates a calculation for a scholarship award of less than $1000, no distribution will be taken for that fiscal year and the scholarship will not be awarded.

NOTE 5 – FAIR VALUE OF FINANCIAL MEASUREMENTS

The Foundation has determined the fair value of certain assets and liabilities through the application of FASB ASC 820-10 *Fair Value Measurements*.

Fair Value of assets measured on a recurring basis at June 30 is as follows:

	Year Ended June 30, 2017			
	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash	$ -	$ 469	$ -	$ 469
Certificates of deposit		950,944		950,944
Mutual funds		364,313		364,313
Consolidated Endowment Fund (CEF)		13,207,358		13,207,358
Charitable Lead Annuity Trust		1,783,127		1,783,127
Total assets at fair value	$ -	$ 16,306,211	$ -	$ 16,306,211

	Year Ended June 30, 2016			
	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash	$ -	$ 578	$ -	$ 578
Certificates of deposit		1,049,093		1,049,093
Mutual funds		328,701		328,701
Consolidated Endowment Fund (CEF)		11,789,337		11,789,337
Charitable Lead Annuity Trust		1,887,771		1,887,771
Total assets at fair value	$ -	$ 15,055,480	$ -	$ 15,055,480

NOTE 6 – CHARITABLE GIFT ANNUITIES

Certain donors have entered into charitable gift annuity agreements with the Foundation under which the Foundation received certain assets.

In December 2015, the Foundation became a beneficiary of a split interest agreement via a Charitable Lead Annuity Trust (CLAT). The CLAT is a $5 million trust in which the Foundation is a 50% beneficiary, with the Foundation anticipating $2.25 million in payments over the life of the agreement. The 15 year annuity pays out is $300,000 each year of which the Foundation receives 50%. The basis of recognition for the revenue is the present value of the future cash flow for the expected annuity payment. The discount rate applied is 2.61%. At the end of the 15 year period, the donor will receive the remaining balance of the trust.

The Charitable Lead Annuity Trust present value at June 30 is as follows:

	2017
Due in less than one year	$ 150,000
Due in one to five years	750,000
Due in five years or more	1,196,301
Discount	(313,174)
	$ 1,783,127

The Foundation is beneficiary of another split-interest agreement which was entered into in a prior year and is still active as of June 30, 2017. The assets were recorded at their fair market value on the date of receipt and are included in the general investments of the Foundation. In consideration of the assets received, the Foundation is required to pay quarterly installments to the donor over the donor's life. These annual installment payments totaled $3,035 and $3,035 respectively for the years ended June 30, 2017 and 2016.

The charitable gift annuity obligation is recorded at the present value of the future cash flows expected to be paid based on the life expectancy of the donor discounted at the applicable rate as specified in the agreements. The charitable gift annuity obligation totaled $10,036 and $10,596 as of June 30, 2017 and 2016, respectively.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Foundation provided grants to the College totaling $1,529,628 and $182,800 for the years ended June 30, 2017 and 2016. During the years ended June 30, 2017 and 2016, the Foundation also provided $482,065 and $501,462 to the College for student scholarships and fellowships. These amounts are listed as grants and allocations on the statements of functional expenses.

The Foundation receives substantial contributed support services under an agreement with the College. These services are included in both support and revenues and also in expenses on the accompanying Statements of Activities and Changes in Net Assets. See Note 11 for additional in-kind support information.

Amounts payable to the college were $314,670 and $155,023 as of June 30, 2017 and 2016, respectively.

NOTE 8 – RELEASE OF NET ASSETS

Net assets of $2,502,192 and $1,222,689 were released from donor restrictions for the years ended June 30, 2017 and 2016, respectively, by incurring expenses satisfying the restricted purposes or by the occurrences of other events specified by the donors.

NOTE 9 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for programs and scholarships and totaled $8,565,556 and $7,125,997 at June 30, 2017 and 2016, respectively.

	2017	2016
Academic Support and Research	$ 3,802,041	$ 3,209,521
Other College Support	946,581	1,071,437
Public Service Centers	75,414	29,838
Student Aid	3,741,520	2,815,201
Total Temporarily Restricted Net Assets	**$ 8,565,556**	**$ 7,125,997**

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following:

	2017	2016
Academic Support and Research	$ 1,733,696	$ 1,728,297
Other College Support	115,875	115,875
Public Service Centers	-	-
Student Aid	7,263,725	6,976,738
Total Permanently Restricted Net Assets	**$ 9,113,296**	**$ 8,820,910**

NOTE 10 – CONCENTRATIONS

Major Donors

For the year ended June 30, 2017, the Foundation received contributions from eight sources that comprised approximately 62% of total contribution revenue. For the year ended June 30, 2016, the Foundation received contributions from six sources that comprised approximately 72% of total contribution revenue.

NOTE 11 – IN-KIND SUPPORT

The Foundation receives substantial contributed support services under an agreement with the College. These services are included in both support and revenues and also in expenses on the accompanying statements of activities and changes in net assets. In addition, the Foundation receives in-kind donations from individuals and corporations, which are included in gifts and contributions.

Donated materials and services are as follows for the years ended June 30:

	2017	2016
From individual and corporate donors:		
Stock	$ 79,305	$ 196,297
Art work	10,450	10,695
Materials	23,263	12,582
Total in-kind support from individuals and corporate donors	$ 113,018	$ 219,574
From the College		
Management services	$ 967,713	$ 1,055,705
Rent	24,706	29,176
Supplies and equipment usage	314,717	222,664
Total in-kind support from the College	1,307,136	1,307,545
Total in-kind support	$ 1,420,154	$ 1,527,119

NOTE 12 – LEASES

In May 2014, the Foundation entered into a new long-term operating lease for a vehicle which was renewed in April 2017 and will expire in April, 2020. Lease expense totaled $5,727 and $4,762 for the years ended June 30, 2017 and 2016 respectively. Minimum required annual lease payments thru 2018 are $6,857.

NOTE 13 – ADMINISTRATIVE FEES

The Foundation charges a 5% administrative fee to restricted, and some unrestricted, funds and transfers this amount to unrestricted net assets to cover funds management, fundraising expenses, and administration expenses. The Foundation charged $79,538 and $125,200 in administrative fees for the years ended June 30, 2017 and 2016, respectively.

NOTE 14 – SCHOLARSHIPS FOR FUTURE PERIODS

In April, May and June of each year, students receive notice of their scholarship awards for the following academic year. These scholarship funds remain in the Foundation until August or September. The scholarships are reclassified into their own internal account for tracking purposes. In August or September, the Foundation transfers the funds to the College and then the College applies the funds to the student accounts. The amount and number of scholarships varies from year to year. The annual scholarship amount and number of scholarships to be awarded is determined by the following:

1. Donor intent as defined in gift agreement
2. Foundation spending policy
3. For unrestricted scholarships, determined by the board
4. Number of awards from larger scholarship funds is determined by judgment of college staff if donor does not express a preference (i.e. is it better to have two $1,000 scholarships or one $2,000 scholarship)

Pension Plan Information

Cost Sharing Employer Plans

Schedules of TESC's Proportionate Share of the Net Pension Liability

Schedule of TESC's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30 * (dollars in thousands)	2016	2015	2014
TESC PERS 1 employers' proportion of the net pension liability	0.14%	0.14%	0.15%
TESC PERS 1 employers' proportionate share of the net pension liability	$ 7,484	$ 7,319	$ 7,422
TESC PERS 1 employers' covered-employee payroll	$ 539	$ 714	$ 833
TESC PERS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	1388%	1025%	891%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Schedule of TESC's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30 * (dollars in thousands)	2016	2015	2014
TESC PERS 2/3 employers' proportion of the net pension liability	0.16%	0.16%	0.16%
TESC PERS 2/3 employers' proportionate share of the net pension liability	$ 8,111	$ 5,547	$ 3,250
TESC PERS 2/3 employers' covered-employee payroll	$ 15,399	$ 14,442	$ 14,440
TESC PERS 2/3 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	53%	38%	23%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%	93.29%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Pension Plan Information

Cost Sharing Employer Plans

Schedules of TESC’s Proportionate Share of the Net Pension Liability

Schedule of TESC's Proportionate Share of the Net Pension Liability Teachers' Retirement System (TERS) Plan 1 Measurement Date of June 30 * (dollars in thousands)	2016	2015	2014
TESC TERS 1 employers' proportion of the net pension liability	0.009%	0.009%	0.006%
TESC TERS 1 employers' proportionate share of the net pension liability	$ 321	$ 273	$ 169
TESC TERS 1 employers' covered-employee payroll	$ -	$ -	$ -
TESC TERS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll			
Plan fiduciary net position as a percentage of the total pension liability	62.07%	65.70%	68.77%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Schedule of TESC's Proportionate Share of the Net Pension Liability Teachers' Retirement System (TERS) Plan 2/3 Measurement Date of June 30 * (dollars in thousands)	2016	2015	2014
TESC TERS 2/3 employers' proportion of the net pension liability	0.010%	0.009%	0.006%
TESC TERS 2/3 employers' proportionate share of the net pension liability	$ 132	$ 77	$ 20
TESC TERS 2/3 employers' covered-employee payroll	$ 477	$ 435	$ 276
TESC TERS 2/3 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	28%	18%	7%
Plan fiduciary net position as a percentage of the total pension liability	88.72%	92.48%	96.81%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Pension Plan Information

Cost Sharing Employer Plans

Schedules of TESC's Proportionate Share of the Net Pension Liability

Schedule of TESC's Proportionate Share of the Net Pension Asset Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 Measurement Date of June 30 * (dollars in thousands)	2016	2015	2014
TESC LEOFF 2 employers' proportion of the net pension liability/(asset)	0.027%	0.027%	0.026%
TESC LEOFF 2 employers' proportionate share of the net pension liability/(asset)	$ (159)	$ (279)	$ (350)
TESC LEOFF 2 employers' covered-employee payroll	$ 506	$ 476	$ 442
TESC LEOFF 2 employers' proportionate share of the net pension liability/(asset) as a percentage of covered-employee payroll	-31%	-59%	-79%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	-25.79%	-45.77%	-61.14%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS TESC SUPPLEMENTAL RETIREMENT PLAN FISCAL YEAR ENDING JUNE 30, 2017 *(Dollars in Thousands)*	2017
Total Pension Liability	
Service Cost	296
Interest	230
Changes of benefit terms	-
Difference between expected and actual expense (1)	(1,326)
Changes of assumptions	(387)
Benefit Payments	(158)
Other	-
Net Change in Total Pension Liability	**$ (1,346)**
Total Pension Liability - Beginning	**$ 7,856**
Total Pension Liability - Ending	**$ 6,510**
TESC Covered-employee Payroll	$ 16,941
Total Pension Liability as a Percentage of Covered-Employee Payroll	38.43%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30 *
(dollars in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered employee payroll
2015	$ 65,765	$ 65,765	$ -	$ 714,066	9.21%
2016	$ 60,224	$ 60,224	$ -	$ 538,672	11.18%
2017	$ 53,126	$ 53,126	$ -	$ 475,188	11.18%
2018			$ -		
2019			$ -		
2020			$ -		
2021			$ -		
2022			$ -		
2023			$ -		
2024			$ -		

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30 *
(dollars in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered employee payroll
2015	$ 1,330,086	$ 1,330,086	$ -	$ 14,441,760	9.21%
2016	$ 1,721,658	$ 1,721,658	$ -	$ 15,399,443	11.18%
2017	$ 1,830,473	$ 1,830,473	$ -	$ 16,375,422	11.18%
2018			$ -		
2019			$ -		
2020			$ -		
2021			$ -		
2022			$ -		
2023			$ -		
2024			$ -		

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions
Teachers' Retirement System (TERS) Plan 1
Measurement Date of June 30 *
(dollars in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered employee payroll
2015	$ -	$ -	$ -	$ -	
2016	$ -	$ -	$ -	$ -	
2017	$ -	$ -	$ -	$ -	
2018			$ -		
2019			$ -		
2020			$ -		
2021			$ -		
2022			$ -		
2023			$ -		
2024			$ -		

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Schedule of Contributions
Teachers' Retirement System (TERS) Plan 2/3
Measurement Date of June 30 *
(dollars in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered employee payroll
2015	$ 21,777	$ 21,777	$ -	$ 209,598	10.39%
2016	$ 62,625	$ 62,625	$ -	$ 476,958	13.13%
2017	$ 63,073	$ 63,073	$ -	$ 480,376	13.13%
2018			$ -		
2019			$ -		
2020			$ -		
2021			$ -		
2022			$ -		
2023			$ -		
2024			$ -		

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
Measurement Date of June 30 *
(dollars in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered employee payroll
2015	$ 40,873	$ 40,873	$ -	$ 475,825	8.59%
2016	$ 43,518	$ 43,518	$ -	$ 506,618	8.59%
2017	$ 53,438	$ 53,438	$ -	$ 616,461	8.67%
2018			$ -		
2019			$ -		
2020			$ -		
2021			$ -		
2022			$ -		
2023			$ -		
2024			$ -		

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

Schedule of Contributions
TESC Supplemental Retirement Plan
Measurement Date of June 30 *
(dollars in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered employee payroll
2017	$ 2,147	$ 2,147	$ -	$ 16,941	12.67%
2018			$ -		
2019			$ -		
2020			$ -		

* As of June 30; this schedule is to be built prospectively until it contains ten years of data

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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