Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

The Evergreen State College

For the period July 1, 2015 through June 30, 2016

Published July 13, 2017

Report No. 1019318

Office of the Washington State Auditor
Pat McCarthy

July 13, 2017

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, 2015 through June 30, 2016

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, Thurston County, Washington, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 23, 2017.

Our report includes a reference to other auditors who audited the financial statements of The Evergreen State College 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 Evergreen State College 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 Evergreen State College 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, 2016, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

June 23, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Evergreen State College
July 1, 2015 through June 30, 2016

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, Thurston County, Washington, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Evergreen State College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us and our opinion insofar as it related to the amount 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 financial position of the business-type activities and the aggregate discretely presented component units of the Evergreen State College, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of The 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, 2016, 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 the Schedules of The Evergreen State College's Share of Net Pension Liability and Schedules of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 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

Pat McCarthy

State Auditor

Olympia, WA

June 23, 2017

FINANCIAL SECTION

The Evergreen State College
July 1, 2015 through June 30, 2016

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, 2016 with comparative 2015 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 4,000 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 51,600 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 Statements of Net Positions, the Statements of Revenues, Expenses and Changes in Net Positions and the Statements of Cash Flows. 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 after the College's statements and notes to the financial statements, respectively.

Financial Highlights

In September of 2015, the College issued Housing Revenue Bonds, in the amount of $4.13 million, in an advance refunding with the proceeds of the issue being used to pay off the outstanding Housing Series 2006 Bonds. This refunding enabled the College to save $320 thousand over the life of the bonds.

The College's net financial position decreased significantly during FY 2015 due to the implementation of a new accounting standard. (GASB

Statement No. 68 – See Note 1 and 17 to the Financial Statements). This accounting standard requires government agencies to recognize the long-term obligation for the net unfunded actuarial defined benefit liability on the Statements of Net Position. This does not impact the College's funding requirements for the defined benefit pension plans, but did require recognition of a pension expense adjustment of ($1.1) million in 2016. On a go-forward basis the standard requires recognition of pension expense using a systematic method designed to match the cost of pension benefits with service periods for eligible employees.

A review of the College's capital assets was conducted. This review resulted in a correction for capital assets and a prior year adjustment of $375,374. This adjustment increased the net position beginning balance for FYs 2014 and 2015.

The College purchased land and a building for a permanent location for the Tacoma Campus in November of 2015 at a total cost of $12,575,152. That included prior year expenses of $182.5 thousand. The purchase resulted in a prior period adjustment (increase) to beginning fund balance for FY 2016 of $182.5 thousand.

Reclassifications

Certain reclassifications, if any, which do not affect total net position have been made to 2014 and 2015 amounts in order to conform to the 2016 presentation.

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 2015 follows:

Condensed Statements of Net Positions As of June 30 (in thousands)	2016	2015 Restated
Assets		
Current assets	$ 55,294	$ 47,735
Capital, net	189,322	169,636
Other non-current assets	6,486	6,501
Total Assets	251,102	223,872
Deferred Outflows	2,558	1,474
Liabilities		
Current liabilities	17,620	14,591
Other non-current liabilities	42,787	29,561
Total liabilities	60,407	44,152
Deferred Inflows	2,267	4,730
Total Net Position	$ 190,986	$ 176,464

Assets

Current assets consist primarily of cash and cash equivalents, short-term investments, various accounts receivables, net and inventories. The increase in current assets of $7.6 million from FY 2015 to FY 2016 is the result of an increase in due from state treasurer for capital projects of $5.4 million. Additionally, during FY 2016, the amount of cash held with state treasurer at year end increased approximately $850 thousand and accounts receivable increased by $800 thousand. That was partly due to the receipt of new grant funding resulting in new receivables of $470 thousand.

The FY 2016 increase of $20 million in capital assets was due to the capitalization of $14.2 million in construction in process for newly funded FY 2016 capital projects, the purchase of the Tacoma property for $12.6 million and the purchase of other capital assets totaling $1.6 million, less current year depreciation of $8.5 million.

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 increased by $3 million from FY 2015 to FY 2016 mainly due to an increase in accounts payable of $2.4 for new construction projects in 2016, with the remaining increase primarily in accounts payable related to the timing of vendor payments. Current liabilities can fluctuate from year to year depending on receipt of vendor invoices and timing of vendor payments, especially in the area of capital asset improvements. Current assets exceed current liabilities by $37.7 million in FY 2016, indicating the College's continued ability to meet its short-term obligations with liquid or easily liquidated assets.

Noncurrent liabilities increased by $13.2 million from FY 2015 to FY 2016 primarily due to an increase in long term debt of $10.7 million acquired to purchase the Tacoma Campus property. Long term debt also increased by $176 thousand for the acquisition of a dishwasher for housing, and recognition of $843 thousand in pension costs to account for the College's share of future retiree health care benefits. A $320 thousand reduction to long term debt occurred when the 2006 housing bonds were refunded during FY 2016. There was also an increase in the net pension obligation of $2.4 million as a the result of the continued application of GASB No. 68, 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 increases were offset by current year principle payments reducing long term debt balances.

Net Position

Net position represents the difference between the College's assets and deferred outflows, less liabilities and deferred inflows. 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.

Total net position increased by $15 million during FY 2016 to $191 million. This was primarily due to the investment in capital assets, net of related debt, increasing by approximately $10.1 million during FY 2016. The College spent $28.4 million on capital asset acquisitions (including the purchase of the Tacoma Campus property for $12.6 million), during FY 2016 and there was a prior period adjustment that increased capital assets by $558 thousand. The College reduced capital assets by $8.5 million for depreciation expense. Additionally, the College's debt balances related to capital assets increased by approximately $10.2 million (related to acquisitions) which reduced the net investment in capital assets.

Condensed Net Positions Net Positions (in thousands)		2016		2015 Restated
Invested in capital assets, net of related debt	$	164,773	$	155,289
Restricted:				
Pensions		279		350
Non-expendable: Scholarships and Professorsh		2,175		2,176
Expendable		6,997		6,905
Unrestricted		16,762		11,744
Total net position	$	190,986	$	176,464

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, 2016 and 2015 follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Positions For the years ended June 30 (in thousands)	2016	2015 Restated
Operating revenues	$ 61,437	$ 61,600
Operating expenses	99,322	95,771
Net operating loss	(37,885)	(34,171)
Non-operating revenues	35,880	31,144
Non-operating expenses	-	(704)
Gain(loss) before other revenues	(2,005)	(3,731)
Other revenues and expenses	16,527	5,313
Increase in net assets	14,522	1,582
Net assets at beginning of year	176,464	174,882
Prior Period Adjustment Note 20	-	-
Net assets at end of year	$ 190,986	$ 176,464

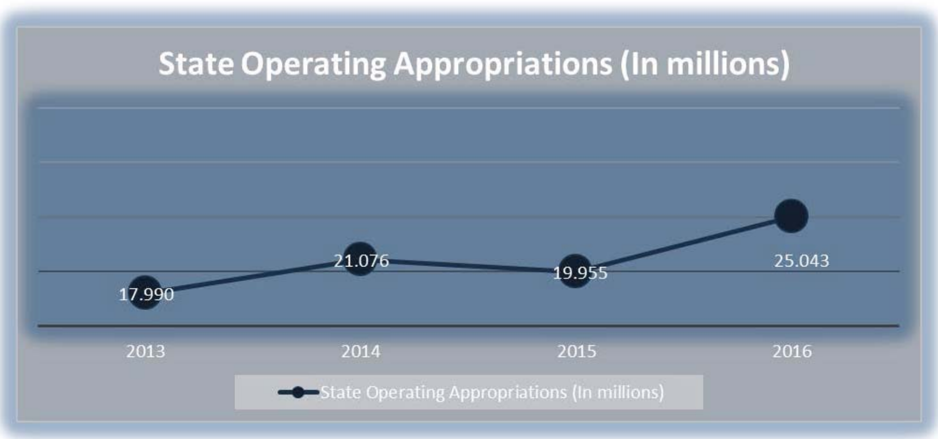
Operating and Non-operating Revenues

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

Net tuition revenues (tuition and fees less scholarship allowances) decreased only slightly by $75 thousand or 0.2% compared to FY 2015 partly because the College experienced a slight increase in enrollment which increased tuition charges by $690 thousand which was offset by the amount awarded in scholarship allowances which increased by $766 thousand or 4.3%.

Both the federal grants and contracts (including the federal Pell Grant) and the State Need Grant revenues decreased in FY 2016. The federal grants and contracts (including the federal Pell Grant) decreased by about $545 thousand and the State Need Grant decreased by about $388 thousand. However, the increase in scholarship allowances awarded by the College of slightly more than $766 thousand helped off-set some of the lost grant revenues.

State appropriations used for operations increased by $5.1 million or 26%. The increase was to fund a 5% state mandated decrease in the cost of tuition to resident undergraduate students, a 3% salary increase for state employees as well as to fund a student success initiative.



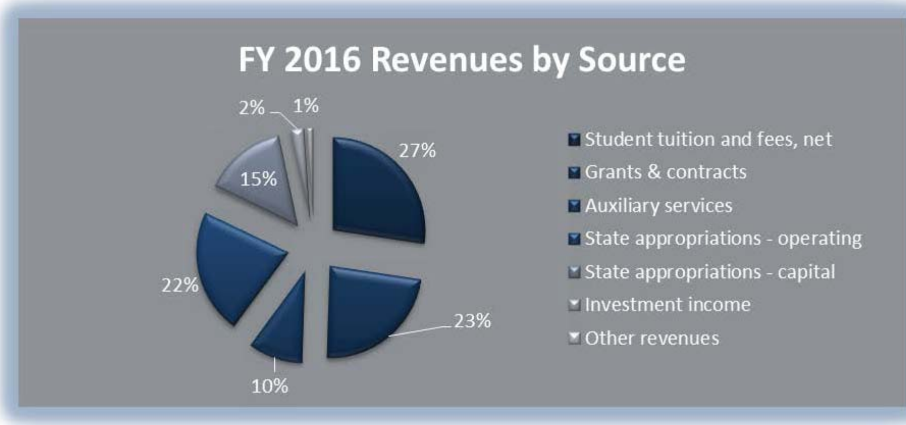
The line graph above illustrates the recent state support provided to the College and is representative of the budget increases to Higher Education in FY 2016. The Washington State Legislature has tuition setting authority for resident undergraduate students and as such there was a 5% tuition decrease for these students in FY 2016. 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 graphs below reflect the percentage of revenue received by revenue source and the FY 2016 tuition decreases and increases. Another more significant cut to tuition rates of 15% has been passed by the legislature for FY 2017 but the college will receive increased state appropriations to offset the lost tuition revenue.

Tuition Trends

Academic Year	Resident Undergraduate	Increase over Prior Year	Resident Graduate	Increase over Prior Year	Nonresident Undergraduate	Increase over Prior Year	Nonresident Graduate	Increase over Prior Year
2015-16	$ 2,504	-4.2%	$ 3,046	4.8%	$ 7,309	4.9%	$ 7,167	3.0%
2014-15	2,615	0.2%	2,907	4.8%	6,967	4.9%	6,960	2.0%

*Does not include mandatory and optional fees

The graph below reflects the percentage of revenue received by revenue source:

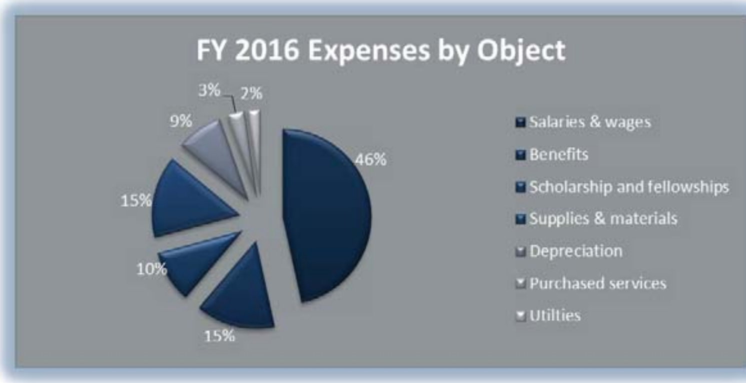


Revenues by Source (in thousands) For the years ended June 30, 2016 and 2015		2016			2015	
Student tuition and fees, net	$	31,163	27%	$	31,238	32%
Grants & contracts		26,341	23%		26,838	27%
Auxiliary services		10,933	10%		10,892	11%
State appropriations - operating		25,043	22%		19,955	20%
State appropriations - capital		16,528	15%		5,314	5%
Investment income		2,657	2%		2,817	3%
Other revenues		1,180	1%		1,002	1%
Total revenues	**$**	**113,845**	**100%**	**$**	**98,056**	**100%**

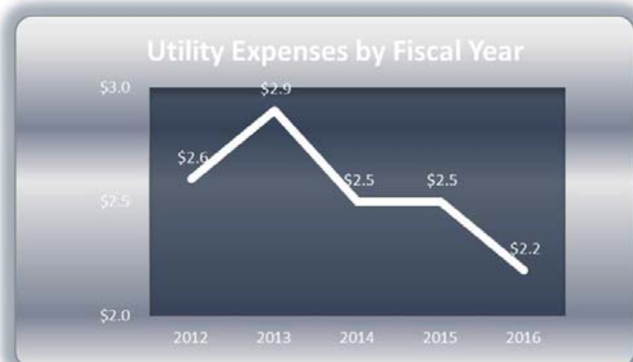
Operating Expenses

In 2016, the College's total operating expenses increased by about $3.5 million returning to the 2014 expenditure levels. This is mainly due to an increase in salaries, wages and benefits of $3.1 million due to a state approved 3% salary increase for all state employees and increased maintenance costs (supplies and materials) of $829 thousand. The increased maintenance costs were offset by lower utility and purchased services costs. Further, scholarship expenses were reduced by $830 thousand because the funding sources for these, such as federal and state grants, were reduced. Lastly, the amount of depreciation expense for 2016 increased by approximately $1 million due to the large amount of capital assets acquired during 2016.

Operating Expenses By Object (in thousands) For the years ended June 30, 2016 and 2015		2016			2015	
Salaries & wages	$	46,256	47%	$	44,262	47%
Benefits		14,579	15%		13,544	13%
Scholarship and fellowships		9,541	10%		10,371	11%
Supplies & materials		15,073	15%		14,244	15%
Depreciation		8,524	9%		7,518	8%
Purchased services		3,152	3%		3,353	4%
Utilities		2,197	2%		2,479	3%
Total Expenses	**$**	**99,322**	**100%**	**$**	**95,771**	**100%**

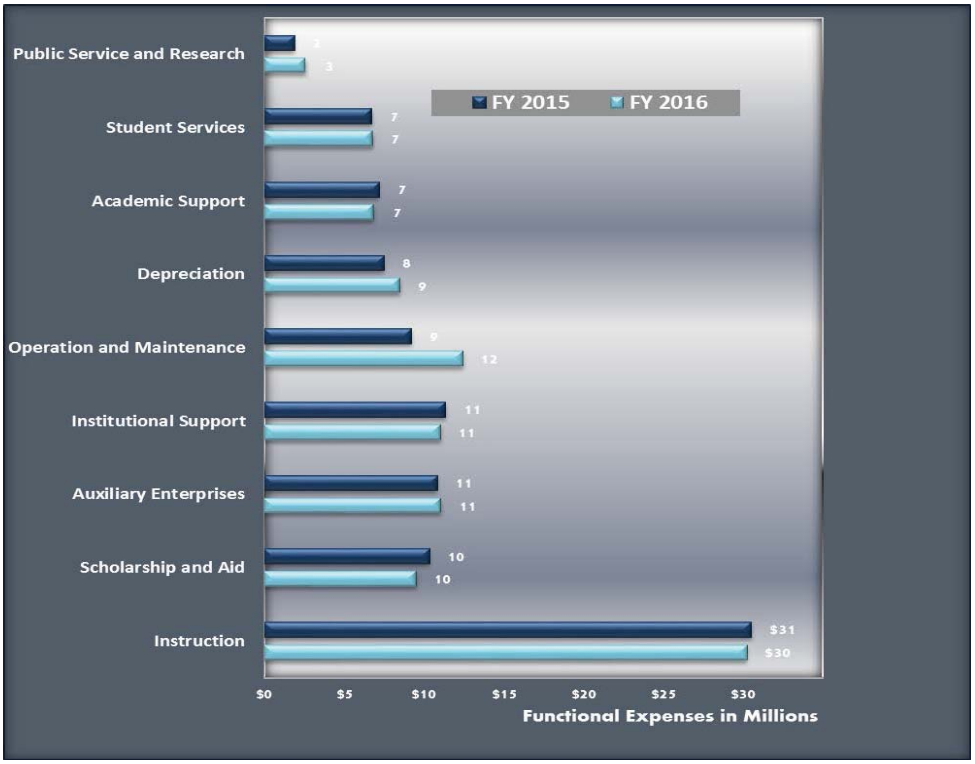


The College is a national leader in the area of environmental sustainability, with an institutional goal of being carbon neutral by the year 2020. To achieve this, the students have assessed themselves a fee to purchase green electrical power. In addition, there is a conscious effort to lower utility costs by conservation and other measures. These efforts over the last five 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 that had been taken off-line in FY 2012. Through conservation efforts the COM building and other campus buildings utility costs decreased the following year (FY 2014) and have steadily dropped since that year.



Comparison of Operating Expenses by Function

This chart shows the dollar amount for each functional area of operating expenses for 2016 and 2015.



Capital Asset and Debt Activities

During FY 15 and FY16, the College continued to increase its investment in capital assets consisting of land, buildings, infrastructure and equipment (see Notes 6 and 10). Several major building renovation projects have been underway and in November 2015, the College purchased the property in downtown Tacoma that it had been leasing for years and using as a second campus.

The College's building renovation projects during the last two fiscal years include a $4.7 million renovation of the second floor of the Lab I building and an $11.3 million renovation of the Communications building. Both of these major renovations were completed at the end of FY15. During FY16, the Lecture Hall underwent an $11.8 million renovation project which was completed at the beginning of FY17. The Lab 1 building's basement is currently undergoing renovation and that project should wrap up sometime in FY17. These projects have been funded by capital appropriations funding received from the state.

In November 2015, the College purchased the property in downtown Tacoma for $12.5 million that it had been leasing for a second campus. In March 2016, the College obtained financing to cover $10.9 million of the cost of the purchase through certificates of participation, issued by the Washington Office of State Treasurer (OST). The term for the COP is 20 years at an interest rate of approximately 3%.

In FY16, the College purchased an industrial conveyer type energy star dishwasher for approximately $230 thousand dollars. In March 2016, the College obtained financing for the dishwasher through certificates of participation, issued by the Washington Office of State Treasurer (OST) in the amount of $214 thousand. The term of the COP is 5 years with an interest rate of approximately 1.3%

In September of 2015, the College issued Housing Revenue Bonds, in the amount of $4.13 million, for the purpose of paying off the outstanding Housing Series 2006 Bonds (see Note 9). The interest rate of the 2015 issue was 2.39% versus 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 which will be paid off in 2026.

Financial Summary and Economic Factors That Will Affect the Future

In 2016, the College's state appropriations increased by $16.3 million which was largely due to an increase in capital appropriations of more than $11 million.

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.
Tuition decreased in 2016 for resident undergraduates but increased between 3 to 5% for all other students. The College expects a 15% decrease in tuition for 2017 for undergraduate resident students and an increase in state appropriations to offset the lost tuition revenue. Enrollment has been declining for the last five years but may have bottomed out. However, if enrollments continue to decline the College could experience a decline in tuition revenue.

GASB has issued two new pronouncements that will be effective in FY 2017. GASB Statement No. 73 will affect financial reporting related to The Evergreen State College Retirement Plan (TESCRP) supplemental component with the inclusion of the net pension liability to the Statement of Net Position. GASB Statement No. 74 addresses the liability associated with Other Post-Employment Benefits (OPEB) offered to retirees. The financial impact of this statement is uncertain at this time.

The Evergreen State College
Statement of Net Position
June 30, 2016

	2016
Assets	
Current Assets	
Cash and cash equivalents	$ 33,086,546
Short-term investments	6,055,215
Due from State Treasurer	5,854,676
Funds held with State Treasurer	2,726,619
Accounts receivable, net	6,218,555
Student loan receivables, net	661,951
Inventories	690,437
Total current assets	55,293,999
Non-Current Assets	
Investments	2,495,013
Student loan receivables, net	3,711,870
Restricted Net Pension	279,345
Capital assets, net of depreciation	189,321,764
Total non-current assets	195,807,992
Total assets	251,101,991
Deferred Outflows	
Relating to pension (Note 17)	2,528,696
Deferred Outflow on Refundings	29,700
Total deferred outflows	2,558,396
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	9,543,280
Unearned revenues	4,340,809
Deposits payable	155,024
Compensated absences	2,271,861
Net pension obligations, current	126,000
Current portion of bonds and notes payable	1,182,691
Total current liabilities	17,619,665
Non-Current Liabilities	
Compensated absences	825,536
Net pension obligations	5,348,786
Net pension liabilities	13,216,803
Long Term Debt (Note 8)	23,396,417
Total non-current liabilities	42,787,542
Total liabilities	60,407,207
Deferred Inflows	
Relating to pension (Note 17)	2,267,096
Total deferred inflows	2,267,096
Net Position	
Net Investment in capital assets	164,772,356
Restricted for:	
Pensions	279,345
Nonexpendable:	
Scholarships and professorships	2,175,010
Expendable:	
Loans	6,602,865
Endowment earnings	394,524
Unrestricted	16,761,984
Total net position	$ 190,986,084

See Accompanying Notes to the Financial Statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

		2016
CURRENT ASSETS		
Cash, including restricted cash	$	1,815,954
Investments		345,000
Beneficial interest in lead trust		150,000
Unconditional promises to give, current		386,126
Total Current Assets		**2,697,080**
OTHER ASSETS		
Investments		12,822,709
Beneficial interest in lead trust		1,737,771
Long-term unconditional promises to give		387,109
Total Other Assets		**14,947,589**
Total Assets	**$**	**17,644,669**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	16,179
Total Current Liabilities		**16,179**
ANNUITY PAYMENT LIABILITY		**10,596**
Total Liabilities		**26,775**
NET ASSETS		
Unrestricted		1,670,987
Temporarily restricted		7,125,997
Permanently restricted		8,820,910
Total Net Assets		**17,617,894**
Total Liabilities and Net Assets	**$**	**17,644,669**

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

The Evergreen State College
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	2016
Operating Revenues	
Student tuition and fees	49,782,181
Less scholarship discounts and allowances	(18,618,906)
Auxiliary enterprise sales, net	10,261,297
State and local grants and contracts	9,820,350
Federal grants and contracts	4,546,581
Nongovernmental grants and contracts	3,794,745
Other operating revenue	1,111,401
Sales and services of educational activities	671,182
Interest on loans to students	68,585
Total operating revenue	61,437,416
Operating Expenses	
Salaries and wages	46,255,766
Benefits	14,579,362
Scholarships and fellowships	9,540,967
Supplies and materials	15,072,565
Depreciation	8,524,702
Purchased services	3,152,040
Utilities	2,196,886
Total operating expenses	99,322,288
Operating loss	(37,884,872)
Non-Operating Revenues (Expenses)	
State appropriations	25,043,000
Federal pell grant revenue	8,179,499
Investment income, gains and losses	2,539,705
Debt service	117,493
Net non-operating revenues	35,879,697
Income before contributions	(2,005,175)
Capital appropriations	16,527,525
Increase in net position	14,522,350
Net Position	
Net position, beginning of year	175,905,824
Prior Period Adjustment (Note 20)	557,910
Net position, beginning of year - restated	176,463,734
Net position, end of year	$ 190,986,084

See Accompanying Notes to the Financial Statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016
SUPPORT AND REVENUES				
Gifts and contributions	$ 238,989	$ 2,902,438	$ 1,448,549	$ 4,589,975
In-kind support from College	1,307,545	-	-	1,307,545
Investment income	(23,148)	(159,032)	-	(182,180)
Change in value of split-interest agreement	-	(3,025)	-	(3,025)
Gift fees	125,200	-	-	125,200
Reclassifications and transfers	-	(11,775)	11,775	-
Net assets released from restrictions	1,222,689	(1,222,689)		-
Total support and revenues	**2,871,275**	**1,505,916**	**1,460,324**	**5,837,515**
EXPENSES				
Program services:				
Grants and scholarships	839,820	-	-	839,820
Other College support	670,934	-	-	670,934
Total program services	1,510,754	-	-	1,510,754
Support Services:				
Management and General	826,974	-	-	826,974
Fundraising	614,683	-	-	614,683
Total support services	1,441,657	-	-	1,441,657
Total expenses	**2,952,411**	**-**	**-**	**2,952,411**
Increase (decrease) in net assets	**(81,136)**	**1,505,917**	**1,460,324**	**2,885,105**
NET ASSETS				
Beginning of year	1,752,123	5,620,080	7,360,586	14,732,789
Ending Net Assets	**$ 1,670,987**	**$ 7,125,997**	**$ 8,820,910**	**$ 17,617,894**

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, 2016

	2016
Cash flows from operating activities	
Student tuition and fees	44,022,570
Grants and contracts	18,161,676
Sales and services of educational activities	671,182
Auxiliary enterprise sales	10,261,297
Payments to employees	(60,989,900)
Payment to vendors	(17,693,269)
Payment for scholarships and fellowships	(22,577,659)
Net cash used by operating activities	(28,144,103)
Cash flows from noncapital financing activities	
State operating appropriations	25,043,000
Direct lending receipts	23,197,479
Direct lending disbursements	(23,197,479)
Agency fund receipts	(691,577)
Agency fund disbursements	702,980
Federal pell grant receipts	8,179,499
Net cash provided by noncapital financing activities	33,233,902
Cash flows from capital and related financing activities	
Capital appropriations	11,242,762
Certificate of participation proceeds	11,938,371
Purchase of capital assets	(28,393,326)
Principal paid on capital debt	(1,055,000)
Debt Service Expenses and Interest	117,493
Net cash used by capital and related financing activities	(6,149,700)
Cash flows from investing activities	
Purchase of investments	-
Proceeds from sales and maturities of investments	3,000,000
Income from investments, net	1,581,653
Net cash provided by investing activities	4,581,653
Increase in cash and cash equivalents	3,521,752
Cash and cash equivalents at the beginning of the year	29,564,794
Cash and cash equivalents at the end of the year	$ 33,086,546

Reconciliation of Operating Loss to Net Cash used by Operating Activities

	2016
Operating Loss	$ (37,884,872)
Depreciation expense	8,524,702
Net Pension Expense	(1,090,231)
Changes in assets and liabilities	
Accounts receivable	(792,635)
Loans receivable	(114,900)
Inventory	5,260
Bond discount and issue costs	18,144
Accounts payable and accrued expenses	2,796,753
Unearned revenues	(286,079)
Deposits	(163,769)
Net Pension Obligation Expense	843,522
Net cash used by operating activities	(28,144,103)
Noncash transactions:	
Purchase of endowment investments	(689,338)
Proceeds from sales and maturities of endowment investments	614,813

See Accompanying Notes to the Financial Statements.

THE EVERGREEN STATE COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

		2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	2,885,105
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for long term purposes		(1,460,324)
Bad Debts		(6,000)
Donated marketable securities		(196,297)
Investment Income added to investments		(405,301)
Unrealized loss/gain on investments and change in value of split interest agreements		594,420
Increase in unconditional promises to give		(68,079)
Increase in Split-Interest agreements		(1,887,771)
(Decrease)/Increase in accounts payable		(6,551)
Decrease in payable to College and employees		-
Net cash provided (used) by operating activities		**(550,798)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from CDs		602
Proceeds from sale of donated stock		191,781
Purchases of investments		(1,717,025)
Net cash provided (used) by investing activities		**(1,524,642)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes		1,480,609
Payment of annuity obligations		(3,025)
Net cash provided by financing activities		**1,477,584**
Net increase/decrease in cash and cash equivalents		**(597,856)**
CASH AND CASH EQUIVALENTS		
Beginning of year		2,413,810
End of year	**$**	**1,815,954**

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, 2016 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, 2016, 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. 72 - Fair Value Measurement and Application. GASB Statement No. 72 defines fair value and provides guidance for determining a fair value measurement of assets for financial reporting purposes. The statement was implemented by the College July 1, 2015 and will be discussed in Note 2.

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.

Statement No. 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. GASB Statement No. 76 identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

Statement No. 79 - Certain External Investment Pools and Pool Participants. GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure its investments at amortized cost for financial reporting purposes. Certain provisions of Statement 79 related to portfolio quality, custodial credit risk, and shadow pricing are not effective until July 1, 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 fair market 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.

Restatement of Net Position
On July 1, 2014, ***TESC adopted GASB Statement No. 68 "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27***". This statement requires that TESC record its proportional share of the State's net pension liability (for defined benefit plans), administered by the State, and to restate the beginning net position of the earliest period presented. The College's beginning fiscal year 15 net position was restated or reduced by $14.4 million. The College's net pension liability was increased by $10.9 million. The net pension liability information was provided to the College by the Washington State Department of Retirement Systems (DRS) and the Office of State Actuary (OSA). The information provided by DRS and OSA only allowed the College to restate fiscal year 15 beginning net position due to the measurement period of June 30, 2014 for the net pension liability.

Accordingly, the College's measurement period for the 2016 calculation of the net pension liability was June 30, 2015.

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

Invested in Capital Assets, Net of Related Debt: 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, 2016	June 30, 2015
Cash on hand	$ 21,350	$ 21,290
Bank demand and time deposits	23,029,315	3,500,274
Local government investment pool	10,035,881	26,043,230
Total cash and cash equivalents	$ 33,086,546	$ 29,564,794

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	$ 3,053,775	$ 3,053,775	$ -	N/A
Bonds	3,001,440	3,001,440		Level 2
Cash Equivalents	-			
Bond Funds	2,495,013			Level 2
Equities	-	n/a	n/a	
Totals	$ 8,550,228			

At June 30, 2016 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is $495,013, which is reported as restricted, expendable on the Statements of Net Assets. 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:

	2016
Student tuition and fees	$ 3,425,285
Federal, state and private grants	1,705,807
State appropriation receivable	5,854,676
Auxiliary enterprises	1,433,052
Other operating activities	339,419
Subtotal	12,758,239
Allowance for uncollectibles	(685,008)
Net accounts receivable	$ 12,073,231

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

	2016
Perkins loans	$ 4,342,078
Other loans	45,345
Subtotal	4,387,423
Allowance for uncollectibles	(13,602)
Net student loans receivable	$ 4,373,821

Note 5. Inventories

Inventories at June 30 consist of the following:

Inventories	Balance June 30, 2016
Enterprise funds	$ 164,844
Working capital funds	525,593
Total inventory	$ 690,437

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016 is summarized as follows:

	Balance June 30,2015	Additions/ Transfers	Retirements	Balance June 30,2016
Non-depreciable assets				
Land	$ 4,997,751	$ 3,863,378	$ -	$ 8,861,129
Construction in progress	6,455,290	14,235,735	-	20,691,025
Total non-depreciable assets	11,453,041	$ 18,099,113	-	29,552,154
Depreciable assets				
Infrastructure	13,765,378	-	-	13,765,378
Buildings	226,681,627	8,529,218	-	235,210,845
Improvements other than buildings	1,250,382	-	-	1,250,382
Furniture, fixtures and equipment	15,049,057	754,043	-	15,803,100
Library resources	19,959,549	828,395	-	20,787,944
Intangibles	-	-	-	-
Total depreciable assets	276,705,993	10,111,656	-	286,817,649
Less accumulated depreciation				
Infrastructure	8,636,998	388,003	-	9,025,001
Buildings	80,703,592	6,341,731	-	87,045,323
Improvements other than buildings	104,198	50,015	-	154,213
Furniture, fixtures and equipment	11,737,629	1,354,640	-	13,092,269
Library resources	17,340,920	390,312	-	17,731,232
Intangibles	-	-	-	-
Total accumulated depreciation	118,523,337	8,524,702	-	127,048,038
Net capital assets	$ 169,635,697	$ 19,686,067	$ -	$ 189,321,764

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, 2016 are as follows:

Vacation Leave	$ 2,271,861
Sick Leave	825,536
Total	$ 3,097,397

Note 8. Long-Term Liabilities

Following are changes in long-term liabilities for the year ended June 30, 2016:

	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

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion	Long-Term Portion
Accrued leave liabilities	$ 3,179,821	$ 3,435,372	$ 3,609,732	$ 3,005,461	$ 2,175,203	$ 830,258
Certificate of Participation	10,810,000	-	525,000	10,285,000	540,000	9,745,000
Pension liability	3,866,643	11,712,723	87,379	15,491,987	126,000	15,365,987
Bonds payable	4,525,000	-	445,000	4,080,000	460,000	3,620,000
Total	$ 22,381,464	$ 15,148,095	$ 4,667,111	$ 32,862,448	$ 3,301,203	$ 29,561,245

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% versus 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, 2016:

System revenue bonds	Interest Rate	Issue	June 30, 2016	June 30, 2015
2015	2.39	$ 4,130,000	$ 3,665,000	$ -
2006	3.75 to 4.25%	7,550,000	-	4,080,000

Debt Service Requirements

The scheduled maturities of system revenue bonds are as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 325,000	$ 87,594	$ 412,594
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
2022-2026	1,935,000	141,009	2,076,009
Totals	$ 3,665,000	$ 498,554	$ 4,163,554

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Note 10. Notes Payable

In June 2009, the College obtained financing in order to renovate and remodel the College Activities Building (CAB) through certificates of participation, issued by the Washington Office of State Treasurer (OST) in the amount of $13,175,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2006. These fees are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget. The interest rate charged is approximately 5%. 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) CAB Building		
Fiscal Year	Principal	Interest	Total
2017	$ 565,000	$ 484,390	$ 1,049,390
2018	585,000	461,508	1,046,508
2019	610,000	436,645	1,046,645
2020	640,000	409,500	1,049,500
2021	665,000	380,380	1,045,380
2022-2026	3,855,000	1,382,498	5,237,498
2027-2029	2,825,000	315,178	3,140,178
	$ 9,745,000	$ 3,870,099	$ 13,615,099

In March of 2016, the College obtained financing to cover the cost to purchase property in downtown Tacoma for a second campus 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 will be 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
2017	$ 255,000	$ 531,835	$ 786,835
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
2022-2026	2,460,000	1,472,375	3,932,375
2027-2031	3,070,000	868,125	3,938,125
2032-2036	3,585,000	354,838	3,939,838
	$ 10,955,000	$ 4,791,523	$ 15,746,523

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 will be 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) Industrial Dishwasher		
Fiscal Year	Principal	Interest	Total
2017	$ 37,690	$ 11,951	$ 49,641
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
	$ 214,107	$ 34,097	$ 248,204

Note 11. Lease Obligations

The College had an operating lease rental for the Tacoma program building, along with several other building leases. Total operating lease expenses were $444,217 during 2016.

The Tacoma operating lease was paid off and the building was purchased by the College during fiscal year 2016. Operating lease payments for the next five years are as follows:

Fiscal Year	Total Payments
2017	$ 131,645
2018	131,645
2019	131,645
2020	131,645
2021	131,645
Total	$ 658,225

Note 12. Commitments

Encumbrances for current funds carried forward totaled $97,258 at June 30, 2015, respectively. The College does not encumber construction contracts. Remaining construction commitments totaled $6,812,992 at June 30, 2016.

Note 13. Operating Expenses by Function

Operating expenses by functional classification for the year end June 30, 2016 are as follows:

Instruction	$ 30,227,748
Scholarship and aid	9,540,967
Auxiliary enterprises	11,099,778
Institutional support	11,066,669
Operations and maintenance	12,465,873
Depreciation	8,524,702
Academic support	6,916,448
Student services	6,817,284
Public service	2,523,061
Research	139,758
Total operating expenses	$ 99,322,288

Note 14. 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. Initially set at 0.5%, it was increased to 0.75% in 2013. 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 $175,628 for 2016.

Note 15. 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, 2015 to be $5.3 billion and that the annual cost was $502 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 $28.1 million, and the annual allocated estimated cost to the College is about $2.9 million. This estimated expense represents the amortization of the liability for fiscal year 2015 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 million in 2016 for active and retiree healthcare expenses and $5.5 million in 2015.

Note 16. 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 17. 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 2016, the payroll for the College's employees was $15,938,115 for PERS, $476,958 for TRS, $506,618 for LEOFF and $23,309,305 for TESCRP. Total covered payroll for 2016 was $46,637,461.

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 2015:

Aggregate Pension Amounts - All Plans

Pension Expense	$	(1,090,233)
Net Pension Asset		279,345
Net Pension Liab.		13,216,803
Deferred Inflows		2,267,096
Deferred Outflows	$	2,528,696

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

PERS, TRS and LEOFF Plan Descriptions

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

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

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

LEOFF Plan II
This plan provides retirement and disability benefits, and a cost-of-living allowance, beginning at age 53 with five years of service, or actuarially reduced benefit beginning at age 50 with 20 years of service to eligible members hired on or after October 1, 1977.

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

As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15% of salaries, on member choice. Members who do not choose a contribution rate default to a 5% 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, 2016 and 2015 were $2,018,282, and $1,990,826, 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, 2016.

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 2015. The previous valuation was performed in 2013. The Unfunded Actuarial accrued Liability (UAL) calculated as of July 1, 2015 and 2013 was $5,924,000 and $5,938,000, respectively, and is amortized over a 13-year period. The Annual Required Contribution (ARC) of $852,000 consists of amortization of the UAL ($599,000) and normal, or current, cost ($236,000) plus interest. The UAL and ARC were established using the entry age normal cost method.

The actuarial assumptions include an investment rate of return of 4.25% to 7.25% and projected salary increases of 3.75%. Approximately $23,309,305 of TESC's payroll was covered under this plan during fiscal year 2016.

The following reflects the activity in the Net Pension Obligation (NPO) for the year ended June 30, 2016:

TESCRP SUPPLEMENTAL PLAN	FY 2016
Balance as of July 1	$ 4,631,264
Annual Required Contribution	852,000
Immaterial adjustment to Pension Obligation	75,254
GASB 73 Recognition of Unfunded Liability	
Payments to Beneficiaries	84,032
Balance as of June 30	$ 5,474,486

The College records the estimated current payments to beneficiaries as a current liability with the remainder of the NPO as a long-term liability.

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, 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 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 fiscal year 2016 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, 2015, TESC reported $7.3 million for its proportionate share of the collective net pension liability for PERS 1 and $5.5 million for PERS 2/3. TESC's proportion for PERS 1 was 0.14 percent, a decrease of 0.007 percent since 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	$8,910,981
Current Discount Rate	7,319,065
1% Increase	$5,950,163

PERS 2/3 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$16,220,007
Current Discount Rate	5,547,100
1% Increase	($2,624,745)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, TESC recognized a PERS 1 pension expense of ($627) thousand, and recognized a PERS 2/3 pension expense of ($498) thousand. At June 30, 2015, 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	-	400,433
Change in proportion	-	-
State Contributions subsequent to the measurement date	61,421	-
Total	$ 61,421	$ 400,433

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 589,658	
Changes of assumptions	8,938	
Net difference between projected and actual earnings on pension plan investments	-	1,480,813
Change in proportion	-	244,595
State Contributions subsequent to the measurement date	1,684,220	
Total	$ 2,282,816	$ 1,725,408

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	
2016	$ (155,194)
2017	(155,194)
2018	(155,194)
2019	65,149
Thereafter	$ -

PERS 2/3	
2016	$ (457,638)
2017	(457,638)
2018	(457,638)
2019	246,101
2020	-
Thereafter	$ -

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 2016 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, 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 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 fiscal year 2015 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, 2015, TESC reported a liability of $273 thousand for its proportionate share of the collective net pension liability for TRS 1 and $77 thousand for TRS 2/3. TESC's proportion for TRS 1 was 0.009 percent, an increase of 0.003 percent since the prior reporting period, and 0.009 percent for TRS 2/3, an increase of 0.003 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.

TRS 1 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$343,776
Current Discount Rate	273,474
1% Increase	$213,021

TRS 2/3 Employer's Proportionate Share of the Net Pension Liability (Asset)	
1% Decrease	$326,497
Current Discount Rate	77,166
1% Increase	($108,191)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, TESC recognized a TRS 1 pension expense of $95 thousand, and recognized a TRS 2/3 pension expense of ($8) thousand. At June 30, 2015, 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	-	20,242
Change in proportion	-	-
State Contributions subsequent to the measurement date	-	-
Total	$ -	$ 20,242

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 12,215	$ -
Changes of assumptions	67	-
Net difference between projected and actual earnings on pension plan investments	-	29,938
Change in proportion	43,314	-
State Contributions subsequent to the measurement date	60,751	-
Total	$ 116,347	$ 29,938

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		
2016	$	(7,851)
2017		(7,851)
2018		(7,851)
2019		3,311
Thereafter	$	-

TRS 2/3		
2016	$	(1,116)
2017		(1,116)
2018		(1,116)
2019		15,829
2020		13,177
Thereafter	$	-

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 2016 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, 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 economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the fiscal year 2015 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, 2015, TESC reported an asset of $279 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 0.001 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	$279,746
Current Discount Rate	(279,346)
1% Increase	($700,084)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, TESC recognized a LEOFF 2 pension expense of ($52) thousand.

At June 30, 2015, 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	$ 24,461	
Changes of assumption	737	-
Net difference between projected and actual earnings on pension plan investments		84,640
Change in proportion	-	6,436
State Contributions subsequent to the measurement date	42,912	-
Total	$ 68,110	$ 91,076

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		
2016	$	(29,279)
2017		(29,279)
2018		(29,280)
2019		18,428
2020		3,808
2021		(276)
Thereafter	$	-

TABLE B1: Required Contribution Rates

The required contribution rates (expressed as a percentage of current year covered payroll) at June 30, 2016 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, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
PERS			
Employee	$ 977,636	$ 784,903	$ 806,921
College	1,781,882	1,395,852	1,420,781
TRS			
Employee	30,809	10,396	15,476
College	62,625	21,777	28,663
LEOFF			
Employee	42,606	40,873	37,157
College	43,518	40,873	37,953

All required employer and employee contributions have been made.

Note 18. 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	$ 1,947,399	$ 614,175	$ 4,119,757	2015 Housing Bond	Refunding of 2006 Bond Issue	2026

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, 2016:

Condensed Statements of Net Positions	
Assets	
Current assets	4,966,994
Noncurrent assets	11,703,168
Total assets	16,670,162
Deferred Outflows	86,999
Liabilities	
Current liabilities	706,252
Noncurrent liabilities	3,496,731
Total liabilities	4,202,983
Deferred Inflows	43,308
Net Position	
Net investment in capital assets	8,067,868
Unrestricted	4,443,002
Total net position	$ 12,510,870

Condensed Statement of Revenues, Expenses and Changes in Net Position	
Operating revenues	$ 5,284,233
Operating expenses	4,552,590
Net operating income	731,643
Non-operating revenues (expenses)	(149,175)
Changes in net position	582,468
Total net position beginning of year	11,854,073
Prior year adjustment	74,329
Net position, beginning of year - restated	11,928,402
Total net position, end of year	$ 12,510,870

Condensed Statement of Cash Flows	
Net cash flows provided by operating activities	$ 1,938,408
Net cash flows used by capital financing acitivities	(980,660)
Net cash flows provide by investing activities	-
Net increase to cash	957,748
Cash beginning of year	3,813,191
Cash end of year	$ 4,770,939

Note 20. Prior Period Adjustment

An extensive review of the College's capital assets was conducted. This review resulted in a correction for capital assets and a prior year adjustment of $375,354. This adjustment increased the net position beginning balance for fiscal year 2016 on the Statement of Revenue, Expenses and Changes in Net Positions. The net position for fiscal year 2015 and 2014 were also impacted by the adjustment, resulting in a $375,354 increase to the net position ending balance for fiscal year 2014 which became the adjusted beginning balance for 2015.

When the Tacoma Property was purchased during fiscal year 2016, prior year expenses, which were a part of the building's total cost were capitalized. This resulted in a prior period adjustment to increase ending net position for fiscal year 2014 by $182,556, resulting in an increase of $182,556 to the beginning net position for fiscal year 2016.

Description	Amount
Prior year Expenses Capitalized in 2016	$182,556
Capital Asset Write Ups Prior Years Net of Accumulated Depreciation	375,354
Increase in Net Position	$557,910

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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.

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 and 2015, cash totaled $1,815,954 and $2,413,810; of which $118,192 and $728,361 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	**2016**	**2015**
Cash	$ 578	$ -
Mutual Funds	328,701	324,609
Certificates of Deposit	704,093	703,092
Total	**$ 1,033,372**	**$ 1,027,701**

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 when determination of allocation is made. 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:		
	2016	**2015**
Total Units at U of W	34,527,691	33,521,892
Value per Unit	$ 85.96	$ 91.77
Total value at U of W	$ 2,968,000,318	$ 3,076,225,847
TESC Foundation Portion		
Total Units	125,584.00	112,029.00
Value per Unit	$ 85.96	$ 91.77
Total TESC Foundation Portion	$ 10,795,210	$ 10,280,645

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, 2016 and 2015, an additional $994,127 and $224,518 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 Unitrust 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, 2016 and 2015. The fiscal years ended June 30, 2016, 2015, 2014 and 2013 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.

THE EVERGREEN STATE COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

New Accounting Pronouncements

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, 2017. 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:

	2016	2015
Receivable in less than one year	$ 386,126	$ 172,257
Receivable in one to five years	397,098	587,198
Long-term pledge receivable discount	(9,989)	(40,014)
Total Unconditional Promises to Give	$ 773,235	$ 719,441

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, 2016, and June 30, 2015, is $9,989 and $40,014, respectively.

NOTE 3 – INVESTMENTS

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

	2016	2015
Cash	$ 578	$ -
Certificates of deposit	1,049,093	803,092
Mutual funds	328,701	324,609
Investment in the University of Washington's Consolidated Endowment Fund	11,789,337	10,505,163
Total Investments	$ 13,167,709	$ 11,632,864

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

	2016	2015
Interest and dividend income	$ 404,699	$ 358,977
Net unrealized gains on investments	(586,879)	269,158
Total Investment Loss/Income	$ (182,180)	$ 628,135

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, 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

Changes in endowment net assets for the year ended June 30, 2015

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 2,028,691	$ 6,553,438	$ 8,582,129
Adjustment for reclassified funds	-	-	-
Investment return	526,188		526,188
Contributions, net of transfers	(316,525)	807,148	490,623
Net assets released	2,758	-	2,758
Endowment net assets, June 30, 2015	$ 2,241,112	$ 7,360,586	$ 9,601,698

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, 2016 and 2015.

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	37%
Private Equity	12%
Real Assets	6%
Opportunistic	2%
Absolute Return	16%
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:

For new endowments, distributions will be phased in to allow growth: zero percent in the year of establishment and five percent of the rolling average thereafter, continually for five years until a continuous five year average is obtained. The Finance and Investment Committee in a given year may recommend reduced payout rates for that year.

Any scholarship endowment fund that would pay out less than $1,000 in a year will not be distributed to allow time to build a level commensurate with student needs and staff and scholarship reader resources required for processing applications.

In establishing these policies, the Foundation considered the expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate consistent with the consumer price index. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term as well as to provide additional real growth through new gifts and investment return.

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, 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 Unitrust		1,887,771		1,887,771
Total assets at fair value	$ -	$ 15,055,480	$ -	$ 15,055,480

	Year Ended June 30, 2015			
	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash	$ -	$ -	$ -	$ -
Certificates of deposit		803,092		803,092
Mutual funds		324,609		324,609
Consolidated Endowment Fund (CEF)		10,505,163		10,505,163
Total assets at fair value	$ -	$ 11,632,864	$ -	$ 11,632,864

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 Unitrust (CLUT). The CLUT 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 6% of the net fair market value of the asset 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 Unitrust present value at June 30 is as follows:

	2016
Due in less than one year	$ 150,000
Due in one to five years	750,000
Due in five years or more	1,346,301
Discount	(358,530)
Total present value of Charitable Lead Unitrust	$ 1,887,771

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, 2016. 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 $3,025 and $3,070 respectively for the years ended June 30, 2016 and 2015.

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 donors discounted at the applicable rate as specified in the agreements. The charitable gift annuity obligation totaled $10,596 and $11,184 as of June 30, 2016 and 2015, respectively.

In 2009, the Foundation purchased a certificate of deposit with a face value of $100,000 for the purpose of satisfying the requirement to pledge assets for its annuity obligation. A certificate is purchased or renewed annually for this purpose.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Foundation provided grants to the College totaling $182,800 and $584,450 for the years ended June 30, 2016 and 2015. During the years ended June 30, 2016 and 2015, the Foundation also provided $501,462 and $353,847 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.

NOTE 8 – RELEASE OF NET ASSETS

Net assets of $1,222,689 and $1,648,056 were released from donor restrictions for the years ended June 30, 2016 and 2015, 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 $7,125,997 and $5,620,080 at June 30, 2016 and 2015, respectively.

	2016	2015
Academic Support and Research	$ 3,209,521	$ 1,405,881
Other College Support	1,071,437	320,653
Public Service Centers	29,838	623,998
Student Aid	2,815,201	3,269,548
Total Temporarily Restricted Net Assets	**$ 7,125,997**	**$ 5,620,080**

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

	2016	2015
Academic Support and Research	$ 1,728,297	$ 1,059,668
Other College Support	115,875	115,861
Student Aid	6,976,738	6,185,057
Total Restricted Net Assets	**$ 8,820,910**	**$ 7,360,586**

NOTE 10 – CONCENTRATIONS

Major Donors

For the year ended June 30, 2016, the Foundation received contributions from six sources that comprised approximately 72% of total contribution revenue. For the year ended June 30, 2015, the Foundation received contributions from four sources that comprised approximately 55% 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. If the donation is consumed (put into use) rather than sold in a fundraiser it is expensed.

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

	2016	2015
From individual and corporate donors:		
Stock	$ 196,297	$ 90,213
Art Work	10,695	14,260
Materials	12,582	21,127
Total in-kind support from individuals and corporate donors	219,574	125,600
From the College:		
Management services	1,055,705	993,426
Rent	29,176	25,212
Supplies and equipment usage	222,664	207,595
Total in-kind support from the College	1,307,545	1,226,233
Total in-kind support	$ 1,527,119	$ 1,351,833

NOTE 12 – LEASES

In May 2014, the Foundation entered into a new long-term operating lease for a vehicle which will expire in May 2017. Lease expense totaled $4,762 and $4,866 for the years ended June 30, 2016 and 2015, respectively. Minimum required annual lease payments thru 2017 are $4,762.

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 $125,200 and $75,823 in administrative fees for the years ended June 30, 2016 and 2015, 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)

As of June 30, 2016, the Foundation was holding funds earmarked for academic year 2016-2017 scholarships in the amount of $607,020 and as of June 30, 2015, the amount held for academic year 2015-2016 was $505,660. Of those amounts, $315,175 and $278,122 was available for endowment based scholarships, and $291,845 and $227,538 was available for one-time scholarships on June 30, 2016 and 2015, respectively.

Though the entire amount of the funds held are available for scholarships, not all of the scholarship offers are accepted. Additionally, there are times when students accept their scholarship offer but end up not being enrolled in the new academic year or are no longer qualified for the scholarship when classes begin; thereby leaving the scholarship unused. Any unused scholarship funds are returned to the Foundation and are held for future scholarships in the following academic year.

NOTE 15 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through March 3, 2017, the date on which the financial statements were available to be issued.

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)	2014	2015
TESC PERS 1 employers' proportion of the net pension liability	0.15%	0.14%
TESC PERS 1 employers' proportionate share of the net pension liability	$ 7,422	$ 7,319
TESC PERS 1 employers' covered-employee payroll	$ 986	$ 714
TESC PERS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	753%	1025%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%

* 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 ended June 30 * (dollars in thousands)	2014	2015
TESC PERS 2/3 employers' proportion of the net pension liability	0.16%	0.16%
TESCPERS 2/3 employers' proportionate share of the net pension liability	$ 3,250	$ 5,547
TESC PERS 2/3 employers' covered-employee payroll	$ 14,440	$ 14,442
TESC PERS 2/3 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	23%	38%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%

* 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 (TRS) Plan 1 Measurement Date of June 30 * (dollars in thousands)	2014	2015
TESC TRS 1 employers' proportion of the net pension liability	0.006%	0.009%
TESC TRS 1 employers' proportionate share of the net pension liability	$ 169	$ 273
TESC TRS 1 employers' covered-employee payroll	-	-
TESC TRS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	68.77%	65.70%

* 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 (TRS) Plan 2/3 Measurement Date ended June 30 * (dollars in thousands)	2014	2015
TESC TRS 2/3 employers' proportion of the net pension liability	0.006%	0.009%
TESC TRS 2/3 employers' proportionate share of the net pension liability	$ 20	$ 77
TESC TRS 2/3 employers' covered-employee payroll	276	210
TESC TRS 2/3 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	7%	37%
Plan fiduciary net position as a percentage of the total pension liability	96.81%	92.48%

* 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 Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 Measurement Date of June 30 * (dollars in thousands)	2014	2015
TESC LEOFF 2 employers' proportion of the net pension liability	0.03%	0.03%
TESC LEOFF 2 employers' proportionate share of the net pension liability (asset)	$ (350)	$ (279)
TESC LEOFF 2 employers' covered-employee payroll	442	476
TESC LEOFF 2 employers' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-79%	-59%
Plan fiduciary net position as a percentage of the total pension liability (asset)	116.75%	111.67%

* 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 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a 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					
2018					
2019					
2020					
2021					
2022					
2023					
2024					

Notes: These schedules will be built prospectively until they contain ten years of data.

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a 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					
2018					
2019					
2020					
2021					
2022					
2023					
2024					

Notes: These schedules will be built prospectively until they contain ten years of data.

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a a percentage of covered employee payroll
2015	$ -	$ -	$ -	$ -	0.00%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a 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					
2018					
2019					
2020					
2021					
2022					
2023					
2024					

Notes: These schedules will be built prospectively until they contain 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 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a a percentage of covered employee payroll
2015	$ 40,873	$ 40,873	$ 0	$ 475,825	8.59%
2016	43,518	43,518		506,618	8.59%
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					

Notes: These schedules will be built prospectively until they contain 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
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Toll-free Citizen Hotline	(866) 902-3900
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