Skagit Valley College

Where Learning Comes to Life


# 2014 Financial Report

# Skagit Valley College

## 2014 Financial Report

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For information about the financial data included in this report, contact:

Controller
Skagit Valley College
2405 East College Way
Mount Vernon, WA 98273
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Institutional Planning and Effectiveness
Skagit Valley College
2405 East College Way
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## Management's Discussion and Analysis

### Skagit Valley College

The following discussion and analysis provides an overview of the financial position and activities of Skagit Valley College (the College) for the fiscal year ended June 30, 2014 (FY 2014).

This overview provides an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

*Reporting Entity*

Skagit Valley College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 8,900 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1926 and its primary purpose is to provide opportunities for students in pursuit of their educational and employment goals, while contributing to the economic and cultural enrichment of its communities.

Nestled between Puget Sound and the Cascade Mountain foothills, the College's main campus is located in Mount Vernon, Washington, a community of about 32,000 residents. The College operates a second, smaller campus located in Oak Harbor, a city of about 22,000 residents on Whidbey Island. In addition, the College operates three education centers – one in Friday Harbor on San Juan Island, another in Clinton at the south end of Whidbey Island, and a Marine Technology Center in Anacortes. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

*Using the Financial Statements*

The financial statements presented in this report encompass the College and its discretely presented component unit, its Foundation. The College's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College at a moment in time, at fiscal year-end. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over a period of time. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health as a whole.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

**Statement of Net Position**

The Statement of Net Position provides information about the College's financial position, presents the College's assets, liabilities, and net position at fiscal year-end, and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position is presented in Table One.

Table One

| **Condensed Statement of Net Position**<br>As of June 30th | **FY 2014** | **FY 2013** |
|---|---|---|
| **Assets** | | |
| Current Assets | 30,405,860 | 45,509,946 |
| Capital Assets, net | 85,978,932 | 72,727,198 |
| Other Assets, non-current | 627,060 | 0 |
| **Total Assets** | **$ 117,011,852** | **$ 118,237,144** |
| **Liabilities** | | |
| Current Liabilities | 12,555,863 | 5,425,892 |
| Other Liabilities, non-current | 28,343,200 | 28,917,259 |
| **Total Liabilities** | **$ 40,899,064** | **$ 34,343,151** |
| **Net Position** | **$ 76,112,788** | **$ 83,893,992** |

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease of current assets in FY 2014 can be attributed to a decrease in the receivable related to the Certificate of Participation (COP) for construction of the Charles Lewis Hall Building. As the project continued and funds were drawn from the COP, this decrease in receivables was offset by an increase in net capital assets, in the form of Construction in Progress.

Net capital assets increased by $13,251,734 from FY 2013 to FY 2014. The majority of the increase is the result of the construction of the Lewis Hall Building which was substantially completed in FY 2015.

Non-current assets are the long-term portion of certain investments. The College obtained a new long-term investment in FY 2014 in the form of a seven year investment annuity.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements. Current liabilities increased from FY 2013 to FY 2014 due to the college reporting our liability with the State Treasurer at year-end that was not reported in the prior year.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in the three categories listed below and displayed in Table Two.

***Net Investment in Capital Assets* –** The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances, as discussed above, are due primarily to the construction of new Lewis Hall.

***Restricted:***

***Expendable* –** resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are student loans.

***Unrestricted* –** Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees. Unrestricted Net Position decreased in FY 2014 primarily due to the decrease in receivables from the State Treasurer for the outstanding Lewis Hall construction COP. In addition, in FY 2014 the College has included its State Appropriation Payable (VPA) to the State Treasurer of 5.8 million at year-end 2014 in its liabilities, which then decreased the amount left available in unrestricted net position.

**Table Two**

| **Condensed Net Position**<br>As of June 30th | **FY 2014** | **FY 2013** |
|---|---|---|
| Net Investment in Capital Assets | $59,753,231 | $45,404,820 |
| Restricted | | |
| Expendable - Student Loans | $6,255 | $209,533 |
| Unrestricted | $16,353,302 | $38,279,638 |
| **Total Net Position** | **$76,112,788** | **$83,893,992** |

**Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2014. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition and grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from a governmental entity, such as the state of Washington or the federal government, without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and federal Pell Grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed statement of revenues, expense and changes in net position is presented in Table Three.

As of July 1, 2013, net position as previously reported was restated. The College has adjusted the Beginning Net Position to correct an oversight in reporting the state appropriation receivable and innovation and building fees payable. This resulted in an overstatement of the Ending Net Position for 2013. The payable to the State is correctly reported in the 2014 statements.

| | |
|---|---|
| Ending Net Position, June 30, 2013 | $83,893,992 |
| Restatements: | |
| Correct State Treasurer payable | $ 6,426,352 |
| Beginning Net Position, July 1, 2014 | $77,467,640 |

**Table Three**

| **Condensed Statement of Revenue, Expenses and Changes in Net Position**<br>As of June 30th | **FY 2014** | **FY 2013** |
|---|---|---|
| Operating Revenues | 33,527,495 | 33,738,601 |
| Operating Expenses | 58,428,045 | 54,396,210 |
| Net Operating Loss | (24,900,550) | (20,657,609) |
| Non-Operating Revenues | 22,901,647 | 21,289,616 |
| Non-Operating Expenses | 3,309,739 | 1,075,583 |
| Gain (Loss) Before Other | (5,308,642) | (443,576) |
| Capital Appropriations | 3,953,790 | 3,027,610 |
| Increase (Decrease) in Net Position | (1,354,852) | 2,584,034 |
| Net Position, Beginning of the Year | **$ 77,467,640** | **$ 81,309,960** |
| Net Position, End of the Year | **$ 76,112,788** | **$ 83,893,992** |

Chart One illustrates changes in selected elements of revenue.

<u>Revenues</u>

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as a result of the great recession were reduced by 24% by FY 2013. In FY 2014, the Legislature reinstated a small portion of the previous cuts.

The Legislature did not allow tuition increases for the two-year colleges in FY 2014. Flat tuition rates combined with declining College enrollments and increasing tuition waivers have resulted in a decrease in overall tuition revenues.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

**Chart One**

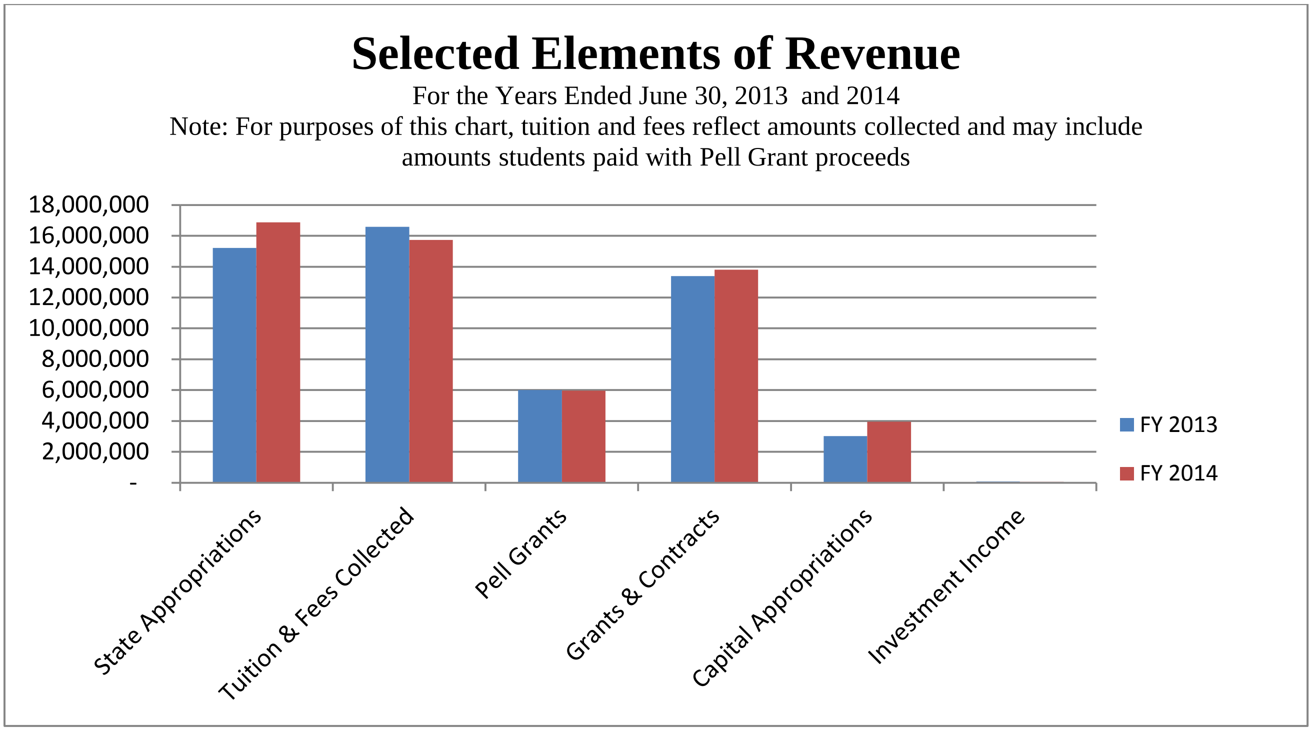


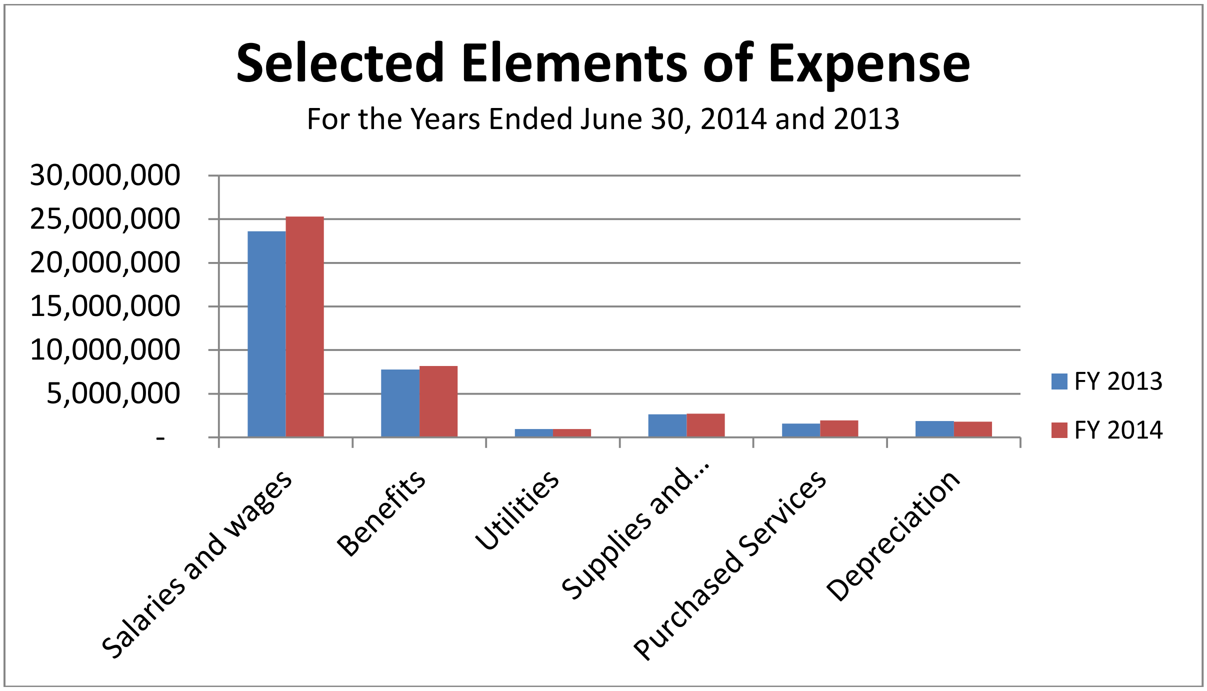

Chart Two illustrates changed in selected elements of expense.

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

More recently, in FY 2014, salary and benefit costs increased as result of the legislature's appropriation of funds to restore classified staff pay reductions. In addition, the legislature restored some funds to the college and granted permission for those funds to be used for pay increases for faculty and exempt personnel. The College was able to increase classified staff pay by 3 percent, and also to grant 2.3% increases to faculty and exempt staff. Operating expenses also increased in FY 2014 due to non-capitalized equipment purchases for new Lewis Hall.

Table Three also shows that non-operating expenses increased. This was due to a correction made in the FY 2014 statements to include Building and Innovation fees that the College remits to the State Treasurer. The College's FY 2013 statement did not include these amounts.

**Chart Two**




**Statement of Cash Flows**

The Statement of Cash Flows gives a general picture of where the College obtains and spends its cash and cash equivalents. The statement gives detailed information about cash flows related to four different types of activities within the institution.

The first section shows cash received and spent on the operations of the college. Since tuition and fees and other operating revenue alone do not normally cover the operating costs of a public higher education institution, this section can be expected to show more cash used than provided.

The second section shows cash received and spent on non-capital financing activities of the College. Here the college reports cash from state appropriations and cash related to federally-funded Pell Grants. This section also includes any activity that cannot be reported in one of the other sections.

The third section shows cash received and spent on capital and related financing activities. This includes state capital appropriations for major projects, minor works and repairs. It also includes cash proceeds, loan origination costs, interest and principal payments related to Certificates of Participation. Since colleges periodically use local funds to supplement these sources, it is not unusual for this section to show more cash used than provided.

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

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

A condensed statement of cash flows is presented in Table Four.

**Table Four**

| **Condensed Statement of Cash Flows**<br>As of June 30th | **FY 2014** | **FY 2013** |
|---|---|---|
| Operating Activities | (5,912,023) | (9,880,963.00) |
| Non-Capital Financing Activities | 20,430,038 | 22,463,173.00 |
| Capital Financing Activities | (13,623,011) | (10,731,019.00) |
| Investing Activities | 36,667 | (1,996,077.00) |
| Net Change in Cash | **$ 931,671** | **$ (144,886)** |
| Cash, Beginning of Year | $ 19,462,413 | $ 19,607,299 |
| Cash, End of Year | **$ 20,394,084** | **$ 19,462,413** |

The College's cash and cash equivalents at June 30th increased in 2014 by $931,671. The primary contributing factor was the drawdown of funds from the State Treasurer for the construction costs of Lewis Hall.

**Capital Assets and Long-Term Debt Activities**
The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, including major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues have significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. The College has one of four community college projects that were funded through a Certificate of Participation (COP) against which system–wide building fee monies were pledged.

As shown in Table Five, at June 30, 2014, the College had invested $85,978,932 in capital assets, net of accumulated depreciation. This represents an increase of $13,251,734 from the prior year.

**Table Five**

| Asset Type | June 30, 2014 | June 30, 2013 | Change |
|---|---|---|---|
| Land | $1,660,785 | $1,660,785 | $0 |
| Construction in Progress | $24,003,707 | $10,925,874 | $13,077,833 |
| Buildings, net | $57,886,972 | $57,805,942 | $81,030 |
| Other Improvements and Infrastructure, net | $841,596 | $1,063,120 | -$221,524 |
| Equipment, net | $1,452,750 | $1,135,713 | $317,037 |
| Library Resources, net | $133,122 | $135,764 | -$2,642 |
| **Total Capital Assets, Net** | **$85,978,932** | **$72,727,198** | **$13,251,734** |

The increase in net capital assets can be primarily attributed to the constructed value of Lewis Hall as of June 30, 2014.

At June 30, 2014, the College had $26,225,701 in outstanding debt. The College entered into a $25,745,000 Certificate of Participation (COP) for the construction of Lewis Hall during FY 2013.

| | June 30, 2014 |
|---|---|
| Certificates of Participation | 26,225,701 |
| **Total** | **$ 26,225,701** |

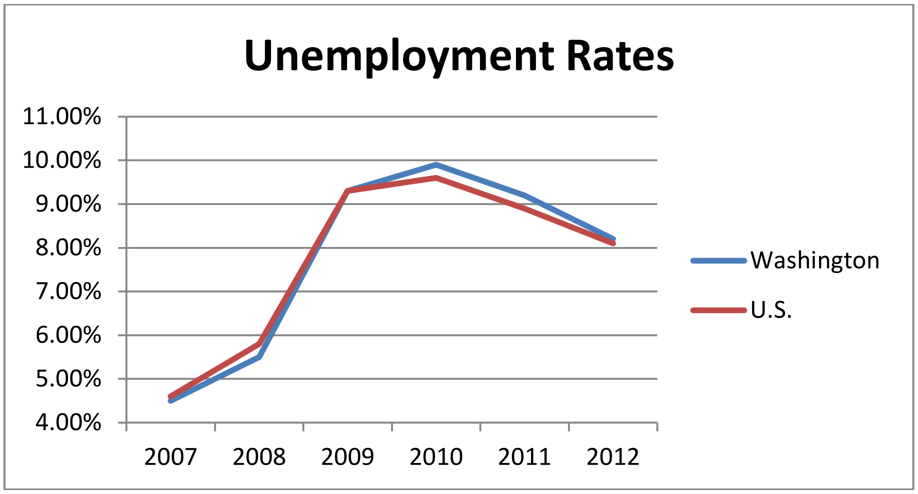
**Economic Factors That Will Affect the Future**

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013-2015 biennial budget, the state legislature made some modest re-investments in community and technical colleges and continued the trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. It is unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations.

Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its most recent forecast (February 2015), the council observed that the national and state economies are advancing at a solid pace, with US employment growth exceeding expectations. The Council anticipates stronger Washington employment growth that it did in its prior (November 2014) forecast. However, even with falling unemployment, increasing consumer confidence increased household spending and falling oil prices, economic jitters persist, keeping uncertainty elevated.

With the state Supreme Court's ruling on the McCleary case requiring the state to increase its spending on basic education, higher education funding is likely to experience little or no growth in the very near term.

A hallmark of community colleges is the system's flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. Enrollment fluctuations are a more significant concern for higher education finance in the current environment where state support has been reduced and tuition revenues form a larger and larger portion of college budgets. The College has experienced enrollment declines as the state economy improves, repeating the College's historic enrollment patterns related to the unemployment rate.



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

**Skagit Valley College**
**July 1, 2013 through June 30, 2014**

Skagit Valley College
Mount Vernon, 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 Skagit Valley College, Skagit County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 9, 2015.

Our report includes a reference to other auditors who audited the financial statements of the Skagit Valley 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 controls 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 Skagit Valley 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 Skagit Valley College Foundation. The Skagit Valley College Foundation prior year comparative information has been derived from the Foundation's basic financial statements, on which other auditors issued its report dated November 6, 2013.

The financial statements of Skagit Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the portion of business-type activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 9, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Skagit Valley College**
**July 1, 2013 through June 30, 2014**

Skagit Valley College
Mount Vernon, 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 Skagit Valley College, Skagit County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Skagit Valley College Foundation, which represents 100 percent, of the assets, net position, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Skagit Valley 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 Skagit Valley College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

## Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Skagit Valley College, as of June 30, 2014, 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 Skagit Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the portion of business-type activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Report on Summarized Comparative Information*

The financial statements include summarized prior-year comparative information for the Skagit Valley College Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the

Foundation's financial statements for the year ended June 30, 2013, from which such partial information was derived. Other auditors have previously audited the Skagit Valley College Foundation's 2013 financial statements and they expressed an unmodified opinion on their report dated November 6, 2013.

### *Required Supplementary Information*

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Jan M. Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 9, 2015

# College Statement of Net Position

**Skagit Valley College**
**Statement of Net Position**
**June 30,2014**

| | | | |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | | 20,394,084 |
| Short-term investments | | | 1,467,551 |
| Accounts Receivable | | | 7,699,629 |
| Student Loans Receivable | | | 233,580 |
| Inventories | | | 444,548 |
| Prepaid Expenses | | | 166,468 |
| | **Total current assets** | | 30,405,860 |
| **Non-Current Assets** | | | |
| Long-term investments | | | 627,060 |
| Capital assets, net of depreciation | | | 85,978,932 |
| | **Total non-current assets** | | 86,605,992 |
| | | **Total assets** | **117,011,852** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Accounts Payable | | | 2,029,794 |
| Accrued Liabilities | | | 8,137,128 |
| Deposits Payable | | | 9,831 |
| Unearned Revenue | | | 1,264,444 |
| Leases and Certificates of Participation Payable | | | 1,114,666 |
| | **Total current liabilities** | | 12,555,863 |
| **Noncurrent Liabilities** | | | |
| Compensated Absences | | | 3,232,165 |
| Long-term liabilities | | | 25,111,035 |
| | **Total non-current liabilities** | | 28,343,200 |
| | | **Total liabilities** | **40,899,064** |
| **Net Position** | | | |
| Net Investment in Capital Assets | | | 59,753,231 |
| Restricted for: | | | |
| Student Loans | | | 6,255 |
| Unrestricted | | | 16,353,302 |
| **Total Net Position** | | | **76,112,788** |
| **Total Liabilities and Net Position** | | | **117,011,852** |

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

## College Statement of Revenues, Expenditures and Changes in Net Position

| Skagit Valley College<br>Statement of Revenues, Expenses and Changes in Net Position<br>For the Year Ended June 30, 2014 | | |
|---|---|---|
| **Operating Revenues** | | |
| Student tuition and fees, net | | 15,729,917 |
| Auxiliary enterprise sales | | 2,383,410 |
| State and local grants and contracts | | 9,444,961 |
| Federal grants and contracts | | 4,356,884 |
| Other operating revenues | | 1,612,324 |
| | **Total operating revenue** | 33,527,495 |
| **Operating Expenses** | | |
| Operating Expenses | | 6,916,392 |
| Salaries and wages | | 25,309,746 |
| Benefits | | 8,190,319 |
| Scholarships and fellowships | | 10,632,966 |
| Supplies and materials | | 2,694,459 |
| Depreciation | | 1,790,960 |
| Purchased services | | 1,932,942 |
| Utilities | | 960,261 |
| | **Total operating expenses** | 58,428,045 |
| | **Operating income (loss)** | (24,900,550) |
| **Non-Operating Revenues** | | |
| State appropriations | | 16,877,826 |
| Federal Pell grant revenue | | 5,968,486 |
| Investment income, gains and losses | | 55,335 |
| | **Net non-operating revenues** | **22,901,647** |
| **Non-Operating Expenses** | | |
| Interest on indebtedness | | 1,207,506 |
| Building fee and innovation fee | | 1,735,876 |
| Capital asset adjustments | | 366,357 |
| | **Net non-operating expenses** | **3,309,739** |
| Income or (loss) before other revenues, expenses, gains, or losses | | (5,308,642) |
| Capital appropriations | | 3,953,790 |
| | **Increase (Decrease) in net position** | (1,354,851) |
| **Net Position** | | |
| **Net position, beginning of year** | | 77,467,640 |
| **Net position, end of year** | | 76,112,788 |

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

# College Statement of Cash Flows

| | |
|---|---|
| **Skagit Valley College** | |
| **Statement of Cash Flows** | |
| **For the Year Ended June 30, 2014** | |
| **Cash flow from operating activities** | |
| Student tuition and fees | 15,770,551 |
| Grants and contracts | 13,318,554 |
| Payments to vendors | (10,031,182) |
| Payments for utilities | (959,907) |
| Payments to employees | (25,412,317) |
| Payments for benefits | (7,684,228) |
| Auxiliary enterprise sales | 2,540,918 |
| Payments for scholarships and fellowships | (10,632,966) |
| Loans issued to students and employees | (16,655) |
| Other receipts (payments) | 17,195,209 |
| **Net cash used by operating activities** | (5,912,023) |
| **Cash flow from noncapital financing activities** | |
| State appropriations | 16,197,427 |
| Pell grants | 5,968,486 |
| Building fee and innovation fee | (1,735,876) |
| Amounts for other than capital purposes | 0 |
| **Net cash provided by noncapital financing activities** | 20,430,038 |
| **Cash flow from capital and related financing activities** | |
| Capital appropriations | 4,086,202 |
| Purchases of capital assets | (15,404,708) |
| Principal paid on capital debt | (1,097,000) |
| Interest paid | (1,207,506) |
| **Net cash used by capital and related financing activities** | (13,623,011) |
| **Cash flow from investing activities** | |
| Purchase of investments | (18,667) |
| Income of investments | 55,335 |
| **Net cash provided by investing activities** | 36,667 |
| **Increase in cash and cash equivalents** | 931,671 |
| **Cash and cash equivalents at the beginning of the year** | 19,462,413 |
| **Cash and cash equivalents at the end of the year** | 20,394,084 |
| Reconciliation of Operating Loss to Net Cash used by Operating Activities | |
| **Operating Loss** | (24,900,550) |
| **Adjustments to reconcile net loss to net cash used by operating activities** | |
| Depreciation expense | 1,790,960 |
| **Changes in assets and liabilities** | |
| Receivables , net | 15,537,979 |
| Inventories | 86,302 |
| Other assets | (166,468) |
| Accounts payable | 1,444,007 |
| Accrued liabilities | (154,105) |
| Deferred revenue | (75,774) |
| Compensated absences | 540,281 |
| Deposits Payable | 2,000 |
| Loans to students and employees | (16,655) |
| **Net cash used by operating activities** | (5,912,023) |
| Noncash Capital, Financing and Investing Activities | |
| Donated Capital Assets | 9,325 |

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

# Foundation Statement of Financial Position

**Skagit Valley College Foundation**
**Statements of Financial Position**
**30-Jun-14**
(With Summarized Comparative Totals as of June 30, 2013)

| **Assets** | **Assets** | | 2014 | | 2013 |
|---|---|---|---|---|---|
| Cash and cash equivalents | | $ | 689,206 | $ | 725,224 |
| Investments | | | 9,543,043 | | 8,818,504 |
| Property and equipment, net | | | 1,813,858 | | 1,792,899 |
| Deferred bond issue costs, net | | | 18,673 | | 20,540 |
| Receivables | | | 6,646 | | 19,571 |
| Prepaid insurance | | | 7,511 | | 7,515 |
| Collections held for investment | | | 4,584 | | 4,584 |
| **Total assets** | | $ | 12,083,521 | $ | 11,388,837 |
| | **Liabilities and Net Assets** | | | | |
| **Liabilities** | | | | | |
| Accounts payable | | $ | 42,488 | $ | 23,968 |
| Life income annuities payable | | | 82,200 | | 76,973 |
| Tenant security deposits and prepaid rent | | | 53,275 | | 54,535 |
| Advances due to Skagit Valley College | | | 47,101 | | 9,588 |
| Accrued interest | | | 9,755 | | 10,026 |
| Long-term debt | | | 1,488,487 | | 1,616,336 |
| **Total liabilities** | | $ | 1,723,306 | $ | 1,791,426 |
| **Net assets** | | | | | |
| Unrestricted | | $ | 180,888 | $ | 218,308 |
| Temporarily restricted | | | 1,006,872 | | 954,682 |
| Permanently restricted | | | 9,172,455 | | 8,424,421 |
| Total net assets | | | 10,360,215 | | 9,597,411 |
| **Total liabilities and net assets** | | **$** | **12,083,521** | **$** | **11,388,837** |

## Foundation Statement of Activities and Changes in Net Position

**Skagit Valley College Foundation**

**Statements of Activities**

**Year Ended June 30, 2014**

(With Summarized Comparative Totals for the Year Ended June 30, 2013)

| | | Temporarily | Permanently | Total | |
|---|---|---|---|---|---|
| | Unrestricted | Restricted | Restricted | 2014 | 2013 |
| **Support and revenue** | | | | | |
| General contributions and grants | $191,791 | $386,787 | $142,708 | $721,286 | $409,337 |
| Investment income - | | 19,905 | 989,938 | 1,009,843 | 960,251 |
| Campus housing and related income | 3 ,109 | 607,204 | | 610,313 | 590,380 |
| Fundraising activities | 111,190 | | | 111,190 | 104,591 |
| Other income | 6 ,843 | 772 | | 7,615 | 3,145 |
| Interest income | 814 | | | 814 | 1,644 |
| Reclassifications: | | | | | |
| Satisfaction of restrictions by | | | | | |
| program expenditures | 1,282,216 | -979,117 | -303099.00 | | |
| Transfers (to) from other funds | 64,874 | 16,639 | -81,513 | | |
| **Total support and revenue** | 1,660,837 | 52,190 | 748,034 | 2,461,061 | 2,069,348 |
| **Expenses** | | | | | |
| Program services | 1,401,174 | | | 1,401,174 | 961,235 |
| Management and general | 161,825 | | | 161,825 | 137,497 |
| Fundraising activities | 135,258 | | | 135,258 | 57,441 |
| **Total expenses** | 1 ,698,257 | | | 1 ,698,257 | 1,156,173 |
| **Change in net assets** | -37,420 | 52,190 | 748,034 | 762,804 | 913,175 |
| **Net assets, beginning of year** | 218,308 | 954,682 | 8 ,424,421 | 9,597,411 | 8,684,236 |
| **Net assets, end of year** | $180,888 | $ 1 ,006,872 | $9,172,455 | $10,360,215 | $9,597,411 |

## Notes to the Financial Statements

*June 30, 2014*
*These notes form an integral part of the financial statements.*

**1. Summary of Significant Accounting Policies**

**Financial Reporting Entity**
Skagit Valley College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report.

The Skagit Valley College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1978 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to solicit and receive contributions to provide enhancements at Skagit Valley College and support for its students. Activities include support of academic programs and scholarship assistance to students, and operation of student housing. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2014, the Foundation distributed approximately $693,535 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 360-416-7821.

**Basis of Presentation**
The college follows all GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash

Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred inflows, liabilities, deferred outflows, net position, revenues, expenses, changes in net position and cash flows.

**New Accounting Pronouncements**

In March 2012, the GASB issues Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for financial statements for periods beginning after December 15, 2012. The college did not make any changes as a result of this pronouncement.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after June 15, 2014. The impact of this pronouncement is uncertain at this time.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which improves recognition, measurement and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. GASB 70 is effective for fiscal years beginning after June 15, 2013. The colleges did not make any changes as a result of this pronouncement.

**Basis of Accounting**

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

**Cash, Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand, bank demand deposits, petty cash, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalents, and investments at fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash, cash equivalents, and certificates of deposit.

**Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Where applicable, accounts receivable includes proceeds from Certificates of Participation that have not yet been received from the State Treasurer. Accounts receivable are shown net of estimated uncollectible amounts.

**Inventories**

Inventories, consisting primarily of merchandise for resale in the college bookstore, are valued at cost using various methods.

**Capital Assets**

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources and 2 to 10 years for most equipment and 11 to 40 years for heavy duty equipment, aircraft, locomotives and vessels.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2014, no assets had been written down.

**Unearned Revenues**

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer quarter tuition and fees as unearned revenues.

**Tax Exemption**

The College is a tax-exempt organization under the provisions of Section 115 (1) of the Internal Revenue Code and is exempt from federal income taxes on related income.

**Net Position**

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

**Classification of Revenues**

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

*Operating Revenues*. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

*Non-operating Revenues*. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, federal Pell Grants and investment income.

**Scholarship Discounts and Allowances**
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2014 are $1,291,910.

**State Appropriations**
The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

**Operating Expenses**
Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as nonoperating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

**2. Cash and Investments**
Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $20,394,084 as represented in the table below.

| Table 1: Cash and Cash Equivalents | June 30, 2013 |
|---|---|
| Petty Cash and Change Funds | $9,475 |
| Bank Demand and Time Deposits | $5,025,757 |
| Investments with Original Maturity of 90 days or less | $655,360 |
| Local Government Investment Pool | $14,703,492 |
| **Total Cash and Cash Equivalents** | **$20,394,084** |

Investments consist of time certificates of deposit and fixed annuity. Time certificates of deposit have repurchase agreements with the respective financial institutions.

| Table 2: Investment Maturities | Fair Value | One Year or Less | 1 - 5 Years | 6 - 10 Years | 10 or More Years |
|---|---|---|---|---|---|
| Time Certificate of Deposits | $ 1,467,551 | $ 1,467,551 | | | |
| Fixed Annuity | $ 627,060 | | | $ 627,060 | |
| **Total Investments** | **$ 2,094,611** | **$ 1,467,551** | **$ -** | **$ 627,060** | **$ -** |

**Custodial Credit Risks—Deposits**
Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with the US Bank. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

**Interest Rate Risk—Investments**
Through its investment policies, the College manages exposure to fair value losses arising from increasing interest rates by segmenting investments into short-term, intermediate-term and long-term pools.

**Concentration of Credit Risk—Investments**
State law limits College operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. College policy does not limit the amount the College may invest in any one issuer.

**Investment Expenses**
Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2014 were $0.

**3. Accounts Receivable**
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2014, accounts receivable were as follows.

| Table 3: Accounts Receivable | Amount |
|---|---|
| Student Tuition and Fees | $ 493,120 |
| Due from the Federal Government | $ 41,497 |
| Due from Other State Agencies | $ 6,296,601 |
| Auxiliary Enterprises | $ 69,826 |
| Other | $ 808,777 |
| Subtotal | $ 7,709,822 |
| Less Allowance for Uncollectible Accounts | $ (10,193) |
| **Accounts Receivable, net** | **$ 7,699,629** |

**4. Loans Receivable**

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

| Table 4: Loans Receivable | Amount |
|---|---|
| Student Loans Receivable | $ 243,846 |
| Other Loans Receivable | $ - |
| Subtotal | $ 243,846 |
| Less Allowance for Uncollectible Accounts | $ (10,266) |
| **Loans Receivable, net** | **$ 233,580** |

**5. Inventories**

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

| Table 5: Inventories | Amount |
|---|---|
| Consumable Inventories | $ - |
| Merchandise Inventories | $ 444,548 |
| Work in Progress Inventories | $ - |
| Raw Materials Inventories | $ - |
| **Inventories** | **$ 444,548** |

**6. Capital Assets**

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows.  The current year depreciation expense was $1,790,960.

| Table 6: Capital Assets | Beginning Balance | Additions/ Transfers | Retirements | Ending Balance |
|---|---|---|---|---|
| **Nondepreciable capital assets** | | | | |
| Land | $ 1,660,785 | | | $ 1,660,785 |
| Construction in progress | 10,925,874 | 13,077,833 | | 24,003,707 |
| **Total nondepreciable capital assets** | 12,586,659 | 13,077,833 | 0 | 25,664,492 |
| | | | | |
| **Depreciable capital assets** | | | | |
| Buildings | 75,119,388 | 1,587,882 | (703,382) | 76,003,888 |
| Other improvements and infrastructure | 1,496,896 | | (197,223) | 1,299,673 |
| Equipment | 4,689,442 | 743,469 | (111,094) | 5,321,817 |
| Library resources | 3,176,529 | 35,792 | | 3,212,321 |
| **Subtotal depreciable capital assets** | 84,482,255 | 2,367,143 | (1,011,699) | 85,837,699 |
| | | | | |
| **Less accumulated depreciation** | | | | |
| Buildings | 17,313,446 | 1,261,110 | (457,640) | 18,116,916 |
| Other improvements and infrastructure | 433,776 | 64,984 | (40,683) | 458,077 |
| Equipment | 3,553,729 | 426,432 | (111,094) | 3,869,067 |
| Library resources | 3,040,765 | 38,434 | | 3,079,199 |
| **Total accumulated depreciation** | 24,341,716 | 1,790,960 | (609,417) | 25,523,259 |
| | | | | |
| **Total depreciable capital assets** | 60,140,539 | 576,183 | (402,282) | 60,314,440 |
| | | | | |
| | | | | |
| **Capital assets, net of accumulated depreciation** | **$ 72,727,198** | **$ 13,654,016** | **$ (402,282)** | **$ 85,978,932** |

### 7. Accounts Payable and Accrued Liabilities

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

| Table 7: Accounts Payable and Accrued Liabilities | Amount |
|---|---|
| Amounts Owed to Employees | $ 1,630,636 |
| Accounts Payable | $ 2,029,794 |
| Amounts Held for Others and Retainage | $ 6,506,492 |
| **Total** | **$ 10,166,922** |

### 8. Unearned Revenue

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

| Table 8: Unearned Revenue | Amount |
|---|---|
| Summer Quarter Tuition & Fees | $ 1,150,080 |
| Housing and Other Deposits | 114,364 |
| Total Unearned Revenue | $ 1,264,444 |

**9. Risk Management**

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2013 through June 30, 2014, were $48,453.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to $10,000,000 for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

**10. Compensated Absences**

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire may deposit 25% of the value of their accumulated sick leave to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $1,145,212, and accrued sick leave totaled $2,086,953 at June 30, 2014.

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

**11. Notes Payable**

In February 2007, the College obtained financing in order to renovate the Student Campus Center Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $3,250,000. Students assess themselves, on a quarterly basis, a mandatory fee that services a portion of this debt. The remaining portion of the debt is covered by the general operating budget of the college. Student fees related to these COP(s) 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 4.29%.

In November 2009, the College obtained financing in order to purchase new servers for Information Technology and the Library through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $136,696. The interest rate charged is 2.88%.

In March 2011, the College obtained financing in order to purchase a new register terminals for the Bookstore through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $42,866. The interest rate charged is 1.87%.

In August 2012, the College obtained financing in order to install energy efficient upgrades through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $209,900. The interest rate charged is 1.89%.

In August 2012, the College obtained financing in order to renovate the Lewis Hall Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $25,745,000. The interest rate charged is 3.10%.

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

## 12. Annual Debt Service Requirements

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

| **Annual Debt Service Requirements** | | | |
|---|---|---|---|
| | Certificates of Participation | | |
| **Fiscal year** | **Principal** | **Interest** | **Total** |
| 2015 | $ 1,114,666 | $ 1,172,731 | $ 2,287,397 |
| 2016 | 1,149,316 | 1,128,222 | $ 2,277,538 |
| 2017 | 1,200,155 | 1,082,050 | $ 2,282,205 |
| 2018 | 1,256,083 | 1,028,993 | $ 2,285,076 |
| 2019 | 1,312,110 | 973,469 | 2,285,579 |
| 2020-2024 | 6,943,370 | 3,870,882 | 10,814,252 |
| 2025-2029 | 7,755,000 | 2,148,500 | 9,903,500 |
| 2030-2034 | 5,495,000 | 445,400 | 5,940,400 |
| 2035-2039 | | | |
| **Total** | **26,225,701** | **11,850,247** | **38,075,948** |

## 13. Schedule of Long Term Debt

| | Balance outstanding 6/30/13 | Additions | Reductions | Balance outstanding 6/30/14 | Current portion |
|---|---|---|---|---|---|
| Certificates of Participation | 27,322,377 | | (1,096,676) | 26,225,701 | 1,114,666 |
| **Total** | **$ 27,322,377** | **$ -** | **$ (1,096,676)** | **$ 26,225,701** | **$ 1,114,666** |

## 14. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY 2013-14, the payroll for the College's employees was $7,542,363 for PERS, $332,384 for TRS, and $13,419,949 for SBRP. Total covered payroll was $21,294,696.

***PERS and TRS***

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

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

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

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of

Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2014, 2013, and 2012 are as follows.

**Contribution Rates at June 30**

| | FY2012 | | FY2013 | | FY2014 | |
|---|---|---|---|---|---|---|
| | Employee | College | Employee | College | Employee | College |
| **PERS** | | | | | | |
| Plan 1 | 6.00% | 7.08% | 6.00% | 7.21% | 6.00% | 9.21% |
| Plan 2 | 4.64% | 7.08% | 4.64% | 7.21% | 4.92% | 9.21% |
| Plan 3 | 5 - 15% | 7.08% | 5 - 15% | 7.21% | 5-15% | 9.21% |
| **TRS** | | | | | | |
| Plan 1 | 6.00% | 8.04% | 6.00% | 8.05% | 6.00% | 10.39% |
| Plan 3 | 5-15% | 8.04% | 5-15% | 8.05% | 5-15% | 10.39% |

**Required Contributions**

| | FY2012 | | FY2013 | | FY2014 | |
|---|---|---|---|---|---|---|
| | Employee | College | Employee | College | Employee | College |
| **PERS** | | | | | | |
| Plan 1 | $33,024 | $39,656 | $26,872 | $32,291 | $26,053 | $39,978 |
| Plan 2 | $231,586 | $359,771 | $220,947 | $343,325 | $246,842 | $461,940 |
| Plan 3 | $113,043 | $129,229 | $123,790 | $142,176 | $128,903 | $192,560 |
| **TRS** | | | | | | |
| Plan 1 | $15,301 | $20,001 | $14,049 | $18,846 | $14,312 | $24,030 |
| Plan 3 | $0 | $0 | $5,557 | $4,894 | $7,055 | $8,956 |

***State Board Retirement Plan***

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2014 were each $1,206,534.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $70,988.64. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $67,097. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 of the fund balance.

*Washington State Deferred Compensation Program*

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

***Other Post-Employment Benefits***

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

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $12,588,606, with an annual required contribution (ARC) of $1,229,913. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $231,413. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $998,501. This amount is not included in the College's financial statements.

The College paid $4,051,575 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

## 15. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2014.

| **Expenses by Functional Classification** | | |
|---|---|---|
| Instruction | $ | 17,413,447 |
| Academic Support Services | | 3,571,399 |
| Student Services | | 9,897,271 |
| Institutional Support | | 5,246,379 |
| Operations and Maintenance of Plant | | 6,273,945 |
| Scholarships and Other Student Financial Aid | | 10,672,318 |
| Auxiliary enterprises | | 3,562,326 |
| Depreciation | | 1,790,960 |
| **Total operating expenses** | **$** | **58,428,045** |

**16. Commitments and Contingencies**

There is a class action filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

Additionally, the College is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statement.

The College has commitments of $235,000 for a capital projects that include a property purchase.

**17. Net Position Restatement**

As of July 1, 2013, net position as previously reported was restated. The College has adjusted the Beginning Net Position to correct an oversight in reporting the state appropriation receivable and innovation and building fees payable. This resulted in an overstatement of the Ending Net Position for 2013. The payable to the State is correctly reported in the 2014 statements.

| | |
|---|---|
| Ending Net Position, June 30, 2013 | $83,893,992 |
| Restatements: | |
| Correct State Treasurer payable | $ 6,426,352 |
| Beginning Net Position, July 1, 2014 | $77,467,640 |

**18. Subsequent Events**

The College does not have any subsequent events as of June 30, 2014 to report.