Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT ON FINANICAL STATEMENTS

November 12, 2014

Shoreline Community College
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of the Shoreline Community College, King County, Washington, as of and for the year ended June 30, 2013, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shoreline Community College, Washington, as of June 30, 2013, and the 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 Shoreline Community College are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the State of Washington that is attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of the State of Washington as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

Shoreline Community College
Statement of Net Position
June 30, 2013

Assets		
Current assets		
Cash and cash equivalents	$	25,546,700
Short-term investments		-
Accounts Receivable, net		2,997,023
Student Loans Receivable, net		26,192
Interest Receivable		6,676
Inventories		598,597
Prepaid Expenses		-
Total current assets		29,175,188
Non-Current Assets		
Long-term investments		-
Student Loans Receivable, net		145,794
Capital assets, net of depreciation		46,011,371
Total non-current assets		46,157,165
Total assets	**$**	**75,332,353**
Deferred Outflows of Resources		-
Total Deferred Outflows of Resources		-
Liabilities		
Current Liabilities		
Accounts Payable	$	637,065
Accrued Liabilities		4,322,716
Compensated absences		2,615
Deposits Payable		24,377
Unearned Revenue		1,615,001
Leases and Certificates of Participation Payable		704,773
Total current liabilities		7,306,546
Noncurrent Liabilities		
Compensated Absences		2,437,621
Long-term liabilities		10,565,000
Total non-current liabilities		13,002,621
Total liabilities		**20,309,167**
Deferred Inflows of Resources		-
Total Deferred Inflows of Resources		-
Net Position		
Net Investment in Capital Assets		34,741,598
Restricted for:		
Nonexpendable		3,009
Expendable		-
Student Loans		145,794
Unrestricted		20,132,786
Total Net Position		**55,023,187**
Total Liabilities and Net Position	**$**	**75,332,353**

(The footnote disclosures are an integral part of the financial statements)

Shoreline Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

Operating Revenues	
Student tuition and fees, net	$ 24,956,000
Auxiliary enterprise sales, net	1,062,129
State and local grants and contracts	6,577,955
Federal grants and contracts	7,192,053
Other operating revenues	273,891
Interest on loans to students	1,825
Total operating revenue	40,063,854
Operating Expenses	
Operating Expenses	6,205,215
Salaries and wages	25,314,961
Benefits	8,231,532
Scholarships and fellowships	16,098,473
Supplies and materials	1,285,863
Depreciation	1,787,096
Purchased services	679,788
Utilities	1,099,671
Total operating expenses	60,702,600
Operating income (loss)	(20,638,747)
Non-Operating Revenues	
State appropriations	18,543,950
Federal Pell grant revenue	6,007,701
Investment income, gains and loses	-
Net non-operating revenues	24,551,651
Non-Operating Expenses	
Interest on indebtedness	500,812
Net non-operating expenses	500,812
Income or (loss) before other revenues, expenses, gains, or losses	3,412,091
Capital Revenues	
Capital appropriations	2,811,752
Increase (Decrease) in net position	6,223,843
Net position	
Net position, beginning of year	48,799,343
Net position, end of year	$ 55,023,187

(The footnote disclosures are an integral part of the financial statements)

Shoreline Community College
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash flow from operating activities	
Student tuition and fees	$ 25,649,220
Grants and contracts	14,032,314
Payments to vendors	(3,076,010)
Payments to employees	(25,316,540)
Payments for benefits	(8,220,480)
Auxiliary enterprise sales	1,033,055
Payments for scholarships and fellowships	(16,098,473)
Loans to students and employees	6,824
Other receipts	(6,269,434)
Net cash used by operating activities	(18,259,524)
Cash flow from noncapital financing activities	
State appropriations	17,780,480
Pell grants	6,007,701
Amounts for other than capital purposes	0
Net cash provided by noncapital financing activities	23,788,181
Cash flow from capital and related financing activities	
Proceeds of capital debt	0
Capital appropriations	750,650
Purchases of capital assets	(1,001,630)
Certificate of participations proceeds	0
Principal paid on capital debt	(708,097)
Interest paid	(500,812)
Net cash used by capital and related financing activities	(1,459,888)
Cash flow from investing activities	
Purchase of investments	0
Proceeds from sales and maturities of investments	0
Income from investments	0
Net cash provided by investing activities	0
Increase in cash and cash equivalents	4,068,769
Cash and cash equivalents at the beginning of the year	21,477,929
Cash and cash equivalents at the end of the year	25,546,699

Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(20,638,747)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	1,787,096
Changes in assets and liabilities	
Receivables, net	(89,073)
Inventories	40,961
Other assets	0
Accounts payable	(126,996)
Accrued Liabilities	73,243
Unearned revenue	677,415
Deposits Payable	0
Compensated absences	11,578
Loans to students and employees	4,999
Net cash used by operating activities	$ (18,259,524)

(The footnote disclosures are an integral part of the financial statements)

Notes to the Financial Statements

June 30, 2013
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

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

Beginning in fiscal year 2012-13, the college adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The College has no significant arrangements allowing external parties to operate college capital assets.

Beginning in fiscal year 2012-13, the college adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62) and amendments contained in GASB Statement No 66 *Technical Corrections – 2012*, which incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in the pronouncements of the FASB and American Institute of Certified Public Accountants (AICPA). This statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement amends the net asset reporting requirement in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The College did not identify any transactions requiring treatment as a deferred inflow or outflow.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for financial statements for periods beginning after December 15, 2012. The impact of this pronouncement is uncertain at this time.

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 December 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. The impact of this pronouncement is uncertain at this time.

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 and Cash Equivalents

Cash and cash equivalents include cash on hand and bank demand deposits. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. The College records all cash and cash equivalents 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 solely of cash and cash equivalents.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories, consisting primarily of merchandise for resale in the college bookstore and course-related supplies, 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 have been misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the college, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, only equipment with a unit cost of $5,000 or greater are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and components, 20 to 25 years for infrastructure and land improvements, 7 years for library resources and 5 to 7 years for equipment.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2013, 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 Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues

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

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

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations 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, 2013 are $3,264,067.

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 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 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 and petty cash held at the College.

As of June 30, 2013, the carrying amount of the College's cash and equivalents was $25,546,700 as represented in the table below.

Table 1: Cash and Cash Equivalents	June 30, 2013
Petty Cash and Change Funds	$7,990
Bank Demand and Time Deposits	$25,538,710
Total Cash and Cash Equivalents	**$25,546,700**

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. All of the College's demand deposits are with the U.S. Bank, N.A. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2013, accounts receivable were as follows.

Table 2: Accounts Receivable	Amount	
Student Tuition and Fees	$	2,625,203
Due from the Federal Government	$	29,320
Due from Other State Agencies	$	424,966
Auxiliary Enterprises	$	178,225
Interest Receivable	$	6,676
Subtotal	$	3,264,390
Less Allowance for Uncollectible Accounts	$	(267,367)
Accounts Receivable, net	**$**	**2,997,023**

4. Loans Receivable

Loans receivable as of June 30, 2013 consisted of student loans, as follows.

Table 3: Loans Receivable	Amount	
Student Loans Receivable	$	187,673
Less Allowance for Uncollectible Accounts	$	(15,687)
Loans Receivable, net	**$**	**171,986**

5. Inventories

Inventories, stated at cost using the first-in, first-out (FIFO) method, consisted of the following as of June 30, 2013.

Table 4: Inventories	Amount	
Consumable Inventories	$	1,470
Merchandise Inventories	$	597,127
Inventories	**$**	**598,597**

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2013 is presented as follows. The current year depreciation expense was $1,787,096.

Table 5: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 532,583	$ -	$ -	$ 532,583
Total nondepreciable capital assets	532,583	0	0	532,583
Depreciable capital assets				
Buildings	61,986,946	0	0	61,986,946
Other improvements and infrastructure	2,444,412	0	0	2,444,412
Equipment	6,840,912	977,902	0	7,818,814
Library resources	2,587,494	157,402	(188,330)	2,556,566
Subtotal depreciable capital assets	73,859,764	1,135,304	(188,330)	74,806,738
Less accumulated depreciation				
Buildings	18,364,502	1,312,508	0	19,677,010
Other improvements and infrastructure	671,984	89,674	0	761,658
Equipment	5,738,551	292,928	0	6,031,479
Library resources	2,295,315	91,986	(110,255)	2,277,046
Total accumulated depreciation	27,070,352	1,787,096	(110,255)	28,747,193
Total depreciable capital assets	46,789,412	(651,792)	(78,075)	46,059,545
Capital assets, net of accumulated depreciation	**$ 47,321,995**	**$ (651,792)**	**$ (78,075)**	**$ 46,592,128**

7. Accounts Payable and Accrued Liabilities

At June 30, 2013, accrued liabilities are the following.

Table 6: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,052,348
Accounts Payable	$ 637,065
Amounts Held for Others and Retainage	$ 3,270,368
Total	**$ 4,959,781**

8. Unearned Revenue

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

Table 7: Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 1,615,001
Total Unearned Revenue	$ 1,615,001

9. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2012 through June 30, 2013, were $92,525. Cash reserves for unemployment compensation for all employees at June 30, 2013, were $373,728.

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 get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by 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 $1,186,022 at June 30, and accrued sick leave totaled $1,251,599 at June 30, 2013.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

11. Notes Payable

In August 2006, the College obtained financing in order to renovate and remodel the Student Union Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $15,390,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2006. The interest rate charged is 4.5 percent per year.

Student fees related to the COP are accounted for in a dedicated fund, which is used to pay principal and interest that does not come out of the general operating budget. The College's debt service requirements for this note agreement for the next five years and thereafter are as follows:

12. Annual Debt Service Requirements

Future debt service requirements at June 30, 2013 are as follows.

Annual Debt Service Requirements			
	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2014	$ 675,000	$ 473,350	$ 1,148,350
2015	700,000	447,025	1,147,025
2016	725,000	419,725	1,144,725
2017	755,000	391,450	1,146,450
2018	785,000	361,250	1,146,250
2019-2023	4,445,000	1,291,850	5,736,850
2024-2026	3,155,000	286,969	3,441,969
Total	**11,240,000**	**3,671,619**	**14,911,619**

13. Schedule of Long Term Debt

	Balance outstanding 6/30/12	**Additions**	**Reductions**	**Balance outstanding 6/30/13**	**Current portion**
Certificates of Participation	**$ 11,890,000**	**$ -**	**$ (650,000)**	**$ 11,240,000**	**$ 675,000**
Total	**$ 11,890,000**	**$ -**	**$ (650,000)**	**$ 11,240,000**	**$ 675,000**

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 FY2012-13, the payroll for the College's employees was $6,441,090 for PERS, $238,027 for TRS, and $15,521,884 for SBRP. Total covered payroll was $22,030,165.

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 three 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. 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 percent of the required contributions.

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

Contribution Rates at June 30

	FY2011		FY2012		FY2013	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	5.31%	6.00%	7.08%	6.00%	7.21%
Plan 2	3.90%	5.31%	4.64%	7.08%	4.64%	7.21%
Plan 3	5 - 15%	5.31%	5 - 15%	7.08%	5 - 15%	7.21%
TRS						
Plan 1	6.00%	6.14%	6.00%	8.04%	6.00%	8.05%
Plan 3	5-15%	6.14%	5-15%	8.04%	5-15%	8.05%

Required Contributions						
	FY2011		FY2012		FY2013	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 15,243	$ 13,490	$ 15,022	$ 18,003	$16,347	$19,643
Plan 2	$ 218,032	$ 295,419	$ 244,758	$ 379,989	$237,025	$368,310
Plan 3	$ 55,014	$ 46,622	$ 54,261	$ 65,314	$59,574	$73,902
TRS						
Plan 1	$ 10,985	$ 11,242	$ 9,335	$ 12,261	$9,910	$13,294
Plan 3	$ -	$ -	$ 3,081	$ 3,369	$5,057	$5,638

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, 2013 were each $1,362,570.

The unfunded actuarial accrued liability calculated at July 1, 2013 was $69,213,000 under the plan's entry age normal method and is amortized over an 11 year period. The annual required contribution (ARC) is projected at $11,041,000. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability by SBCTC. The net pension obligation as of June 30, 2013 is $54,894,190.

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 state of Washington funds OPEB obligations at a state-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB Statement No. 45, does not exist at department levels, and as a result, the Actuarial Accrued Liability (AAL) is not available for the College.

The state of Washington's Comprehensive Annual Financial Report (CAFR) includes the state's measurement and recognition of OPEB expense/expenditures, liabilities, note disclosures, and required supplementary information specified by GASB Statement No. 45. The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

The College paid $4,199,544 for healthcare expenses in 2013, 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, 2013.

Expenses by Functional Classification		
Instruction	$	22,746,005
Academic Support Services		2,610,653
Student Services		6,609,339
Institutional Support		4,939,126
Operations and Maintenance of Plant		2,909,589
Scholarships and Other Student Financial Aid		16,098,473
Auxiliary enterprises		3,002,319
Depreciation		1,787,096
Total operating expenses	**$**	**60,702,600**

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.