Olympic College
2014 Financial Report

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

Janell Whiteley, Director of Business Services
Olympic College
1600 Chester Avenue
Bremerton, WA 98337
(360) 475-7504

Trustees and Administrative Officers

EXECUTIVE OFFICERS
Dr. David Mitchell, President
Dr. Damon Bell, Vice President for Student Achievement
Mary Garguile, Vice President for Instruction
Bruce Riveland, Vice President for Administrative Services

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Dr. Gina Huston, Dean, Social Sciences and Humanities
Norma Whitacre, Dean, Business and Technology

Trustees and Officer list effective as of December 31, 2014

Olympic College

The following discussion and analysis provides an overview of the financial position and activities of Olympic College (the College) for the fiscal year ended June 30, 2014 (FY 2014). The 2014 report constitutes the college's inaugural audited financial statements.

This overview provides readers with 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

Olympic 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 12,000 students. The College confers bachelor's degrees, associates degrees, certificates and high school diplomas. The College was established in 1946 and its primary purpose is to enrich our diverse communities through quality education and support so students achieve their educational goals.

The College's main campuses are located in Bremerton, Poulsbo and Shelton, with the majority of students enrolling in courses at the Bremerton campus. 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 it's discretely presented component units. 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 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, and presents the College's assets, liabilities, and net assets at year-end. A condensed statement of net position reflecting assets and liabilities is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Net Position As of June 30th	**FY 2014**
Assets	
Current Assets	30,383,844
Capital Assets, net	99,922,385
Total Assets	**$ 130,306,229**
Liabilities	
Current Liabilities	7,932,461
Other Liabilities, non-current	1,950,800
Total Liabilities	**$ 9,883,261**

Current assets consist primarily of cash, investments, various accounts receivables and inventories.

Non-current assets consist primarily of capital assets, net of depreciation..

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 for a 2010 energy efficiency project, 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.

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. The College's non-current liabilities continue to decrease as the College pays down the principal owed on this debt.

Net position represents the value of the College's assets after liabilities are deducted. (The College has no deferred inflows or outflows). The College is required by accounting standards to report its net position in three categories:

Invested in Capital Assets (Net of Related Debt):

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 are discussed above.

Restricted:

Non Expendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. The non-expendable funds for the College are endowments and unearned revenues.

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 expendable funds for the College are the interest earnings from Endowments as well as the fund balance for 860 (Institutions of Higher Education 3 1/2% loan fund) The amount available from endowments for expenditure in 2014 totaled $9,033.29, of which $6,317.65 is reflected on the Statement of Net Position as Restricted: Expendable.

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. These balances include contributions from the Bremer Trust. 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.

A condensed statement of net position is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Net Position As of June 30th	**FY 2014**
Invested in Capital Assets, net of related debt	$ 99,088,337
Restricted	
Nonexpendable	$ 831,733
Expendable	$ 436,024
Unrestricted	$ 20,066,874
Total Net Position	**$ 120,422,968**

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 another government without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and 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 below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th		**FY 2014**
Operating Revenues	$	30,003,278
Operating Expenses	$	59,265,108
Net Operating Loss	$	(29,261,830)
Non-Operating Revenues	$	29,820,670
Non-Operating Expenses	$	28,629
Gain (Loss) Before Other Revenues/Expenses	$	530,211
Capital Appropriations	$	1,639,832
Increase (Decrease) in Net Position	$	2,170,043
Net Position, Beginning of the Year	$	118,252,925
Net Position, End of the Year	$	120,422,968

Revenues

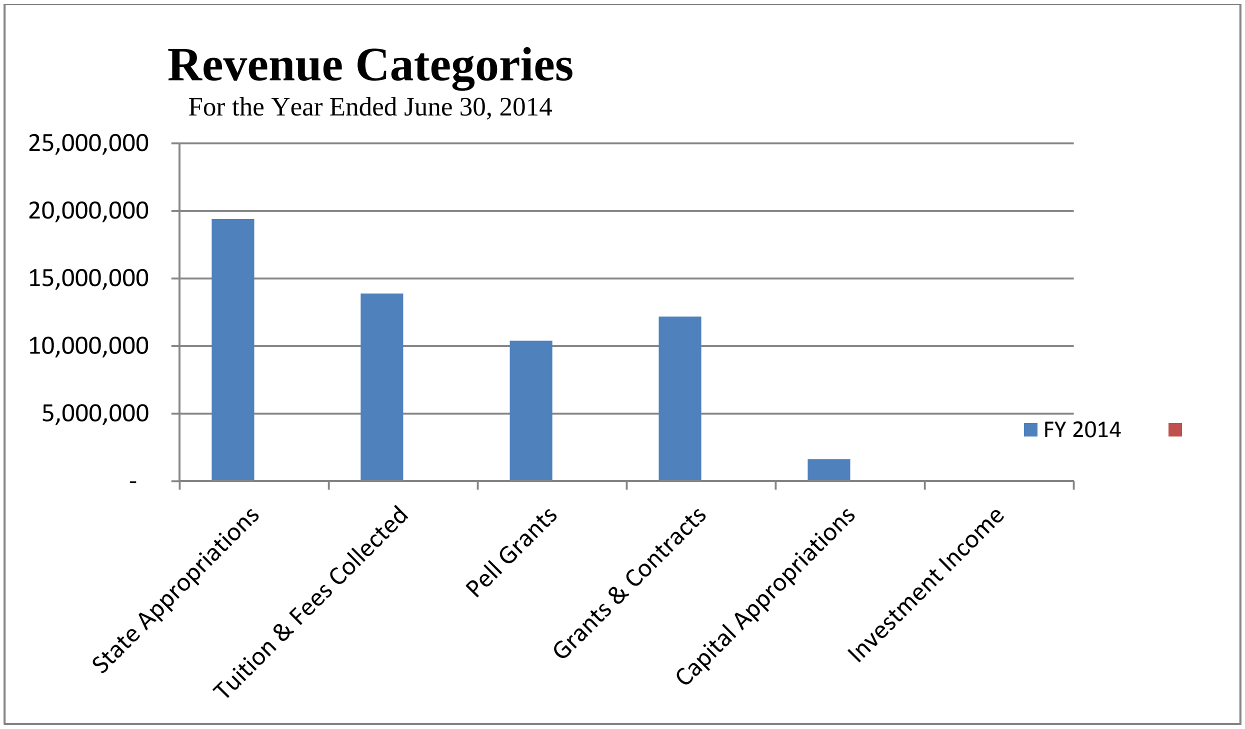
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times up through FY 2013. System-level state appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY 2014, the Legislature reinstated a small portion of the previous cuts.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Since enrollments decreased roughly 6% in FY 2014, the College's decrease in tuition and fees is primarily attributable to the flat tuition rates along with a greater percentage of part-time students. For FY2014, the College attempted to keep other fees as stable as possible, resulting in only small changes in these revenues.

In FY 2014, the College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses.

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.

<u>Revenue Categories</u>
The chart below shows the amount, in dollars, for categories of revenue for FY 2014.

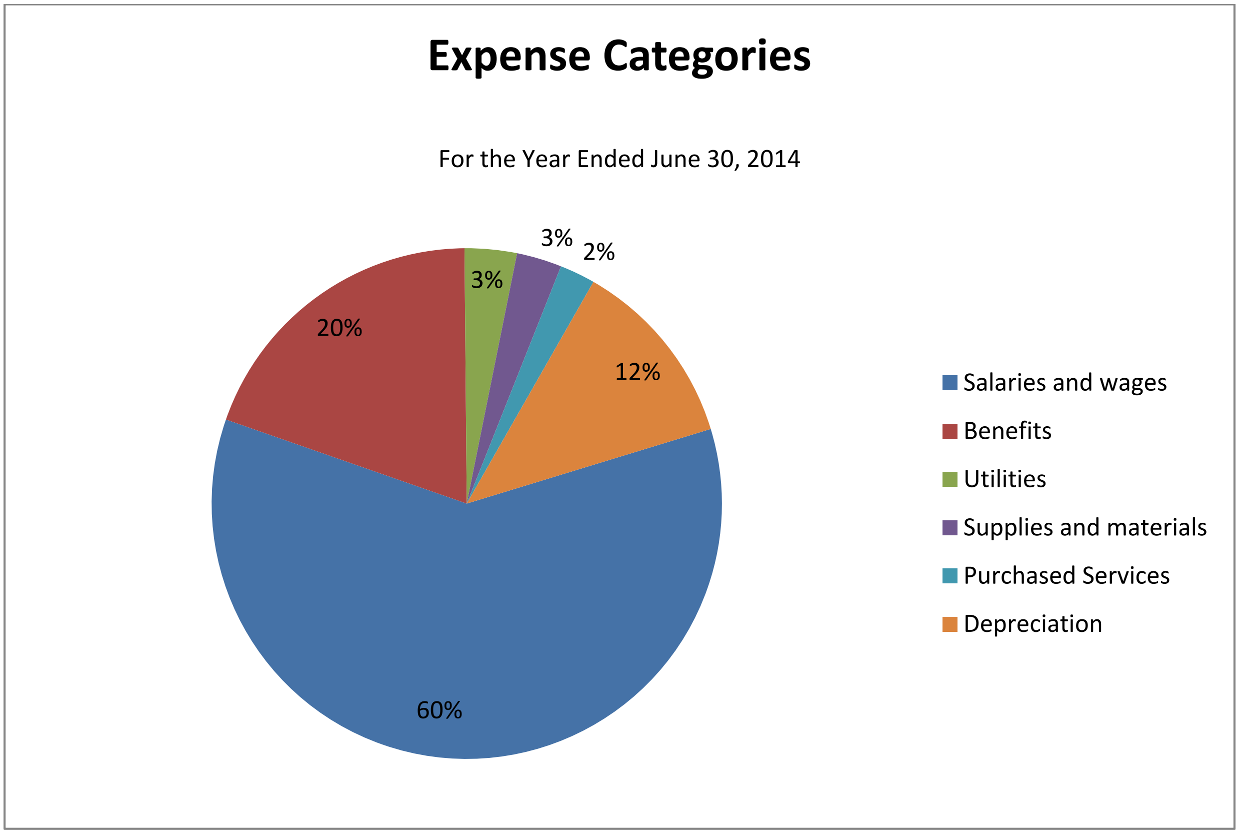


Expenses
Faced with severe budget cuts over the past five years, the College has sought opportunities for savings and efficiencies. Over that period the College has decreased spending and services, reducing administrative employees significantly and endured state spending freezes and a 3% decrease in salary for the classified staff. In 2013-14, salary costs increased due to the restoration of a onetime reduction from the legislature.

The College has reduced utility expenses in FY 2014 as a result of energy efficiency improvements and targeted efforts to reduce use, in spite of rate increases from utility providers. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service.

All other costs are reported as operating expenses and include such items as supplies and materials, travel, non-capitalized equipment, printing and other supplies.

Expenses by Category
The chart below shows the amount, in dollars, for areas of operating expenses for FY 2014.



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, capital project expenditures, and interest and principal payments related to Certificates of Participation.

The fourth section shows cash received from interest earnings on investments.

A condensed statement of cash flows is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Cash Flows As of June 30th		**FY 2014**
Operating Activities	$	(25,807,236)
Non-Capital Financing Activities	$	29,313,157
Capital Financing Activities	$	(2,151,683)
Investing Activities	$	17,231
Net Change in Cash	$	1,371,469
Cash, Beginning of Year	$	21,862,128
Cash, End of Year	$	23,233,597

The College's cash and cash equivalents at June 30th increased in 2014 by $1,371,469. Primary contributing factors include enrollments above the state FTE band, and increases to tuition revenue. The cash represents commitments for endowments, self-support programs, class lab fees, student activity fees, capital projects, equipment reserves and financial aid funds.

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, which includes 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 significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. See the Notes to the Financial Statements for additional information concerning capital assets and long-term debt.

At June 30, 2014, the College had invested $99,922,385 in capital assets, net of accumulated depreciation.

Asset Type	June 30, 2014
Land	$ 11,147,330
Construction in Progress	$ 633,208
Buildings, net	$ 80,203,184
Other Improvements and Infrastructure, net	$ 5,688,152
Equipment, net	$ 1,956,410
Library Resources, net	$ 294,101
Total Capital Assets, Net	**$99,922,385**

The capital activity during the period included the purchase of the Sons of Norway building and the replacement of a large amount of Information Technology equipment. The College Instructional Center, a significant capital project, is reflected as Construction in Progress as of June 30, 2014. In FY 2014, the College applied the retroactive infrastructure reporting requirements of Government Accounting Standards Board Statement Number 34 for the first time.

At June 30, 2014, the College had $834,050 in outstanding debt. The College obtained a Certificate of Participation (COP) from the Office of the State Treasurer for an energy efficiency project in 2010 for $1,316,981.

Certificates of Participation	$ 834,049
Total	**$ 834,050**

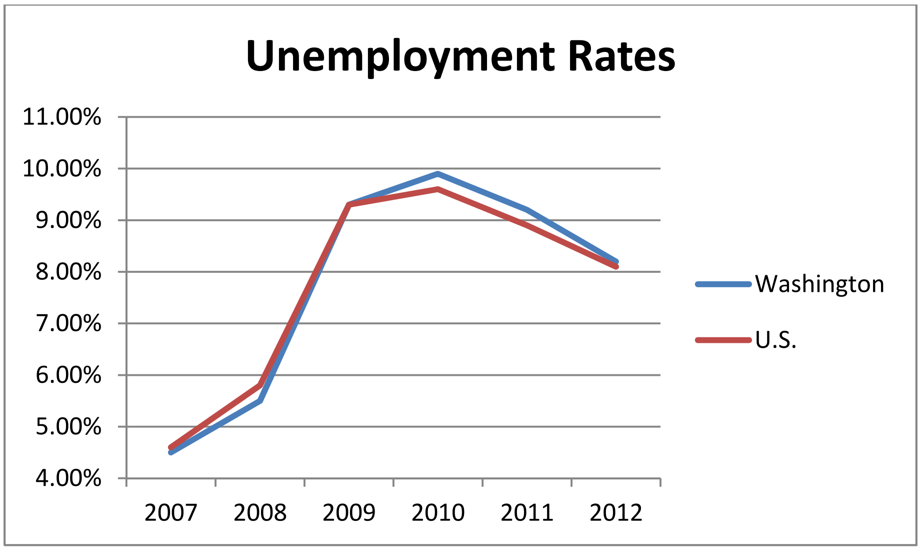
Economic Factors That Will Affect the Future

In 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. These investments in community colleges allowed the Legislature to keep FY 2014 tuition flat for resident, non-resident and baccalaureate students. It's unlikely that colleges will see much opportunity 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 (November 2014), the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies.

Closer to home, Washington continues to add jobs, including showing growth in the manufacturing sector. Housing construction, home prices and car sales also increased and exports are at an all-time high. Both employment in Washington state and personal income are expected to continue to grow in 2014 and through 2019, the end of the period covered by the forecast.

A hallmark of community colleges is the 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. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement.



Independent Auditor's Report on Financial Statements

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Olympic College
July 1, 2013 through June 30, 2014

Board of Trustees
Olympic College
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities of Olympic College, Kitsap County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements. We were engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements 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 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. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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.

Except for the matter described in the "Basis for Disclaimer of Opinion" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion

While we were engaged to audit the College's basic financial statements, which include the financial statements of the John Bremer Edward Bremer Consolidated Trust, we were not engaged by the Trust to audit its financial statements. Those statements were reviewed by other accountants. A review is substantially less in scope than an audit and does not provide a basis for the expression on an opinion on those financial statements. The Trust's financial activities are included in the College's basic financial statements and represent 69 percent, 68 percent and 57 percent, respectively, of the assets, net position and revenues of the College's aggregate discretely presented component units.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of Olympic College. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Olympic College, as of June 30, 2014, 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 Olympic College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 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

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. Although our opinion on the basic financial statements is not affected, and because this is the first year financial statements have been prepared, management has not presented all of the required comparative financial information in the management discussion and analysis, which is a material departure from the prescribed guidelines. We do not express an opinion or provide any assurance on the information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements as a whole. The Table of Contents and Trustees and Administrative Officers are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 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, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 15, 2015

College Statement of Net Position

Olympic Community College
Statement of Net Position
June 30,2014

Assets			
Current assets			
Cash and cash equivalents			23,233,597
Short-term investments			-
Accounts Receivable			6,372,291
Student Loans Receivable			-
Interest Receivable			-
Inventories			777,278
Prepaid Expenses			678
	Total current assets		30,383,844
Non-Current Assets			
Long-term investments			-
Student Loans Receivable			-
Capital assets, net of depreciation			99,922,385
	Total non-current assets		99,922,385
		Total assets	130,306,229
Deferred Outflows of Resources			-
Total Deferred Outflows of Resources			-
Liabilities			
Current Liabilities			
Accounts Payable			447,491
Accrued Liabilities			4,891,433
Compensated absences			11,325
Deposits Payable			-
Unearned Revenue			2,452,984
Certificates of Participation Payable			129,228
	Total current liabilities		7,932,461
Noncurrent Liabilities			
Compensated Absences			1,245,980
Long-term liabilities			704,821
	Total non-current liabilities		1,950,800
		Total liabilities	9,883,261
Deferred Inflows of Resources			-
Total Deferred Inflows of Resources			
Net Position			
Invested in capital assets, net of related debt			99,088,337
Restricted for:			
Nonexpendable			831,733
Expendable			436,024
Unrestricted			20,066,874
Total Net Position			120,422,968
Total Liabilities and Net Position			130,306,229

College Statement of Revenues, Expenses and Changes in Net Position

Olympic Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Operating Revenues			
01	Student tuition and fees, net		13,883,371
02	Auxiliary enterprise sales, net		3,557,862
03	State and local grants and contracts		10,008,914
04	Federal grants and contracts		2,177,180
05	Other operating revenues		375,898
06	Interest earned on past due A/R		53
		Total operating revenue	30,003,278
Operating Expenses			
07	Operating Expenses		5,433,604
08	Salaries and wages		26,786,726
09	Benefits		8,925,639
10	Scholarships and fellowships		8,311,006
11	Supplies and materials		4,222,472
12	Depreciation		3,171,434
13	Purchased services		1,297,246
14	Utilities		1,116,980
		Total operating expenses	59,265,108
		Operating income (loss)	(29,261,830)
Non-Operating Revenues			
15	State appropriations		19,402,610
16	Federal Pell grant revenue		10,400,829
17	Investment income, gains and loses		17,231
		Net non-operating revenues	**29,820,670**
Non-Operating Expenses			
18	Interest on indebtedness		28,629
		Net non-operating expenses	**28,629**
	Income or (loss) before other revenues, expenses, gains, or losses		530,211
19	Capital appropriations		1,639,832
		Increase (Decrease) in net position	2,170,043
Net Position			
	Net position, beginning of year		118,252,925
	Net position, end of year		120,422,968

College Statement of Cash Flows

Olympic Community College
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flow from operating activities	
Student tuition and fees, net of discounts	14,307,190
Grants and contracts	12,036,825
Payments to vendors	(9,467,141)
Payments for utilities	(1,056,660)
Payments to employees	(26,698,470)
Payments for benefits	(8,883,484)
Auxiliary enterprise sales	3,464,015
Payments for scholarships and fellowships, net of discounts	(8,311,006)
Interest earned on past due A/R	53
Other receipts (payments)	(1,198,559)
Net cash used by operating activities	(25,807,236)
Cash flow from noncapital financing activities	
State appropriations	18,912,328
Pell grants	10,400,829
Net cash provided by noncapital financing activities	29,313,157
Cash flow from capital and related financing activities	
Capital appropriations	576,137
Purchases of capital assets	(2,575,409)
Principal paid on capital debt	(123,782)
Interest paid	(28,629)
Net cash used by capital and related financing activities	(2,151,683)
Cash flow from investing activities	
Income of investments	17,231
Net cash provided by investing activities	17,231
Increase in cash and cash equivalents	1,371,469
Cash and cash equivalents at the beginning of the year	21,862,128
Cash and cash equivalents at the end of the year: $23,233,597	23,233,597
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(29,261,830)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	3,171,434
Changes in assets and liabilities	
Receivables , net	(1,790,393)
Inventories	15,553
Other assets	(678)
Accounts payable	(584,813)
Accrued liabilities	2,233,437
Unearned revenues	499,282
Compensated absences	12,737
Deposits Payable	(101,966)
Net cash used by operating activities	(25,807,236)

Foundation Statement of Financial Position

OLYMPIC COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents	$ 1,092,856	$ 1,046,352
Accounts receivable	7,448	2,118
Total current assets	1,100,304	1,048,470
Endowment Investments	10,828,041	9,097,249
Computers and Equipment, net of accumulated depreciation	2,941	-
Total assets	$ 11,931,286	$ 10,145,719

LIABILITIES AND NET ASSETS	2014	2013
Current Liabilities		
Accounts payable	$ 4,558	$ 931
Scholarships payable	205,420	167,230
Programs payable	91,489	64,320
Total liabilities	301,467	232,481
Net Assets		
Unrestricted		
Undesignated	54,824	123,866
Board designated	787,541	697,763
Total unrestricted net assets	842,365	821,629
Temporarily restricted	4,267,834	3,196,339
Permanently restricted	6,519,620	5,895,270
Total net assets	11,629,819	9,913,238
Total liabilities and net assets	$ 11,931,286	$ 10,145,719

Foundation Statement of Activities and Changes in Net Position

OLYMPIC COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Contributions	$ 41,053	$ 48,155	$ 104,015	$ 193,223	$ 28,088	$ 67,834	$ -	$ 95,922
Bequests			520,335	520,335		13,818	294,506	308,324
Special event proceeds	135,620	-	-	135,620	150,675	-	-	150,675
Less: direct benefit to donors	(36,426)	-	-	(36,426)	(30,036)	-	-	(30,036)
In-kind contributions	224,133	-	-	224,133	209,744	-	-	209,744
Investment earnings, net	3,604	1,395,709	-	1,399,313	4,925	858,694	-	863,619
Net assets released from restriction	372,369	(372,369)	-	-	346,754	(346,754)	-	-
Total support and revenue	740,353	1,071,495	624,350	2,436,198	710,150	593,592	294,506	1,598,248
Expenses								
Program service	462,008	-	-	462,008	329,343	-	-	329,343
Management and general	89,295	-	-	89,295	120,811	-	-	120,811
Fundraising	168,314	-	-	168,314	146,961	-	-	146,961
Total expenses	719,617	-	-	719,617	597,115	-	-	597,115
Change in net assets	**20,736**	**1,071,495**	**624,350**	**1,716,581**	**113,035**	**593,592**	**294,506**	**1,001,133**
Net assets, beginning of year	821,629	3,196,339	5,895,270	9,913,238	708,594	2,602,747	5,600,764	8,912,105
Net assets, end of year	$ 842,365	$ 4,267,834	$ 6,519,620	$11,629,819	$ 821,629	$ 3,196,339	$ 5,895,270	$ 9,913,238

Bremer Trust Statement of Financial Position

JOHN BREMER EDWARD BREMER CONSOLIDATED TRUST
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 492,867	$ 470,403
Investments	19,566,799	17,957,890
Rent receivable	52,283	4,167
Deferred rent receivable	18,825	20,844
Federal income tax receivable	1,959	1,959
Prepaid expenses	48,109	32,886
Total current assets	20,180,842	18,488,149
PROPERTY AND EQUIPMENT		
Land	1,790,822	1,563,440
Buildings, fixtures and equipment	10,683,223	10,360,556
Construction in progress	14,824	14,824
	12,488,869	11,938,820
Less accumulated depreciation	(6,252,457)	(6,096,557)
Total property and equipment, net	6,236,412	5,842,263
OTHER ASSETS		
Note receivable	-	525,000
Total assets	$ 26,417,254	$ 24,855,412

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Accounts payable	$ 42,996	$ 22,087
Property tax payable	163,457	163,398
Refundable security deposits	17,155	5,800
Demand note facility	804,350	2,300,000
Total current liabilities	1,027,958	2,491,285
LONG-TERM DEBT - DEMAND NOTE FACILITY	1,000,000	-
NET ASSETS		
Net assets, temporarily restricted	24,389,296	22,364,127
Total liabilities and net assets	$ 26,417,254	$ 24,855,412

Bremer Trust Statement of Activities and Changes in Net Position

JOHN BREMER EDWARD BREMER CONSOLIDATED TRUST
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2013 and 2012

	Unrestricted	Temporarily Restricted	Total 2013	Total 2012
REVENUES				
Rental	$ -	$ 572,650	$ 572,650	$ 413,221
Interest	-	50,800	50,800	130,508
Dividends	-	529,769	529,769	535,940
Miscellaneous income	-	2,817	2,817	2,089
Net realized gain on investments	-	759,679	759,679	545,339
Net unrealized gain (loss) on investments	-	1,330,176	1,330,176	1,077,399
Assets released from restrictions	1,220,722	(1,220,722)	-	-
Total revenues	1,220,722	2,025,169	3,245,891	2,704,496
EXPENSES				
General and administrative	1,068,872	-	1,068,872	810,495
Distributions to Olympic College	151,850	-	151,850	200,500
Total expenses	1,220,722	-	1,220,722	1,010,995
CHANGE IN NET ASSETS	-	2,025,169	2,025,169	1,693,501
NET ASSETS				
Beginning of year	-	22,364,127	22,364,127	20,670,626
End of year	$ -	$ 24,389,296	$ 24,389,296	$ 22,364,127

Bremer Trust Statement of Cash Flows

JOHN BREMER EDWARD BREMER CONSOLIDATED TRUST
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 2,025,169	$ 1,693,501
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	155,900	120,282
Realized gain on investments	(759,679)	(545,339)
Unrealized (gain) loss on investments	(1,330,176)	(1,077,399)
Decrease (increase) in:		
Rent receivable	(48,116)	8,765
Deferred rent receivable	2,019	3,972
Prepaid expenses	(15,223)	8,527
Increase (decrease) in:		
Accounts payable	20,909	(9,352)
Property taxes payable	59	18,535
Refundable security deposits	11,355	(1,931)
Net cash provided by operating activities	62,217	219,561
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,545,688)	(7,383,334)
Proceeds from sale of investments	5,026,634	6,523,542
Proceeds from sale of property and note payments	525,000	475,000
Purchases of property and equipment	(550,049)	(2,514,448)
Net cash provided (used) by investing activities	455,897	(2,899,240)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on demand note facility	(495,650)	-
Proceeds from issuance of demand note facility	-	2,300,000
Net cash provided (used) by financing activities	(495,650)	2,300,000
(Decrease) increase in cash and cash equivalents	22,464	(379,679)
Cash & cash equivalents, beginning of year	470,403	850,082
Cash & cash equivalents, end of year	$ 492,867	$ 470,403

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

Olympic 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 Olympic College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1993 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to support student success and program excellence at Olympic College by promoting and receiving philanthropic gifts for the benefit of Olympic College, including student scholarships, program enhancements, professional development, equipment, capital projects, cultural events and activities that enrich the entire college community. 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 $168,404 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Director of the Foundation, Olympic College, 1600 Chester Avenue, Bremerton, WA 98337 or by calling (360) 475-7120.

The College is the beneficiary of the Bremer Trust. On January 1, 1987, the Estate of Ed Bremer and the John Bremer Residuary Trust formed Bremers Partnership by each contributing property. On January 1, 1988, the assets of the Estate were transferred into the Trust, the resulting reporting entity. The endowments of the Trust require that the trustee distribute to Olympic College, on an annual basis, a minimum of 50% of the change in net assets of the Trust, exclusive of capital gains or losses.

The Bremer Trust financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Bremer Trust are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2104, the Trust distributed $151,850 to the College for unrestricted purposes.

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 2013-14, 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 2013-14, 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 P:ublic 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 2013-14, 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 College did not identify any transactions requiring reclassification of previously reported assets and liabilities.

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.

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 non-exchange transactions. The College does not have any non-exchange transactions.

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, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. 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 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, are valued at cost using FIFO.

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, 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 and fall quarter tuition and fees and student residence housing deposits 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 principal.
- *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, 2014 are $8,071,427.

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 and 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 $23,233,597 as represented in the table below.

Table 1: Cash and Cash Equivalents	**June 30, 2014**
Change Funds	$12,000
Bank Demand and Time Deposits	$9,500,992
Local Government Investment Pool	$13,720,605
Total Cash and Cash Equivalents	**$23,233,597**

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 US Bank. All cash and equivalents, except for change funds 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
The College manages its exposure to fair value losses and interest rate changes by limiting the duration of investments to mature at various points in the year. No investment exceeds 12 months.

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. The College does not have any concentration of investment credit risk.

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 $1,215.69.

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 2: Accounts Receivable	Amount	
Student Tuition and Fees	$	2,427,719
Due from the Federal Government	$	2,293,831
Due from Other State Agencies	$	444,565
Auxiliary Receivables	$	400,165
Due from Local Governments	$	1,202,358
Subtotal	$	6,768,638
Less Allowance for Uncollectible Accounts	$	(396,348)
Accounts Receivable, net	$	6,372,291

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

Table 3: Inventories	**Amount**	
Consumable Inventories	$	-
Merchandise Inventories	$	777,278
Work in Progress Inventories	$	-
Raw Materials Inventories	$	-
Inventories	**$**	**777,278**

5. 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 $3,171,434.

Table 4: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 11,010,497	$ 136,833	$ -	$ 11,147,330
Construction in progress	0	633,208	0	633,208
Total nondepreciable capital assets	11,010,497	770,041	0	11,780,538
Depreciable capital assets				
Buildings	104,581,139	894,967	(472,211)	105,003,895
Other improvements and infrastructure	10,082,768	0	0	10,082,768
Equipment	5,733,351	723,786	(65,099)	6,392,038
Library resources	4,822,104	0	0	4,822,104
Subtotal depreciable capital assets	125,219,362	1,618,753	(537,310)	126,300,805
Less accumulated depreciation				
Buildings	22,723,711	2,389,014	(312,014)	24,800,711
Other improvements and infrastructure	4,260,676	133,940	0	4,394,616
Equipment	3,943,192	556,080	(63,644)	4,435,628
Library resources	4,435,603	92,400	0	4,528,003
Total accumulated depreciation	35,363,182	3,171,434	(375,658)	38,158,958
Total depreciable capital assets	89,856,180	(1,552,681)	(161,652)	88,141,847

6. Accounts Payable and Accrued Liabilities

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

Table 5: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,257,305
Accounts Payable	$ 447,491
Amounts Owed to Others	$ 4,891,433
Total	**$ 6,596,229**

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

Table 6: Unearned Revenue	**Amount**
Summer Quarter Tuition & Fees	$ 2,442,735
Housing and Other Deposits	10,249
Total Unearned Revenue	**$ 2,452,984**

8. 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 most employees. Payments made for claims from July 1, 2013 through June 30, 2014, were $52,015.58. Cash reserves for unemployment compensation for all employees at June 30, 2014, were $170,641.96

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.

9. 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 $926,428.97, compensatory time totaled $11, 325 and accrued sick leave totaled $319,550.88 at June 30, 2014.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used in the year in which it is earned. Compensatory time for 13-14 will be used in 14-15 and any compensatory time earned in 14-15 will be used in 14-15.

10. Leases Payable

The College has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2014, the minimum lease payments under operating leases consist of the following.

Table 7: Leases Payable	
Fiscal year	**Equipment Leases**
2015	118,718
2016	118,718
2017	118,718
2018	118,718
2019	118,718
2020-2024	
2025-2029	
2030-2034	
2035-2039	
2040-2044	
Total minimum lease payments	593,590

11. Notes Payable

In June, 2010, the College obtained financing to implement energy enhancements on all three campuses through a certificate of participation (COP), issued by the Washington Office of The State Treasurer (OST) in the amount of $1,316,981. The financing term is 10 years and the interest rate is 2.89%.

The College's debt service requirement for this note agreement for the next five years and thereafter are reflected under Annual Debt Service Requirements.

12. Annual Debt Service Requirements

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

Fiscal year	Principal	Interest	Total
2015	$ 129,228	$ 23,184	$ 152,412
2016	132,991	19,421	$ 152,412
2017	136,863	15,549	$ 152,412
2018	140,848	11,564	$ 152,412
2019	144,950	7,462	$ 152,412
2020-2024	149,170	3,242	$ 152,412
2025-2029			
2030-2034			
2035-2039			
2040-2044			
Total	**834,050**	**80,422**	**914,472**
			0

13. Schedule of Long Term Liabilities

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificate of Participation	959,622	0	(125,572)	$ 834,050	129,228
Total	**$ 959,622**	**$ -**	**$ (125,572)**	**$ 834,050**	**$ 129,228**

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 FY2013-14, the payroll for the College’s employees was $6,741,981.34 for PERS, $396,599.89 for TRS, and $15,770,427.25 for SBRP. Total covered payroll was $26,942,341.63.

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 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.

	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%	4.64%	7.21%
Plan 3	4.64%	7.08%	4.64%	7.12%	4.64%	7.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	10.39%
Plan 2	4.69%	8.04%	4.69%	8.05%	4.69%	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	$ 20,999.63	$ 25,773.00	$ 16,144.05	$ 20,093.04	$ 17,472.57	$ 26,804.60
Plan 2	$ 208,128.66	$ 324,123.87	$ 201,729.80	$ 322,024.62	$ 242,152.67	$ 453,079.76
Plan 3	$ 100,526.77	$ 110,776.45	$ 99,305.82	$ 108,068.28	$ 108,334.94	$ 141,021.19
TRS						
Plan 1	$ 4,648.86	$ 6,350.98	$ 4,649.65	$ 6,350.59	$ 4,565.39	$ 7,586.78
Plan 2	$ 2,791.50	$ 4,760.50	$ 4,220.14	$ 7,410.67	$ 6,816.95	$ 14,013.47
Plan 3	$ 6,724.48	$ 7,351.03	$ 17,580.62	$ 19,723.19	$ 14,405.38	$ 18,233.58

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.

<u>Contributions</u>. 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 $2,859,589.80.

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 $4,685.16. 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 $78,869.98. 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 $12,654,630, with an annual required contribution (ARC) of $1,236,364. 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 ($232,627). The College’s net OPEB obligation (NOO) at June 30, 2014 was approximately $1,003,737. This amount is not included in the College’s financial statements.

The College paid $4,528,388 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 Assets, 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	$	22,555,103
Academic Support Services		3,613,198
Student Services		5,128,695
Institutional Support		6,169,728
Operations and Maintenance of Plant		4,108,015
Auxiliary enterprises		6,207,928
Student Financial Aid		8,311,006
Depreciation		3,171,434
Total operating expenses	**$**	**59,265,108**

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 statements.

The College has commitments of $5,968,000 for various capital improvement projects that include energy enhancements to the campus and planning for a new College Instruction Center building.

17. Subsequent Events
The College is not aware of any subsequent events or factors affecting these financial statements.

We would like to acknowledge the following staff responsible for the content of this report:

Janell Whiteley, Director of Business Services
Lynn Kitts, Program Specialist 3
Bruce Riveland, Vice President for Administrative Services