



FINANCIAL REPORT

FOR FISCAL YEAR ENDED
June 30, 2014



**2014
Financial Report**

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Trustees and Administrative Officers

BOARD OF TRUSTEES (*As of June 30, 2014*)

Lua Pritchard, Chair
Mary Moss, Vice Chair
Mark Martinez
Bruce Lachney
Robert Lenigan

EXECUTIVE OFFICERS

Lonnie Howard, President
Joyce Loveday, Vice President for Instruction
Linda Schoonmaker, Vice President for Finance and Administration
Ted Broussard, Vice President for Student Services
Deborah Ranniger, Vice President for Institutional Advancement

ACADEMIC DEANS

Michelle Hillesland, Dean, Division II
Claire Korschinowski, Interim Dean, Divisions I & III
William Coyner, Interim Dean, Division 1 & III
Jamilyn Penn, Associate Dean, Division V



INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clover Park Technical College July 1, 2013 through June 30, 2014

Board of Trustees
Clover Park Technical College
Lakewood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the Clover Park Technical College, Pierce County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 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.

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 Clover Park Technical College, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Clover Park Technical 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. 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.

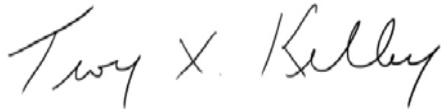
Other Matters

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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA
May 26, 2016

Management's Discussion and Analysis

Clover Park Technical College

The following discussion and analysis provides an overview of the financial position and activities of Clover Park Technical College (the College) for the fiscal year ended June 30, 2014 (FY 2014). The 2014 report constitutes the college's inaugural audited financial statements. As a result, comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2013 (FY 2013), where available.

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

Clover Park Technical 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 7,300 students. The College confers associates degrees, certificates and high school diplomas. A baccalaureate program was added in 2014. The College was established in 1991 and its primary purpose is to be a values-driven institution that delivers quality education, training and support focused on student success in an evolving economy.

The College's main campus is located in Lakewood, Washington, a community of about 60,000 residents. The College also has a branch campus in Puyallup, Washington. 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. In accordance with Washington State law governing technical colleges, the College's board includes one member from business and one member from labor. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit. 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 and includes all assets and liabilities of the College. 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	27,830,429
Capital Assets, net	84,467,266
Total Assets	112,297,695
Liabilities	
Current Liabilities	5,551,916
Other Liabilities, non-current	11,531,621
Total Liabilities	17,083,537
Net Position	95,214,158

Current assets consist primarily of cash, various accounts receivables and inventories. They increased by over \$4 million in FY 2014 mainly due to an increase in the state allocation and the fact that in FY 2013, large amounts of local funds were expended in support of capital projects underway that year. In FY 2014, most of the major construction projects were substantially complete.

Net capital assets increased by over \$2 million from FY 2013 to FY 2014. After taking into consideration current depreciation expense of \$3,236,289 the majority of the increase is the result of final work to complete the construction of a new Allied Health Sciences Building.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) and Local Improvement District (LID) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

Current liabilities decreased nearly \$1 million from FY 2013 to FY 2014 due to a decrease in accounts payable. At the end of FY 2013, the college was in the early stages of construction on the new Allied Health Sciences Building. There were over \$1.5 million in payables on the last day of 2013 for this project alone.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portions of Certificates of Participation and Local Improvement District debt. The College's non-current liabilities continue to decrease as the College pays down the principal owed on each.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in four categories:

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

Restricted:

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are student loans, capital project funds and the 3 ½ percent fund collected from student tuition strictly for the purpose of providing supplemental financial aid.

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. For instance, the Board of Trustees has required that at least 90 days of operating expenses be maintained in the event of business interruption.

Condensed Net Position As of June 30th	FY 2014
Net Investment in Capital Assets	\$74,482,266
Restricted	
Expendable	\$766,030
Unrestricted Net Position	\$19,965,862
Total Net Position	\$95,214,158

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:

Statement of Revenue, Expenses and Changes in Net Position As of June 30th	FY 2014	FY 2013 (Unaudited)
Operating Revenues		
Tuition & Fees Collected	8,514,604	8,121,408
Auxiliary Enterprise Sales	1,352,371	1,214,406
Grants & Contracts	7,117,410	7,879,415
Other Operating Revenues	1,887,769	2,739,132
Total Operating Revenues	18,872,154	19,954,361
Operating Expenses	42,413,983	42,757,404
Net Operating Loss	\$ (23,541,829)	\$ (22,803,043)
Non-Operating Revenues (Expenses)		
State Appropriations	17,928,954	16,200,638
Pell Grants	7,190,575	6,522,023
Interest on Indebtedness	(494,482)	(480,582)
Net Non-Operating Revenues(Expenses)	24,625,047	22,242,079
Gain (Loss) Before Capital Contributions	\$ 1,083,218	\$ (560,964)
Capital Appropriations	2,840,200	15,671,499
Increase (Decrease) in Net Position	\$ 3,923,418	\$ 15,110,535
Net Position, Beginning of the Year	\$ 91,290,740	\$ 76,180,205
Net Position, End of the Year	\$ 95,214,158	\$ 91,290,740

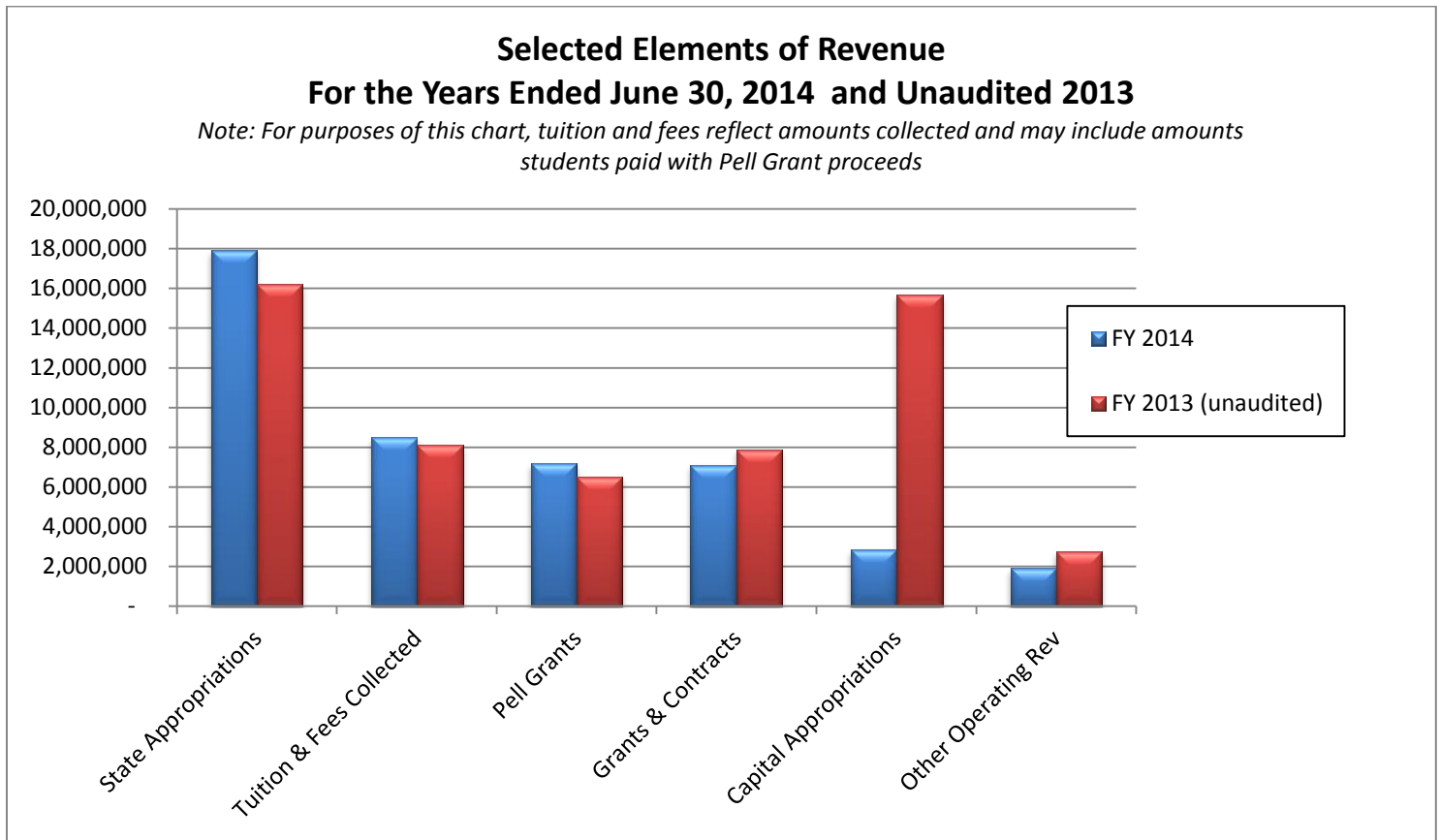
Revenues

The College's state operating appropriations increased in FY 2014 by 11%, reversing a trend of declines since 2009. The state of Washington appropriates funds to the community college system as a whole and then the State Board for Community and Technical Colleges (SBCTC) allocates monies to each college. System-level appropriations hit their height in FY 2009 and had been reduced by almost 24% as of FY 2013.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Enrollments decreased slightly (115 FTE) in FY 2014, however the College's tuition and fee revenue increased, largely due to increases in student fees. Tuition rates did not change in FY 2014 compared with FY2013 rates. PELL grant revenue increased slightly as award levels were increased.



In FY 2013, the College was constructing a new Allied Health Sciences building which accounted for the large comparative decrease in capital appropriations revenue in FY 2014.



Expenses

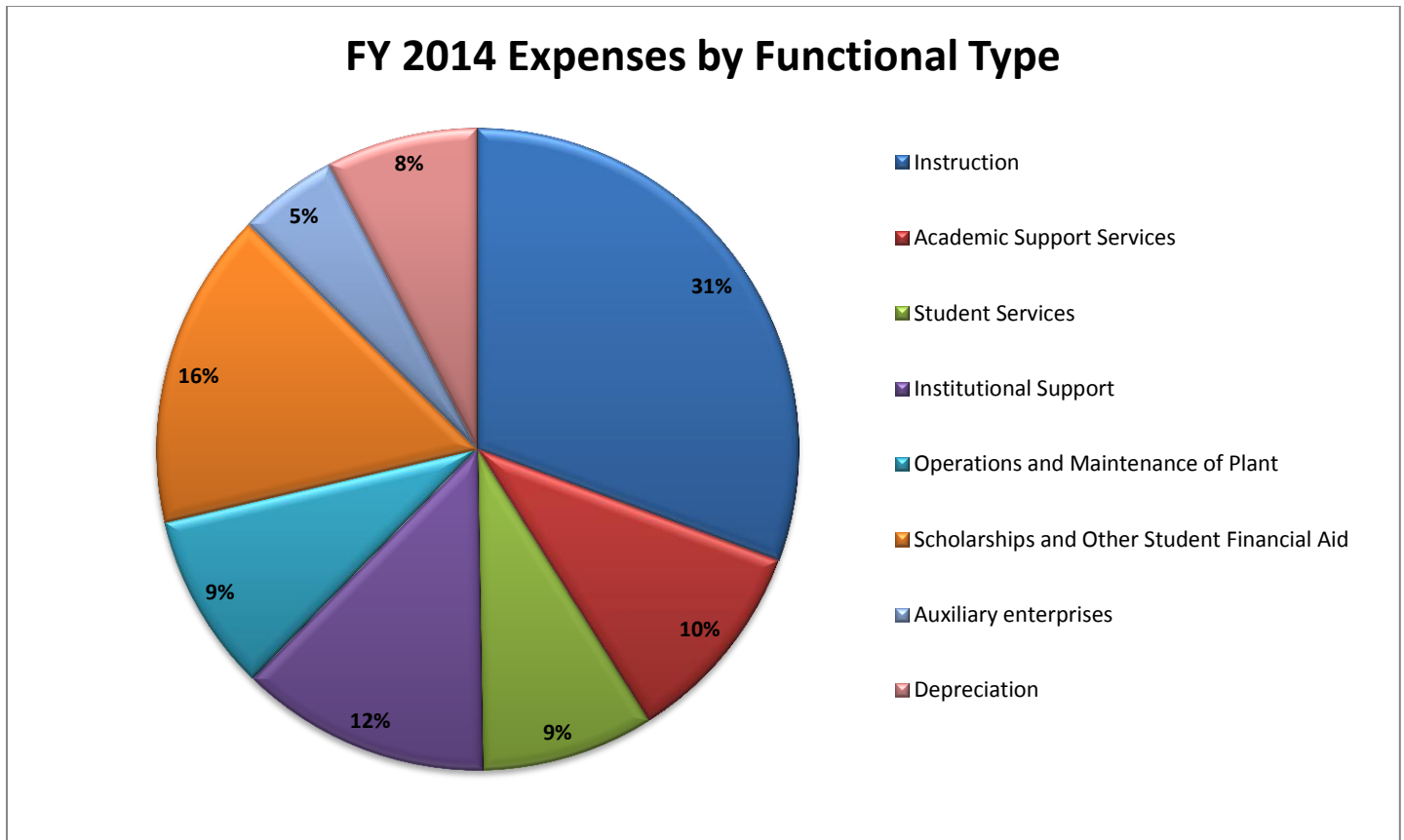
Faced with severe budget cuts over the past five years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

In FY 2014, salaries and benefits increased 3.5% which was approximately the increase restored by the state for previous salary cuts. Depreciation expense went up over 50% in FY 2014 since the Allied Health Building was placed into service. Most other categories of expense remained fairly constant from prior year levels with the exception of certain capital project costs which did not meet accounting criteria for capitalization as a part of the cost of the building and instead were recognized as supplies and materials or purchased services costs. These costs were over \$2.3 million higher in FY 2013 and accounted for much of the spending of reserves that year which did not happen in FY 2014.

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.

Operating Expenses by Function

The chart below shows the percentage of each functional area 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 three different types of activities within the institution.

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	(21,375,935)
Non-Capital Financing Activities	25,653,876
Capital Financing Activities	473,760
Net Change in Cash	\$ 4,751,701
Cash, Beginning of Year	19,785,276
Cash, End of Year	\$ 24,536,977

The College’s cash and cash equivalents at June 30th increased in 2014 by \$4,751,701. Primary contributing factors include an increase in the state’s allocation and a much lower use of reserves in FY 2014 compared with FY 2013 when local funds were used to supplement capital projects.

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. In addition, the College has one of four community college projects that were funded through a Certificate of Participation (COP) against which system-wide building fee monies were pledged.

At June 30, 2014, the College had invested \$84,467,266 in capital assets, net of accumulated depreciation. This represents an increase of \$2,022,353 from last year, as shown in the table below.

Asset Type	June 30, 2014	June 30, 2013 (unaudited)	Change
Land	\$6,650,806	\$6,650,806	
Construction in Progress	\$0	\$18,894,177	-\$18,894,177
Buildings, net	\$74,501,981	\$54,271,055	\$20,230,926
Other Improvements and Infrastructure, net	\$597,945		\$597,945
Equipment, net	\$2,610,006	\$2,475,285	\$134,721
Library Resources, net	\$106,528	\$153,590	-\$47,062
Total Capital Assets, Net	\$84,467,266	\$82,444,913	\$2,022,353

The increase in net capital assets can be attributed to the construction of the new Allied Health Sciences building. In FY 2013, 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 \$10,391,452 in outstanding debt. The College entered into a Certificate of Participation (COP) for the Student Union Building during FY 2006. The College also owed the City of Lakewood \$406,452 for a Local Improvement District (LID) assessment which began in 2007.

	June 30, 2014
Certificates of Participation	\$ 9,985,000
Local Improvement District	\$ 406,452
Total	\$ 10,391,452

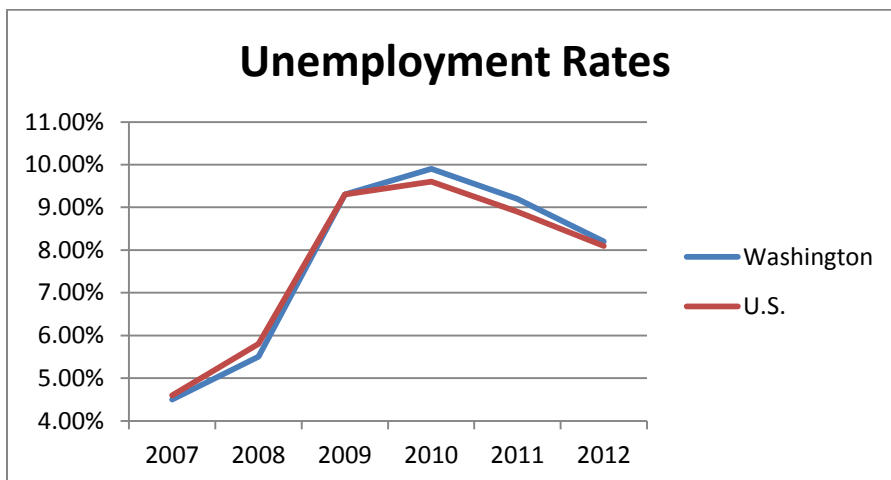
For more information, refer to notes 10 and 11 on the accompanying statements.

Economic Factors That Will Affect the Future

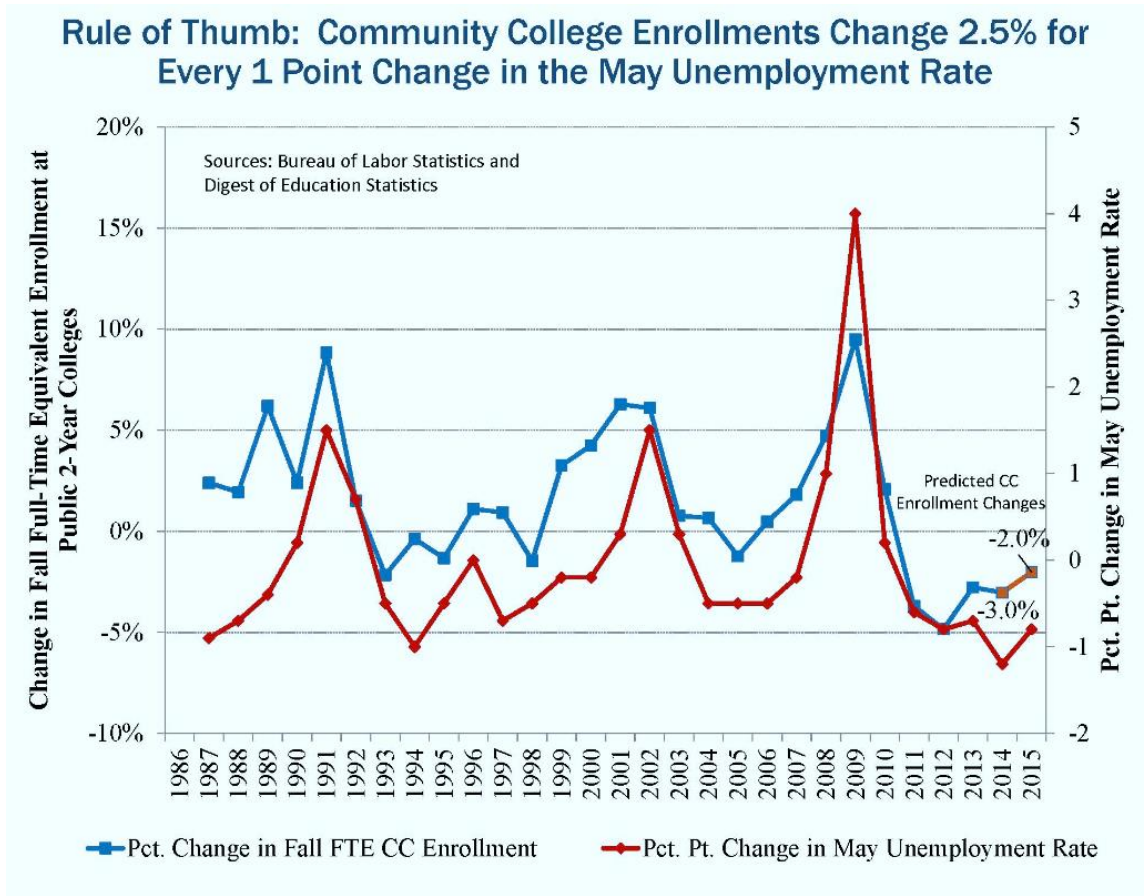
Following a trend of declining state appropriations, the 2013-2015 biennial budget reflected the first increase of the state Legislature’s re-investment in community and technical colleges since 2009. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2014 tuition flat for resident, non-resident and baccalaureate students. It is unclear how much opportunity there may be for additional investments in community and technical colleges during the next few years, as state budget writers continue to grapple with court-mandated basic education obligations and other priorities. The overall health of the state’s economy will likely be the largest determinant of funding trends.

Washington’s Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its most applicable forecast, June 2014, the council observed that the national recovery was weaker than forecast, but that Washington should continue to outperform the U.S. in growth. Most of the state’s economic risk factors continue to come from outside the state, particularly from the Middle East, where turmoil was expected to result in higher oil prices. Despite this risk, the council continued to forecast lower oil prices over the course of the 2014-2019 forecast. Revenue collections for the 2013-15 biennium were \$122.2 million ahead of earlier forecasts, which has increased the economic forecast for the 2015-17 biennium by \$33.4 million and added \$314.6 million to the 2017-19 biennium.

Washington continues to add jobs, though at a slower rate than expected due to a sluggish national recovery. Single family housing permits continued to be disappointing but overall construction was about as expected. Personal income growth was strong in the first quarter, largely due to aerospace bonuses, but overall employment remained flat.



Unemployment rate changes have been shown to be very closely linked to public 2-year college full-time equivalent enrollments. Historically, enrollments change about 2.5% for every one percent change in the unemployment rate, as shown on this chart prepared by Postsecondary Analytics:



Clover Park Technical College
Statement of Net Position
June 30,2014

Assets

Current assets

Cash and cash equivalents	24,536,977
Accounts Receivable	2,351,657
Due from Office of the State Treasurer	450,620
Inventories	491,175
Total current assets	27,830,429

Non-Current Assets

Non depreciable Capital Assets	6,650,806
Depreciable Capital Assets, net of depreciation	77,816,460
Total non-current assets	84,467,266
Total assets	112,297,695

Deferred Outflows of Resources

Total Deferred Outflows of Resources

Liabilities

Current Liabilities

Accounts Payable	1,368,783
Accrued Liabilities	1,138,766
Compensated absences	3,676
Deposits Payable	19,650
Unearned Revenue	2,371,041
Certificates of Participation Payable	650,000
Total current liabilities	5,551,916

Noncurrent Liabilities

Compensated Absences	1,827,398
Long-term liabilities	9,704,223
Total non-current liabilities	11,531,621
Total liabilities	17,083,537

Deferred Inflows of Resources

Total Deferred Inflows of Resources

Net Position

Net Investment in Capital Assets	74,482,266
Restricted for:	
Expendable	
Institutional Financial Aid	766,030
Unrestricted	19,965,862
Total Net Position	95,214,158

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

CLOVER PARK TECHNICAL COLLEGE FOUNDATION**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS**

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ <u>762,688</u>	\$ <u>542,308</u>
Total Current Assets	762,688	542,308
OTHER ASSETS		
Assets held in charitable remainder trust	77,425	79,302
Donated goods inventory	77,714	23,316
Investments - long-term	<u>978,581</u>	<u>951,192</u>
Total Investments	<u>1,133,720</u>	<u>1,053,810</u>
Total Assets	\$ <u>1,896,408</u>	\$ <u>1,596,118</u>
LIABILITIES AND NET ASSETS		
Liability under trust agreement	\$ <u>46,535</u>	\$ <u>48,202</u>
Total Liabilities	46,535	48,202
NET ASSETS		
Unrestricted	840,402	565,624
Board-designated	<u>53,446</u>	<u>53,175</u>
Total unrestricted	893,848	618,799
Temporarily restricted	319,661	322,832
Permanently restricted	<u>636,364</u>	<u>606,285</u>
Total Net Assets	<u>1,849,873</u>	<u>1,547,916</u>
Total Liabilities and Net Assets	\$ <u>1,896,408</u>	\$ <u>1,596,118</u>

Clover Park Technical College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Operating Revenues		
Student tuition and fees, net		8,514,604
Auxiliary enterprise sales		1,352,371
State and local grants and contracts		5,890,148
Federal grants and contracts		1,227,262
Other operating revenues		1,887,769
Interest on loans to students		-
	Total Operating Revenue	<u>18,872,154</u>
Operating Expenses		
Salaries and wages		19,709,017
Benefits		6,575,651
Scholarships and fellowships		6,796,232
Supplies and materials		1,439,167
Depreciation		3,236,289
Purchased services		886,481
Utilities		1,064,710
Miscellaneous Expenses		2,706,436
	Total Operating Expenses	<u>42,413,983</u>
	Operating Income (Loss)	<u>(23,541,829)</u>
Non-Operating Revenues (Expenses)		
State appropriations		17,928,954
Federal Pell grant revenue		7,190,575
Interest on indebtedness		(494,482)
	Net Non-Operating Revenues (Expenses)	<u>24,625,047</u>
	Income (Loss) Before Capital Appropriations	<u>1,083,218</u>
	Capital Appropriations	2,840,200
	Increase (Decrease) in Net Position	<u>3,923,418</u>
Net Position		
	Net position, beginning of year	<u>91,290,740</u>
	Net position, end of year	<u>95,214,158</u>

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

CLOVER PARK TECHNICAL COLLEGE FOUNDATION

STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS

Years Ended December 31, 2014 and 2013

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT, REVENUE AND RECLASSIFICATIONS				
Contributions	\$ 482,821	\$ 48,724	\$ 30,079	\$ 561,624
Donated goods	78,643			78,643
Investment income	985	30,212		31,197
Fundraisers	<u>1,075</u>			<u>1,075</u>
Total Support and Revenue	563,524	<u>78,936</u>	<u>30,079</u>	672,539
Net assets released from restriction and reclassifications	<u>82,107</u>	<u>(82,107)</u>		
Total Support, Revenue and Reclassifications	645,631	(3,171)	30,079	672,539
EXPENSES				
Program services:				
Scholarships and grants	94,634			94,634
Program specific support	<u>246,840</u>			<u>246,840</u>
Total Program Services	341,474			341,474
Supporting services:				
General and administrative	22,676			22,676
Fundraising	<u>6,432</u>			<u>6,432</u>
Total Supporting Services	<u>29,108</u>			<u>29,108</u>
Total Expenses	<u>370,582</u>			<u>370,582</u>
Change in Net Assets	275,049	(3,171)	30,079	301,957
NET ASSETS AT BEGINNING OF YEAR	<u>618,799</u>	<u>322,832</u>	<u>606,285</u>	<u>1,547,916</u>
NET ASSETS AT END OF YEAR	<u>\$ 893,848</u>	<u>\$ 319,661</u>	<u>\$ 636,364</u>	<u>\$ 1,849,873</u>

CLOVER PARK TECHNICAL COLLEGE FOUNDATION

STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS (Continued)

Years Ended December 31, 2014 and 2013

	2013			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
SUPPORT, REVENUE AND RECLASSIFICATIONS				
Contributions	\$ 258,204	\$ 35,813	\$ 16,657	\$ 310,674
Donated goods	235,773			235,773
Investment income	1,149	103,519		104,668
Fundraisers	<u>32,422</u>			<u>32,422</u>
Total Support and Revenue	527,548	<u>139,332</u>	<u>16,657</u>	683,537
Net assets released and reclassifications from restriction	<u>70,489</u>	<u>(169,995)</u>	<u>99,506</u>	_____
Total Support, Revenue and Reclassifications	598,037	(30,663)	116,163	683,537
EXPENSES				
Program services:				
Scholarships and grants	80,326			80,326
Program specific support	<u>394,595</u>			<u>394,595</u>
Total Program Services	474,921			474,921
Supporting services:				
General and administrative	22,588			22,588
Fundraising	<u>14,454</u>			<u>14,454</u>
Total Supporting Services	<u>37,042</u>			<u>37,042</u>
Total Expenses	<u>511,963</u>			<u>511,963</u>
Change in Net Assets	86,074	(30,663)	116,163	171,574
NET ASSETS AT BEGINNING OF YEAR	<u>532,725</u>	<u>353,495</u>	<u>490,122</u>	<u>1,376,342</u>
NET ASSETS AT END OF YEAR	<u>\$ 618,799</u>	<u>\$ 322,832</u>	<u>\$ 606,285</u>	<u>\$ 1,547,916</u>

Clover Park Technical College
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flow from operating activities	
Student tuition and fees	8,428,031
Grants and contracts	7,184,275
Payments to vendors	(5,664,449)
Payments for utilities	(1,904,054)
Payments to employees	(19,687,868)
Payments for benefits	(6,579,148)
Auxiliary enterprise sales	1,347,442
Payments for scholarships and fellowships	(6,796,232)
Other receipts (payments)	2,296,068
Net cash used by operating activities	<u>(21,375,935)</u>
Cash flow from noncapital financing activities	
State appropriations	18,463,301
Pell grants	7,190,575
Net cash provided by noncapital financing activities	<u>25,653,876</u>
Cash flow from capital and related financing activities	
Capital appropriations	5,450,199
Purchases of capital assets	(3,842,578)
Principal paid on capital debt	(662,229)
Interest paid	(471,632)
Net cash used by capital and related financing activities	<u>473,760</u>
Increase in cash and cash equivalents	4,751,701
Cash and cash equivalents at the beginning of the year	<u>19,785,276</u>
Cash and cash equivalents at the end of the year	<u><u>24,536,977</u></u>
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	<u>(23,541,829)</u>
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	3,236,289
Changes in assets and liabilities	
Receivables , net	311,107
Inventories	69,351
Accounts payable	(1,160,433)
Accrued liabilities	(352,427)
Deferred revenue	72,174
Compensated absences	(10,547)
Deposits payable	380
Net cash used by operating activities	<u><u>(21,375,935)</u></u>

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

Notes to Financial Statements

June 30, 2014

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Clover Park Technical College (the College) is a comprehensive technical 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.

The Clover Park Technical College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1992 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to build relationships with the community and acquire resources to support academic excellence and educational access at the college. 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 calendar year ended December 31, 2014, the Foundation distributed \$341,474 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 4500 Steilacoom Blvd SW, Lakewood, WA 98499.

Related Party

INVISTA Performance Solutions is a collaboration of four Pierce County Community Colleges: Clover Park Technical College, Pierce College Fort Steilacoom, Pierce College Puyallup, and Tacoma Community College. Launched in September 2011, INVISTA, a partnership of colleges, operates as a single point of contact for regional business to access workforce development services. Their mission is to help companies gain a competitive advantage in the global economy by increasing the skills of their workforce. INVISTA is also a member of Global Corporate College and actively works with 45 colleges across the United States and internationally to serve companies with an expanded footprint.

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.

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 along with operating funds invested in the LGIP. The College records all cash and cash equivalents at amortized cost, which approximates fair value.

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.

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, 5 to 7 years for library resources, 2 to 10 years for most equipment, and 11 to 40 years for heavy duty equipment, aircraft, locomotives, and vessels.

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

Unearned Revenues

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

Tax Exemption

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

Net Position

The College's net position is classified as follows.

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

Restricted for Institutional Financial Aid. The institutional financial aid funds are established for the explicit purpose of providing institutional financial aid as prescribed by RCW 28B.15.820.

Unrestricted. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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 \$5,542,396.

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 non-operating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

Inventories

Inventories are valued at cost using the first-in-first out method.

2. Cash, Cash Equivalents 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 \$24,536,977 as represented in the table below.

Table 1: Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	\$7,501
Bank Demand and Time Deposits	\$5,526,906
Local Government Investment Pool	\$19,002,570
Total Cash and Cash Equivalents	\$24,536,977

Custodial Credit Risks—Deposits

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

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	2,215,683
Due from the Federal Government	308,565
Due from the Office of the State Treasurer (OST)	450,620
Due from Other State Agencies	469,846
Due from Other Governments	126,575
Auxiliary Enterprises	69,699
Other	59,021
Subtotal	3,700,009
Less Allowance for Uncollectible Accounts	(897,732)
Accounts Receivable, including OST, net	2,802,277

4. 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 \$3,236,289.

Table 3: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	6,650,806	0	0	6,650,806
Construction in progress	18,894,177	(18,894,177)	0	0
Total nondepreciable capital assets	25,544,983	(18,894,177)	0	6,650,806
Depreciable capital assets				
Buildings	76,570,851	22,943,686	0	99,514,537
Other improvements and infrastructure	0	618,564	0	618,564
Equipment	6,133,979	586,478	(19,353)	6,701,104
Library resources	1,726,433	5,732		1,732,165
Subtotal depreciable capital assets	84,431,263	24,154,460	(19,353)	108,566,370
Less accumulated depreciation				
Buildings	22,299,796	2,712,760	0	25,012,556
Other improvements and infrastructure	0	20,619	0	20,619
Equipment	3,658,694	450,115	(17,711)	4,091,098
Library resources	1,572,843	52,794		1,625,637
Total accumulated depreciation	27,531,333	3,236,288	(17,711)	30,749,910
Total depreciable capital assets	56,899,930	20,918,172	(1,642)	77,816,460
Capital assets, net of accumulated depreciation	82,444,913	2,023,995	(1,642)	84,467,266

5. Accounts Payable and Accrued Liabilities

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

Table 4: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	\$ 962,141
Accounts Payable	\$ 1,368,783
Amounts Held for Others and Retainage	\$ 176,625
Total Accounts Payable and Accrued Liabilities	\$ 2,507,549

6. Unearned Revenue

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

Table 5: Unearned Revenue	Amount
Summer Quarter Tuition & Fees	2,371,041
Total Unearned Revenue	2,371,041

7. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2013 through June 30, 2014, were \$104,042.

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.

8. 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 \$949,990, accrued sick leave totaled \$877,408, and accrued compensatory time totaled \$3,676 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 before other leave.

9. Notes Payable

In June 2006, the College obtained financing in order to construct the Associated Student Government Building and Conference Center through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$14,370,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2006. The interest rate charged is 4.76%.

Student fees related to these COP(s) are accounted for in dedicated funds, which are used to pay principal and interest, not coming out of the general operating budget.

The College’s debt service requirements for these note agreement(s) for the next five years and thereafter are as follows:

10. Annual Debt Service Requirements

Future debt service requirements at June 30, 2014 for the next five years and thereafter are as follows.

Fiscal year	Certificates of Participation		
	Principal	Interest	Total
2015	650,000	445,851	1,095,851
2016	680,000	419,039	1,099,039
2017	705,000	390,139	1,095,139
2018	735,000	359,824	1,094,824
2019	770,000	327,668	1,097,668
2020-2024	5,395,000	1,185,525	6,580,525
2025-2029	1,050,000	48,563	1,098,563
Total	9,985,000	3,176,608	13,161,608

11. Schedule of Long Term Debt

TABLE 7: Schedule of Long Term Debt	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificates of Participation	10,610,000		(625,000)	9,985,000	650,000
Local Improvement District	443,681		(37,229)	406,452	37,229
Compensated Absences	1,426,413	1,263,489	(855,152)	1,831,074	3,676
Total	12,480,094	1,263,489	(1,517,381)	12,222,526	690,905

12. Pension Plans

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

For FY 2014, the payroll for the College's employees was \$5,593,281 for PERS, \$423,066 for TRS, and \$11,559,692 for SBRP. Total covered payroll was \$17,576,040.

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 for Plans 1 and 2 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 ten years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after July 1, 1996. 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 4 employees with pre-existing eligibility who continue to participate in TRS 1 or 2.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration>.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute. By statute, PERS 3 and TRS 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%	4.92%	9.21%
Plan 3	5 - 15%	7.08%	5 - 15%	7.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	10.39%
Plan 2	4.69%	8.04%	4.10%	8.05%	4.96%	10.39%
Plan 3	5-15%	8.04%	5-15%	8.05%	5-15%	10.39%

	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	10,691	12,812	11,206	13,466	12,290	18,859
Plan 2	166,608	259,017	181,686	282,326	211,675	394,871
Plan 3	60,820	72,081	64,692	73,925	72,255	106,688
TRS						
Plan 1	4,304	9,148	0	0	0	0
Plan 2	15,022	25,974	13,017	22,368	12,140	24,584
Plan 3	11,337	10,182	7,954	6,558	7,413	7,415

State Board Retirement Plan

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

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

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2014 were \$1,009,785 for employer and \$1,010,055 for employees.

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 \$3,901. 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 \$57,925. 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 at the system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is \$9,639,527, with an annual required contribution (ARC) of \$941,787. The ARC represents the amortization of the liability for the fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately \$300,189. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately \$764,586. This amount is not included in the College's financial statements.

The College paid \$3,255,129 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

13. Operating Expenses by Program

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

Instruction	12,999,671
Academic Support Services	4,405,657
Student Services	3,690,821
Institutional Support	5,334,109
Operations and Maintenance of Plant	3,827,686
Scholarships and Other Student Financial Aid	6,796,232
Auxiliary enterprises	2,123,518
Depreciation	3,236,289
Total operating expenses	42,413,983



14. Commitments and Contingencies

There is a class action lawsuit, Moore v. HCA, filed against the State of Washington on behalf of former part-time and non-permanent 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. As of the end of fiscal year 2015 (or 2014), the parties have reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits. Final settlement is contingent on a) funding of the settlement by the legislature and b) final approval by the trial court if funding is provided. As such, the amount of loss cannot be reasonably estimated at this time.

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 \$3,969,074 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

15. Subsequent Events

The College learned in FY 2015 that the buildings acquired in the FY 2012 land swap with the Clover Park School District contained significant amounts of hazmat materials which would ultimately be removed in FY 2016 at a cost of approximately \$2 million.

On March 29th 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is \$32 million of which \$19 million is funded by the legislature and the remaining \$13 million will be allocated among 34 colleges in the system. At this time, Clover Park Technical College's potential share of this lawsuit has not been determined.

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