

Changing Lives

2005–06

ANNUAL REPORT
THE EVERGREEN STATE COLLEGE





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EVERGREEN

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FROM THE PRESIDENT,
THE EVERGREEN STATE COLLEGE

...we are now **continuing** the work
that will secure Evergreen's **future**
and realize its **dreams**



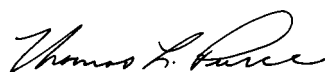
Evergreen continues to be nationally recognized as a leader in education. In 2006, we were one of two public institutions included in the updated edition of the book *Colleges That Change Lives*. We were also recognized by the National Survey of Student Engagement as one of the country's most academically challenging and engaging colleges.

In 2006, we laid the groundwork for continued success. We undertook a major update to our strategic plan, affirming our commitment to diversity, expanding our emphasis on sustainability, and providing a framework for continued academic excellence.

Evergreen's amazing students have been full partners in this work. In 2006, students formed the first recognized student government in the college's history. At the same time, our students voluntarily established a new student fee dedicated to the future renovation of the College Activities Building (CAB), continuing a collaboration between the students and the college that most recently allowed us to significantly expand and renovate the Campus Children's Center. The renovation of the CAB will continue a physical renewal of the campus that has included the construction of the Seminar II building, the renovation of the Daniel J. Evans Library building, modernization of our science labs, and a redesign of the Evergreen Parkway.

In 2007, we celebrate the 40th anniversary of the legislative action that established The Evergreen State College. This Annual Report shows the extraordinary public and private financial support that makes Evergreen's success possible. It also shows our ongoing efforts to be good stewards of that support, ensuring that Evergreen will continue to change lives for many years to come.

Many people contribute to Evergreen's success: our dedicated faculty and staff, an engaged student body, a growing network of alumni, our many private donors, the Washington State Legislature, and our Boards of Trustees and Governors. I extend my whole-hearted thanks to all of you.



Thomas L. Purce
President

While Others Are Changing Course, Evergreen Is Changing Lives

“We are moving away from a one-size-fits-all education system...We are moving toward a lifelong seamless system that promotes students based on what they actually know and can do. These are fundamentally bold reforms.”¹

Thanks to the foresight and vision of educators and government leaders in the 1960's, and two generations of innovators that followed, The Evergreen State College is ready to lead many of these “bold reforms.”

“People who are creative and imaginative will thrive in the knowledge economy...In the new economy, many skills can be outsourced, but creativity and imagination cannot.”²

For more than 35 years, The Evergreen State College has led the charge to personalize higher education; empower students to design their own paths to lifelong learning; broaden the educational frame of reference through interdisciplinary learning; bridge the gap between academic theory and real-world problems and solutions; inspire creativity, innovation and critical thinking; and demand substantive results.



“As we personalize our schools, we must add to the old 3R’s (readin’, ’ritin’, and ’rithmetic) a new set of R’s—rigor, relevance and relationships.”³

The 2006 National Survey of Student Engagement noted once again that in most categories measured, Evergreen students tend to read more, write more, spend more time studying and engage more actively with faculty and each other than at the vast majority of colleges and universities nationwide. They remain vitally connected to their communities through internships, contract projects and our six Public Service Centers.

In so many ways, tomorrow’s vision for higher education in Washington is today’s reality at Evergreen. While others are being asked to change course, we are already being lauded for changing the lives of our students for the better.

“Taxpayers everywhere should demand colleges like (Evergreen) that change their children’s lives.”⁴

As we look back at a year of challenges and achievements in this annual report, we recognize that the “experimental” approach we have been nurturing here is coming of age. While we share with other institutions the pressures of limited resources, increased competition, and the needs of a changing student population and evolving economy, we are continuing to lead the way. To forge ahead, we will need continued support from our state, our students, staff and faculty, our alumni and an increasingly critical corps of generous donors. We invite you to join us in the journey.

¹ *Washington Learns, World-Class, Learner-Focused, Seamless Education*, November 2006.

² Ibid

³ Ibid

⁴ Loren Pope, former New York Times education editor and author of *Colleges that Change Lives – 40 Schools That Will Change the Way You Think About College*.



Advanced Education, Employment, Volunteerism and Reflections on an Evergreen Education: A Survey of the Class of 1999 Five Years After Graduation

51% of the alumni had attended graduate or professional school.

17% of the respondents had earned a graduate degree (either a master's degree or doctorate).

The largest categories of employment were:

Education/Library (20% of reported jobs), Community and Social Service (12%), Business Management (7%), and Business Operations (6%).

2005-06:

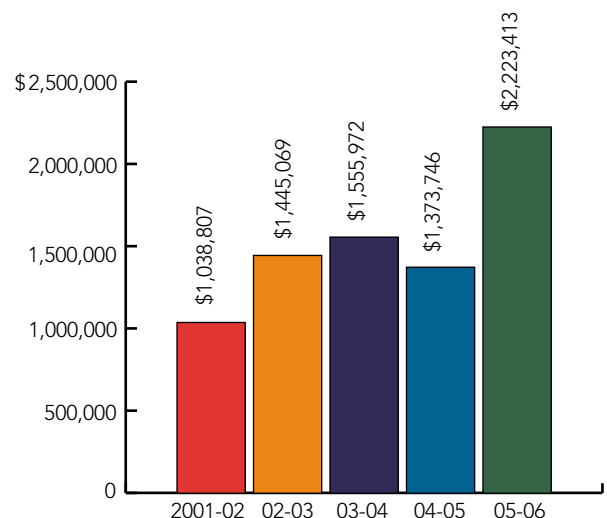
A Record Year of Giving

Thanks to thousands of friends, alumni, faculty, staff and even students, Evergreen had a banner year of private support.

The year began with the college's largest-ever gift – a \$1 million grant from the Bill and Melinda Gates Foundation to support development of Evergreen's fundraising work, helping more students afford the rising costs of a college education.

Even beyond the Gates Foundation support, private giving to the college saw extraordinary gains in 2005-2006, including a more than 30 percent increase for the Annual Fund. This support is paying off for a number of students every year, many of whom wouldn't have access to a college education if it wasn't for the support of so many. More than \$350,000 goes directly to students every year in the form of scholarships vital to student success.

Thanks to you, Evergreen's work continues to engage students both on campus and in their communities.



Science at Evergreen Garners National Acclaim

Students at Evergreen are working to make sure E.coli never hits your dinner plate, studying and working for a healthy Puget Sound and working on new ways to combat cystic fibrosis. These student researchers are getting the opportunity of a lifetime to discover their passion, and to impact millions of lives in large and small ways.

After the recent national E.coli outbreak related to contaminated spinach, the work of faculty and students in the college's Phage Laboratory was highlighted as a potential key to eliminating E.coli in humans. Most of the work is done by undergraduates, right alongside their world class faculty. Led by faculty members Andrew Brabban and Elizabeth Kutter, students have hands-on opportunities to use sophisticated equipment and to perform graduate level research – something that's a rare experience at many other colleges.

Work in the college's marine lab aims to discover how oxygen levels can affect certain species, such as jellyfish and anemones – an issue that's vital to the health and recovery of Puget Sound and Hood Canal. The breadth of science studied at Evergreen surprises many, but it's an area that is gaining not only attention from the media and public, but the federal government as well.

The National Science Foundation awarded more than \$450,000 to the college in late 2006 to support undergraduate science scholarships. The federal program Scholarships in Science, Technology, Engineering and Mathematics also provides increased academic support for science students. Led by faculty member Paula Schofield, the program will deliver about 20 scholarships per year through 2011 – giving more students the chance to discover their passion at a college that puts them at the center of their education.



**"Greeners at Work" 2003 study:
Employers rated Evergreen graduates'
ability as excellent or good three years
after their graduation:**

Organize and tackle work efficiently (91%)

Independence and initiative (90%)

Working cooperatively on team efforts (88%)

Decision-making (92%)

**Recognizing problems and developing
effective solutions (91%)**

**Evergreen is an economic driver:
13% of Evergreen's 30,000 alumni
own their own businesses or are self-
employed one year after graduation.**

2002 Alumni Survey: A Survey of Alumni One Year After Graduation Key Findings:

**87% of graduates are employed;
17% are in graduate or professional school**

**90% would choose to attend Evergreen
again if they could start college over**

**79% of Evergreen students
are Washington residents.**



Changing Lives

Taxpayers everywhere should demand colleges like Evergreen, says a respected author and former education editor of the *New York Times*. As one of only two public institutions in the nation honored with Loren Pope's distinction as a "College That Changes Lives," Evergreen is in extraordinary company.

In the newly expanded and revised *Colleges That Change Lives: 40 Schools That Will Change the Way You Think About Colleges*, author Loren Pope focuses on characteristics he feels truly distinguish a quality education in this era when college rankings and name-brand recognition can drive students' and parents' college search processes, leaving many of them questioning the options for a good college match.

Pope, also the author of *Looking Beyond the Ivy League*, believes that the college search should be focused on each student's individual learning style and interests rather than on magazine rankings. His book highlights the way in which Evergreen students in particular "discover the interconnectedness of knowledge," and how faculty members take a personal interest in the success of students.

It's no surprise that Evergreen is garnering such important praise. "The very way we teach and learn empowers students to own their education and gives them the opportunity to excel in their own ways," says President Les Purce.

An increasing number of students and parents are relying on Pope's advice. In early 2006, Evergreen's distinction was featured by National Public Radio. Reporter Elaine Korry talked with prospective students who were visiting campus, including many who had read the popular book. Clearly, students are looking for more than just the "name brand" – they're looking for a good fit, the value of small class sizes, the power of personalized learning, and the quality offered through a truly multidisciplinary curriculum.



A Growing Campus – Keeping Pace with Change

Thanks to unprecedented levels of support from the state legislature, the local business community and friends of the college, Evergreen's campus is growing to meet the changing needs of today's students – from developing better classrooms to enhancing science and computer labs.

The first major addition to campus since the college's opening years, the \$45 million Seminar II Building opened in May of 2004. Sem II, as it's known around campus, is a state of the art "green" building, housing classrooms, faculty offices, lecture halls and student homerooms. In 2006, the building's green design features, ranging from rainwater reclamation to high energy efficiency, earned the Leadership in Energy and Environmental Design gold rating – becoming the first higher education building in the state to earn the honor. The 150,000 square foot structure is nestled among trees, and maximizes daylight, natural views and fresh air.

While many classrooms moved to Seminar II, construction began on the heart of the campus, the Daniel J. Evans Library Building – the first significant work since the building was finished in the early 70's. Although the outside of the building looks largely the same, the interior was reborn.

Remodeling a 300,000 square foot building while people are still working and learning inside it is a monumental task – and college facilities professionals succeeded in minimizing impacts while maximizing the goals of the project.

Just in time for the start of the new school year, the Library reopened in September of 2006, shining with more technology, more natural light and enhanced study areas – more than double the space for students to come together. In mid-2007, focus shifts to the other half of the Library Building, housing administrative offices and student support services, for another major modernization that will enhance energy and employee efficiency and make significant infrastructure improvements.

During spring 2006, students voted to enact a student fee that will principally fund a top to bottom overhaul of their College Activities Building (CAB). With additional help from the legislature, the work will start in 2008, transforming the CAB into a more spacious, inviting and activity-centered core of campus. The \$20 million project was designed by students and architects, creating not only a new building, but an extraordinary learning experience for students.



D. Lee Hoemann

Every day, Evergreen students and graduates are making positive changes in our world. The Evergreen State College Foundation makes it possible for students to develop their passion, for faculty to remain innovators and for Evergreen to thrive.

I've met many alumni and friends of the college during this first year as vice president for college advancement and executive director of the foundation. From supporting scholarships and academic activity grants to giving students opportunities for internships and study abroad, it's clear that you are deeply committed to Evergreen's values and to helping our students succeed.

Your support made 2006 a record year for private giving to the college. Gifts from alumni and friends, students, faculty and staff, and foundations, including the Bill and Melinda Gates and Ford Foundations, have translated to wonderful opportunities for students.

Thank you for your support of this one of a kind institution. It is paying off in life-changing ways.

A handwritten signature in black ink that reads "D. Lee Hoemann". The signature is fluid and cursive, with a long, sweeping underline.

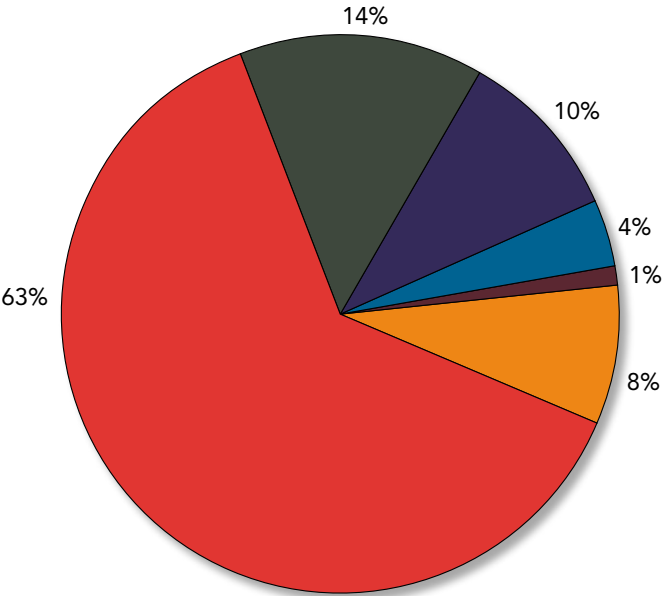
D. Lee Hoemann
Vice President for College Advancement and
Executive Director, The Evergreen State College Foundation

The Evergreen Foundation makes it **possible**
for students to develop their **passion**,
for faculty to remain innovators and
for Evergreen to **thrive**.

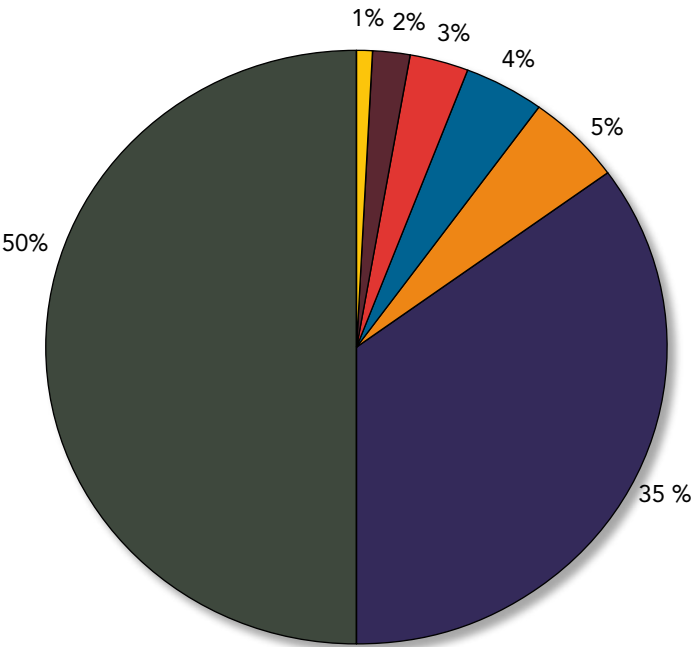
THE EVERGREEN STATE COLLEGE FOUNDATION

TOTAL GIVING \$2,237,100

	\$306,069	Alumni
	\$217,548	Parents
	\$85,205	Friends
	\$30,004	Faculty/Staff
	\$1,823	Students
	\$1,411,328	Foundations
	\$171,436	Corporations
	\$13,687	Other Revenue
	\$2,237,100	TOTAL



ANNUAL FUND \$449,649



	\$224,491	Alumni
	\$157,173	Parents
	\$19,063	Friends
	\$10,864	Faculty/Staff
	\$100	Students
	\$12,605	Foundations
	\$22,594	Corporations
	\$2,759	Other Revenue
	\$449,649	TOTAL

“Evergreen enabled me to design my own **education**, while teaching me how to put **theory** into **practice**.”



Jon Huey '06
Olympia, Washington

Jon Huey paved his own educational path for a career in photography.

He didn't just study photography in darkrooms and around campus – Evergreen allowed Jon to take his education by the horns. “I took every chance possible to earn credit through photographic projects,” the 24-year-old says.

In his first year program, he embarked on a photographic study of movement, examining the techniques of Eadweard Muybridge, a 19th century photographer who studied animal locomotion using multiple cameras. The following summer, Jon worked with faculty to create an independent learning contract and created a photo essay focusing on movement though space over time – all at night.

In his junior year, Jon found himself in Fiji as a part of the “Islands” academic program. He completed an intensive ethnobotanical study about the Fijian culture's rich plant tradition. Capturing the culture and traditions of the islands, Jon says his study abroad allowed him to get the chance to test his skill – and his passion.

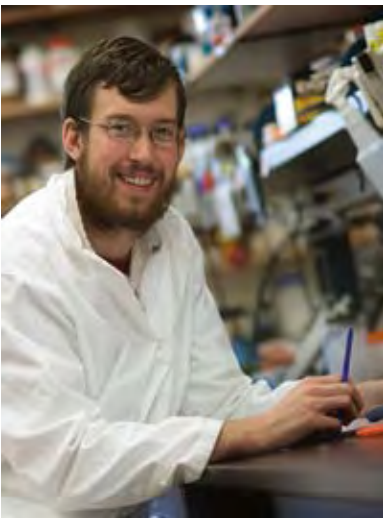
During his senior year, he worked as an intern with the campus photographer and developed the real-world techniques he uses every day as a professional photographer. In spring 2006, Jon received a Foundation Activity Grant to support his photography project “Mending the Broken Link of the Local Food Cycle,” documenting campus food production and consumption. “Evergreen enabled me to design my own education, while teaching me how to put theory into practice.”



Fiji, 2004, by Jon Huey



“Science at Evergreen is **great** because you have great interaction with **faculty**,” he says. “Here, we get to use **equipment** most undergrads never touch.”



Joe Wagner '07
Bothell, Washington

Joe Wagner is working on a way to eliminate deadly E.coli bacteria before it ever makes its way onto your dinner plate.

He studies and works in Evergreen’s Phage Laboratory, well known for innovative research and major discoveries with implications from battlefield wound care to reducing or eliminating salmonella and E.coli from the human food chain.

Joe’s interest in science has been growing since he was very young. He took every science class he could in high school. “Science at Evergreen is great because you have great interaction with faculty,” he says. “And here, we get to use equipment that most undergrads never touch.”

Along with other classmates and faculty, Joe’s work in the Phage Lab was featured by the national media in 2006, showing the public that there can be a solution to E.coli by eliminating it from the source – inside the animals. He hopes his current work will improve public health.

When he steps out of the lab, he helps pay for college by serving as a resident assistant in Evergreen’s residence halls.



Jon Cawthorne '91

Where else would your first **instructor** also be
the **college's** first **president**?

Evergreen gave Jon Cawthorne '91 the opportunity to ask questions, and take his education in unexpected directions. In his first program, his instructor – Evergreen's first president, Charles J. McCann – gave students the challenge of reading 200 pages of poetry as well as a novel each week, and writing a 25-page paper by the end of the quarter. Students weren't allowed to read criticism of the poems; they had to interpret them on their own, then come back to the class and give presentations to the group.

"I was very nervous," Jon says. "So I went to the librarian, Randy Stilson, and I said, 'Listen, I have to understand what these poems mean, and they have all these foreign words and allusions. What can you do?'"

That initial request for help, and years of close work with Stilson that followed, opened his eyes to the world of libraries. Evergreen helped show him the way to graduate school and a master's degree in Library Science.

Today, Cawthorne is the associate dean for Library and Information Access at San Diego State University, the third largest university in California. He's responsible for 600 public computing workstations, help desks, and the university's academic servers, as well as overseeing the \$10 million budget. It's his latest step in 15 years of library work since leaving Evergreen, where he had first envisioned a library career.

"Even in this age of Google, our library receives nearly three million visits a year," he says. "We like to think of it as the intellectual hub of the campus."

“Evergreen really equips **students** to make a **difference**—
and forces them to dig into **issues** to really see how it is.”

Bill Stevens knows a thing or two about education. He came to Evergreen as a 47-year-old non-traditional student in 1973, studied early American history, and met legendary faculty member and his eventual mentor, Maxine Mimms. Bill believes the college changed his life. “Evergreen allowed me to excel, and to do my own thing,” he says. “It’s a place where people can excel at their pace.”

He says he’s often frustrated with the traditional approach to education. “At Evergreen, it’s possible to get a good and true liberal arts education,” he explains. “Evergreen really equips students to make a difference – and forces them to dig into issues to really see how it is.”

And Bill knows what he’s talking about when it comes to education. After earning his Evergreen degree, he went on to the University of Washington, where he then finished his Ph.D. in education in 1983. His dissertation focused on the political and philosophical development of his undergraduate alma mater—Evergreen.

Bill says his wife, Betty, made his educational success possible. “She paved the way with her patience, and paid the way with her efforts,” he says. Although Betty didn’t graduate from Evergreen, she’s just as much a Greener as Bill.

In 2006, they established the Bill & Betty Stevens Faculty Endowment at Evergreen, providing a critical and permanent source of funding to support the college’s faculty with curriculum development and training, and in particular, Bill says, keep newer faculty in the “Evergreen spirit.” Bill and Betty’s endowment is a gift that not only supports faculty; it’s one that truly touches every student.

As a student during the turbulent first few years of the college’s life, Bill saw the founding faculty in action. “Most attempts at innovation at existing educational institutions fail, but Evergreen’s is unique,” he recalls. “It took a whole lot of faculty innovators, and instead of being told what to do, they developed their own thing and owned it...they were a very strong founding faculty.

“Evergreen faculty care about their students, and want to bring them along, helping them grow,” Bill says. “They get people thinking, and that’s the trick.”



Bill and Betty Stevens
Port Ludlow, Washington



Washington State Auditor Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

December 19, 2006

Board of Trustees
The Evergreen State College
2700 Evergreen Parkway NW
Olympia, WA 98505

We have audited the accompanying financial statements and the discretely presented component unit of The Evergreen State College, Thurston County, Washington, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Evergreen State College Foundation, which is both a discretely presented component unit and 3.8% and 4.2%, respectively of the assets and revenues of The Evergreen State College. Those financial statements were audited by other auditors whose report thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for The Evergreen State College Foundation, is based on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In addition, as discussed in Note 1, the financial statements of The Evergreen State College are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the state of Washington that is attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2006 and 2005, 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.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The Evergreen State College, and of its discretely presented component unit, Thurston County, Washington, as of June 30, 2006 and 2005, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activities of The Evergreen State College ("the College") for the fiscal years ended June 30, 2006 with comparative 2005 and 2004 financial information. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Reporting Entity

The Evergreen State College is one of six state-assisted public institutes of higher education in the state of Washington, with approximately 4,400 students. The College was established in 1967 and its primary purpose is to prepare individuals for successful contributions to society through their careers and in leadership roles as citizens.

The College's main campus is located in Olympia, Washington, a community of 40,000 residents. The College is governed by an eight member Board of Trustees appointed by the governor of the state with the consent of the state Senate. One of the members is a full-time student of the College. By statute, the Board of Trustees has full control of the College and its property of various kinds, except as otherwise provided by law.

Using the Financial Statements

This report consists of three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*.

Statement of Net Assets

The Statement of Net Assets provides information about the College's assets, liabilities, and net assets at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Assets for June 30, 2006, 2005 and 2004 follows:

STATEMENT OF NET ASSETS (in thousands)			
	2006	2005	2004
ASSETS			
Current assets	\$ 41,930	\$ 29,716	\$ 24,403
Capital, net	121,452	106,183	97,824
Other non-current assets	<u>4,571</u>	<u>4,843</u>	<u>4,678</u>
Total assets	<u>167,953</u>	<u>140,742</u>	<u>126,905</u>
LIABILITIES			
Current liabilities	16,487	13,785	11,591
Other non-current liabilities	<u>8,669</u>	<u>3,133</u>	<u>4,000</u>
Total liabilities	<u>25,156</u>	<u>16,918</u>	<u>15,591</u>
NET ASSETS	<u>\$ 142,797</u>	<u>\$ 123,824</u>	<u>\$ 111,314</u>

Current assets consist primarily of cash, investments and receivables. Total current assets increased by over \$12 million in fiscal 2006 due mainly to an increase in short-term investments resulting from a Housing Bond issue in March 2006 and amounts held with the State Treasurer or Due from the State Treasurer, for capital improvement projects. Proceeds of the bond issue went to refund the outstanding Revenue Bonds with the remaining proceeds being used to construct a Housing Administration Building, and to remodel and refurbish existing housing structures. See Note 9 to the financial statements for more information on Housing Bonds.

The College's largest asset is its investment in capital assets of \$121.5 million at June 30, 2006, which has increased over the last two years by double digit percentages. This increase is associated with increased capital projects funding by the State Legislature, and will continue into fiscal year 2007, as the College's Library remodel project finishes with Phase I and enters into Phase II of construction. Capital assets consist of the College's investment in land, buildings, infrastructure and equipment.

Current liabilities increased by \$2.7 million. This increase is mainly due to capital projects liabilities, including a \$4.25 million settlement with the general contractor for the Seminar II Building; see Note 13 to the financial statements. Non-current liabilities have increased by more than \$5.5 million; this is due mainly to the Housing Bond issue, and the associated long-term portion of this debt, see Note 9 to the financial statements.

Net assets represent the difference between the College's assets after liabilities are deducted. The College reports its net assets in four categories:

- **Invested in Capital Assets (net of related debt) (Plant)** – The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets;
- **Restricted Net Assets:**
 - **Expendable** – resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties that have placed time or purpose restrictions on the use of the asset;
 - **Non Expendable** – consists of funds in which the donor or external party has imposed the restriction that the corpus is not available for expenditures but for investment purposes only;
- **Unrestricted Net Assets** – all other funds available to the institution for the general and educational obligations to meet current expenses for any purpose.

Total net assets are reported in three categories; invested in plant, net of related debt; restricted net assets (nonexpendable and expendable); and unrestricted net assets. Total net assets increased by almost \$19 million during 2006 to a total of \$142.8 million, mainly due to an increase in investments in net assets, net of related debt. The College's unrestricted net assets decreased by \$1.1 million in 2006. Though not subject to external imposed stipulations, the College has designated the unrestricted net assets for various academic and administrative programs, in addition to auxiliary enterprises.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets present the detail of the changes of total net assets for the College. 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 revenues earned by the College in exchange for providing goods and services. Operating expenses are defined as expenses incurred in the normal operation of the College, including a provision for allowance of depreciation on property and equipment assets. The difference between operating revenues and operating expenses is the operating loss. The College will always be expected to show an operating loss since significant recurring revenues are shown as non-operating revenues as required by the Governmental Accounting Standards Board (GASB), the rule setting body for accounting standards for the College. A summary of the College's Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2006, 2005 and 2004 follows:

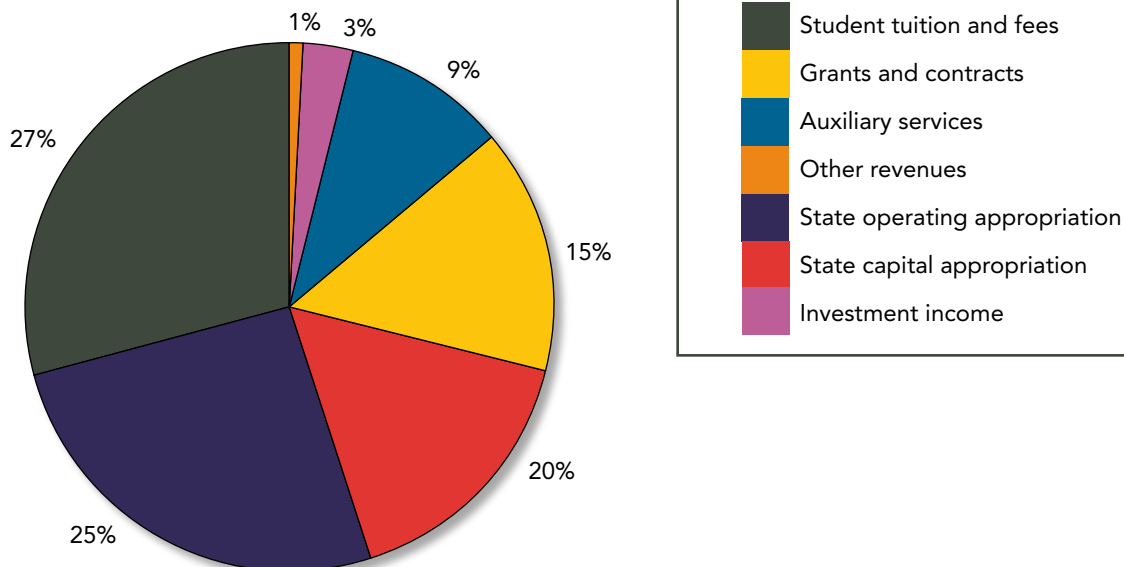
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (in thousands)

	2006	2005	2004
Operating revenues	\$ 54,225	\$ 53,128	\$ 52,832
Operating expenses	<u>85,923</u>	<u>81,141</u>	<u>80,892</u>
Net operating loss	<u>(31,698)</u>	<u>(28,013)</u>	<u>(28,060)</u>
Non-operating revenues	29,828	26,783	25,441
Non-operating expenses	<u>252</u>	<u>202</u>	<u>236</u>
Loss before other revenues	<u>(2,122)</u>	<u>(1,432)</u>	<u>(2,855)</u>
Other revenues and expenses	<u>21,095</u>	<u>13,942</u>	<u>19,763</u>
Increase net assets	18,973	12,510	16,908
Net assets beginning of year	<u>123,824</u>	<u>111,314</u>	<u>94,406</u>
Net assets end of year	<u>\$ 142,797</u>	<u>\$ 123,824</u>	<u>\$ 111,314</u>

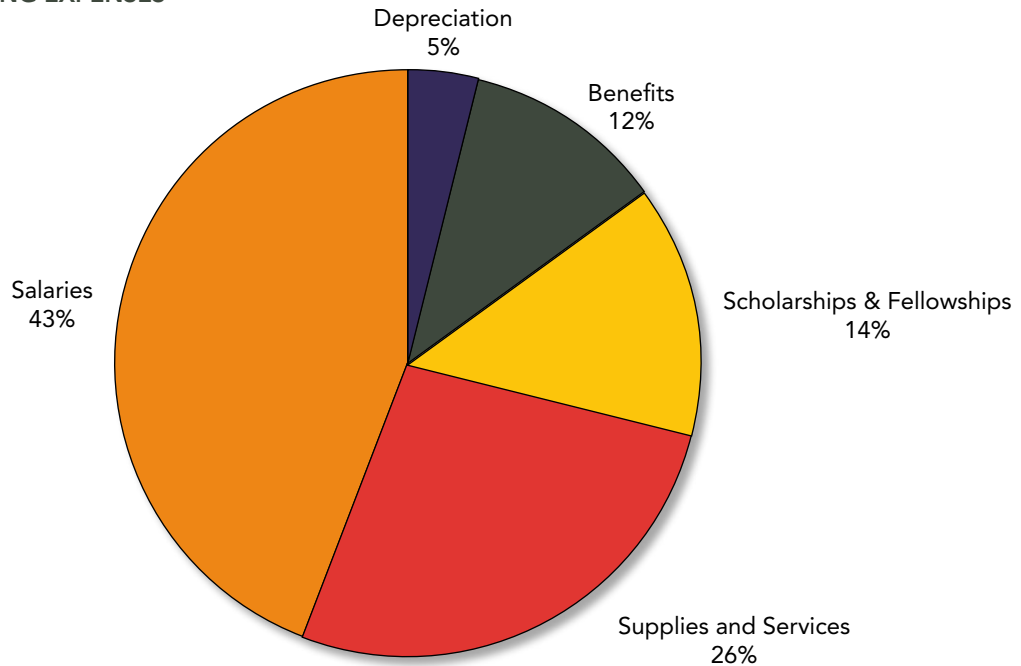
Diversified Revenue Sources

The College has a diversified revenue base. No single source generated more than 27% of the total fiscal 2006 revenues of \$105.15 million. The major source of operating revenue for the College is student tuition and fees, at 27%, as shown in the pie chart below. The major source of non-operating revenue consists of state appropriations, 25% for operating and 20% for capital. In addition to the 20% capital appropriations noted, over \$2.3 million, approximately 70% of the investment income is associated with revenues earned from The Normal School Permanent Fund, which derives its corpus from the sale of state lands and timber. This is discussed in greater detail in Note 3 to the financial statements.

2006 REVENUES BY SOURCE



2006 OPERATING EXPENSES



In 2006, the College experienced a small increase in its overall operating expenses. Total operating expenses for fiscal year 2006 were \$85.92 million as compared to \$81.14 million in 2005, a \$4.8 million increase, but \$2.5 million, or about 52% of the increase, is associated with a cost-of-living pay increase in FY2006 and increased health insurance premiums. As shown in the chart above, salaries and benefits make up the majority of operating expenses, at 55%. The remaining operating expenses are comprised of scholarships and fellowships (14%), supplies and services (26%), and depreciation (5%). These percentages have remained fairly consistent for the last several years.

Capital Improvements

The College spent \$22.03 million in capital appropriations for fiscal year 2006. The largest project is for the renovation of the Library, which is scheduled to be completed in the Fall of 2008 at a cost of over \$43 million over several fiscal years. See Notes 6 and 11 to the financial statements for further information on capital.

Economic Factors That Will Affect the Future

Funding for higher education in the State of Washington continues to be under pressure and is tied, in part, to enrollment levels. Both are concerns for leadership of the College which is addressing these, and other issues, in updating the College's Strategic Plan to better recruit 18-25 year-old students, and to augment and diversify its revenue streams and continue to control operating expenses, making prudent use of resources.

COLLEGE FINANCIAL STATEMENTS

EVERGREEN

The Evergreen State College
Statements of Net Assets
June 30, 2006 and 2005

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 17,863,423	\$ 15,219,945
Short-term investments	10,000,000	5,001,556
Due from State Treasurer	5,136,817	2,673,779
Funds held with State Treasurer	4,069,947	3,138,643
Accounts receivable, net	3,261,998	2,381,662
Student loan receivables, net	987,784	685,652
Inventories	610,789	614,736
Total current assets	<u>41,930,758</u>	<u>29,715,973</u>
Non-Current Assets		
Endowment investments	1,362,006	1,311,069
Student loan receivables, net	3,069,096	3,453,452
Bond discounts and issue costs, net of amortization	139,787	77,972
Capital assets, net of depreciation	121,451,713	106,183,140
Total non-current assets	<u>126,022,602</u>	<u>111,025,633</u>
Total assets	<u>167,953,360</u>	<u>140,741,606</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	9,554,565	7,127,676
Deposits payable	575,032	601,085
Compensated absences	2,494,707	1,715,249
Long-term liabilities, current portion	854,871	1,047,692
Deferred revenues	3,007,356	3,293,513
Total current liabilities	<u>16,486,531</u>	<u>13,785,215</u>
Non-Current Liabilities		
Compensated absences	693,997	625,993
Long-term liabilities	7,975,596	2,506,467
Total non-current liabilities	<u>8,669,593</u>	<u>3,132,460</u>
Total liabilities	<u>25,156,124</u>	<u>16,917,675</u>
Net Assets		
Investment in capital assets, net of related debt	123,218,360	103,032,811
Restricted for nonexpendable scholarships and professorships	2,221,848	2,220,803
Expendable		
Endowment earnings	284,129	174,853
Loans	4,869,204	4,914,077
Other	114,735	239,917
Unrestricted	12,088,960	13,241,470
Total net assets	<u>\$142,797,236</u>	<u>\$123,823,931</u>

See Accompanying Notes to the Financial Statements.

EVERGREEN

The Evergreen State College
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Student tuition and fees	\$ 30,217,781	\$ 29,106,817
Less scholarship allowance	(2,166,835)	(1,609,472)
Federal grants and contracts	6,998,051	7,290,396
Auxiliary enterprise sales, net	8,037,649	8,610,551
State and local grants and contracts	6,144,294	5,406,475
Nongovernmental grants and contracts	3,094,943	2,694,352
Other operating revenue	753,351	569,091
Sales and services of educational activities	1,077,712	999,275
Interest on loans to students	67,938	60,165
Total operating revenue	54,224,884	53,127,650
Operating Expenses		
Salaries and wages	37,410,863	35,874,244
Benefits	10,278,824	9,292,436
Scholarships and fellowships	12,093,972	11,228,729
Goods and services	21,980,700	21,533,906
Depreciation	4,158,677	3,211,783
Total operating expenses	85,923,036	81,141,098
Operating income (loss)	(31,698,152)	(28,013,448)
Non-Operating Revenues (Expenses)		
State appropriations	26,453,000	24,204,730
Investment income, gains and losses	3,374,794	2,577,973
Interest on indebtedness	(252,253)	(202,063)
Net non-operating revenues	29,575,541	26,580,640
Income (loss) before other revenues, expenses, gains or losses	(2,122,611)	(1,432,808)
Capital appropriations	21,095,916	13,942,493
Increase in net assets	18,973,305	12,509,685
Net Assets		
Net assets, beginning of year	123,823,931	111,314,246
Net assets, end of year	\$142,797,236	\$123,823,931

See Accompanying Notes to the Financial Statements.

EVERGREEN

The Evergreen State College
Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Student tuition and fees	\$ 27,343,887	\$ 27,412,083
Grants and contracts	15,764,694	15,391,223
Sales and services of educational activities	1,077,712	1,081,178
Auxiliary enterprise sales	8,791,000	9,179,642
Payments to employees	(47,689,687)	(45,166,680)
Payments to vendors	(19,374,252)	(19,915,132)
Payments for scholarships and fellowships	(12,093,972)	(11,228,729)
Net cash used by operating activities	<u>(26,180,618)</u>	<u>(23,246,415)</u>
Cash Flows from Non-capital Financing Activities		
State appropriations	<u>26,453,000</u>	<u>24,204,730</u>
Net cash provided by non-capital financing activities	<u>26,453,000</u>	<u>24,204,730</u>
Cash Flows from Capital Financing Activities		
Capital appropriations	20,993,831	13,384,106
Purchase of capital assets	(19,427,250)	(12,534,863)
Principal paid on capital debt	(2,457,692)	(885,568)
Interest paid on capital debt	(252,253)	(202,063)
Proceeds from capital debt	<u>7,550,000</u>	<u>—</u>
Net cash provided (used) by capital financing activities	<u>6,406,636</u>	<u>(238,388)</u>
Cash Flows from Investing Activities		
Purchase of investments	(10,000,000)	(1,000,000)
Proceeds from sales and maturities of investments	5,001,556	150,000
Income from investments	<u>962,904</u>	<u>386,191</u>
Net cash used by investing activities	<u>(4,035,540)</u>	<u>(463,809)</u>
Increase in Cash and Cash Equivalents	2,643,478	256,118
Cash and Cash Equivalents at the Beginning of the Year	<u>15,219,945</u>	<u>14,963,827</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 17,863,423</u></u>	<u><u>\$ 15,219,945</u></u>

See Accompanying Notes to the Financial Statements.

EVERGREEN

The Evergreen State College
Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	\$ (31,698,152)	\$ (28,013,448)
Adjustment to reconcile operating loss to net cash used by operating activities		
Depreciation expense	4,158,677	3,211,783
Changes in assets and liabilities		
Accounts receivable	(880,336)	(154,172)
Loans receivable	82,224	(153,644)
Inventory	3,947	(1,874)
Bond discount and issue costs	(61,815)	23,612
Accounts payable and accrued expenses	2,527,047	1,261,633
Deferred revenues	(286,157)	508,615
Deposits	(26,053)	71,080
Net cash used by operating activities	<u>\$ (26,180,618)</u>	<u>\$ (23,246,415)</u>

See Accompanying Notes to the Financial Statements.



FOUNDATION FINANCIAL STATEMENTS (COMPONENT UNIT)
JUNE 30, 2006 AND 2005

EVERGREEN

The Evergreen State College Foundation
 Statements of Financial Position
 June 30, 2006 and 2005

	2006	2005
Current Assets		
Cash and Cash Equivalents	\$ 490,002	\$ 214,842
Unconditional promises to give, current	<u>5,750</u>	<u>7,000</u>
Total Current Assets	495,752	221,842
Investments	5,859,041	4,358,480
Long-term unconditional promises to give, net	<u>10,000</u>	<u>8,700</u>
Total Assets	<u>\$ 6,364,793</u>	<u>\$ 4,589,022</u>
Current Liabilities		
Accounts Payable	\$ 5,782	\$ -
Payable to College	<u>31,919</u>	<u>63,114</u>
Total Current Liabilities	37,701	63,114
Annuity payment liability	<u>44,992</u>	<u>47,223</u>
Total Liabilities	82,693	110,337
Net Assets		
Unrestricted	960,069	881,213
Temporarily Restricted	3,056,495	1,445,963
Permanently Restricted	<u>2,265,536</u>	<u>2,151,509</u>
Total Net Assets	<u>6,282,100</u>	<u>4,478,685</u>
Total Liabilities and Net Assets	<u>\$ 6,364,793</u>	<u>\$ 4,589,022</u>

The Accompanying Notes are an integral part of the Financial Statements.

EVERGREEN

The Evergreen State College Foundation
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006	2005
Support & Revenue					
Gifts & Contributions	\$ 449,649	\$ 1,673,424	\$ 114,027	\$ 2,237,100	\$ 1,380,833
In-kind Support From College	537,933	—	—	537,933	592,499
Investment Returns	76,956	656,960	—	733,916	439,485
Change in Value of Split-Interest Agreement	—	(5,993)	—	(5,993)	(6,612)
Gift Fees	20,745	—	—	20,745	7,403
Net assets released from restrictions	713,859	(713,859)	—	—	—
Total Support & Revenue	1,799,142	1,610,532	114,027	3,523,701	2,413,608
Expenses					
Program Services:					
Grants & Scholarships	866,072	—	—	866,072	1,058,363
Other College Support	90,245	—	—	90,245	104,452
Total Program Services	956,317	—	—	956,317	1,162,815
Support Services:					
Management and General	537,073	—	—	537,073	458,604
Fundraising	226,196	—	—	226,196	244,224
Total Support Services	763,269	—	—	763,269	702,828
Total Expenses	1,719,586	—	—	1,719,586	1,865,643
Other Changes In Net Assets					
Loss on uncollectible pledges	700	—	—	700	—
Total Other Changes in Net Assets	700	—	—	700	—
Increase to Net Assets	78,856	1,610,532	114,027	1,803,415	547,965
Net Assets, beginning of year	881,213	1,445,963	2,151,509	4,478,685	3,930,720
Ending Net Assets	\$ 960,069	\$ 3,056,495	\$2,265,536	\$6,282,100	\$4,478,685

The Accompanying Notes are an integral part of the Financial Statements.

EVERGREEN

The Evergreen State College Foundation Statements of Cash Flows For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities		
Change in net assets	\$1,803,415	\$ 547,965
Adjustment to reconcile change in net income to net cash provided by operating activities:		
Unrealized (gains) losses on investments and change in value of split interest agreements	(497,421)	(210,263)
Realized loss on sale of other investments	43,816	—
Contributions restricted for long term purposes	(114,027)	(249,688)
Donated marketable securities	(45,791)	—
Reinvested interest and dividend income	(240,962)	—
Changes in assets and liabilities:		
Decrease in unconditional promises to give	(50)	—
Decrease (increase) in other receivables	—	775
(Decrease) increase in accounts payable	5,782	(1,697)
(Decrease) increase in payable to affiliate	(31,195)	(82,289)
Net Cash Provided By Operating Activities	<u>923,567</u>	<u>4,803</u>
Cash Flows From Investing Activities		
Purchases of investments	(800,000)	(220,329)
Proceeds from sale of marketable securities	45,791	—
Net Cash Used By Investing Activities	<u>(754,209)</u>	<u>(220,329)</u>
Cash Flows From Financing Activities		
Collections of contributions restricted for long-term purposes	114,027	264,209
Payment of annuity obligations	(8,225)	(8,885)
Net Cash Provided By Capital Financing Activities	<u>105,802</u>	<u>255,324</u>
Net Change In Cash and Cash Equivalents	275,160	39,798
Cash and Cash Equivalents, beginning of year	<u>214,842</u>	<u>175,044</u>
Cash and Cash Equivalents, End of Year	<u>\$ 490,002</u>	<u>\$ 214,842</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW: In 2006, the Foundation received and liquidated donations of marketable securities amounting to \$45,791.

The Accompanying Notes are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Evergreen State College “the College” is a comprehensive institution of higher education offering baccalaureate and master’s degrees. The College is an agency of the State of Washington, is governed by an eight member Board of Trustees appointed by the Governor and confirmed by the State Senate.

Financial Statement Presentation

The financial statements of the College for the years ended June 30, 2006 and 2005 have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted accounting standard setting body for establishing governmental accounting and financial reporting principles. These financial statements have been prepared in accordance with GASB Statement No. 35, Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities, and GASBS No. 37, and No. 38.

The Governmental Accounting Standards Board (GASB) issued Statement 39, Determining Whether Certain Organizations are Component Units, which amended GASB 14, The Financial Reporting Entity. This provided addition guidance to determine whether certain organizations are component units for which the primary government is not financially accountable but should be reported based on the nature and significance of their relationship with the primary government.

Under GASB 39 criteria, The Evergreen State College Foundation is considered a legally separate component unit of the College and is discretely presented in the College’s financial statements. During the fiscal years ended June 30, 2006 and 2005, the foundation distributed \$703,161 and \$638,471, respectively to the College for restricted and unrestricted purposes. Intra-entity transactions and balances between the College and the foundation are eliminated for financial statement presentation.

Basis of Accounting

For financial reporting purposes, the College is considered as a special purpose government engaged in business type activities. Accordingly, the College’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The College reports capital assets net of accumulated depreciation, and reports depreciation expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

In addition, the College applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

■ **Cash and Cash Equivalents:** For the purposes of the statements of cash flow, the College considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. Funds invested through the State Treasurer’s Local Government Investment Pool are also considered cash equivalents.

■ **Investments:** The College implemented GASB 40, Deposit and Investment Risk Disclosure, which changes the disclosures requirement related to investment risk and which is discussed further in Note 2.

■ **Accounts Receivable:** Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables also include amounts due from the federal, state and local governments, or private sources, in connection with reimburse of allowable expenditures made pursuant to the College’s grants and contracts. Accounts receivable is recorded net of estimated uncollectible amount.

■ **Inventories:** Inventories consist primarily of merchandise and consumables held by auxiliary and internal service departments. They are valued at cost using the first in, first out method.

■ **Capital Assets:** Land, buildings, equipment, and library resources are stated at cost or, if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized.

The capitalization threshold is \$100,000 or greater for buildings and infrastructure, and \$5,000 or greater for equipment. The purchase of land is capitalized regardless of cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, 15 years for library resources and 5 to 7 years for equipment.

■ **Deferred Revenue:** Deferred revenues occur when funds have been collected in advance of an event, such as advance ticket sales, summer quarter tuition, and unspent cash advances on certain grants.

■ **Compensated Absences:** College employees accrue annual leave at rates based on length of service and sick leave at the rate of one day (8 hours) per month. Both are included in long-term liabilities. Employees are entitled to either the present value of 25% of his/her unused sick leave balance upon retirement or 25% of his/her net accumulation for the year in which it exceeds 480 hours.

■ **Tuition and Fees:** Tuition and fees are presented net of scholarship allowances applied to students' accounts, while student aid paid directly to students is presented as scholarship and fellowship expenses.

■ **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 Statement of Revenues, Expenses, and Changes in Net Assets, 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 services, and depreciation. All other revenue and expenses of the College are reported as non-operating revenues and expenses including state general appropriations, gifts and investment income, endowment income and interest expense.

■ **Net Assets:** The College's net assets are classified as follows:

■ **Invested in plant, net of related debt:** This represents the College's total investment in capital assets, less accumulated depreciation, and net of outstanding debt obligations related to capital assets;

■ **Restricted net assets – nonexpendable:** This consists of endowment and similar type funds in which the donor or other outside sources have stipulated, as a condition of the gift, that the principal is to be maintained by inviolate and in perpetuity, and invested for the purpose of present and future income, which may be either expended, or added to principal.

■ **Restricted net assets – expendable:** Include resources that the College is obligated to spend in accordance with restrictions imposed by external third parties.

■ **Unrestricted net assets:** Net assets which are not subject to externally imposed restrictions, but which may be designated for specific purposes by management, or the Board of Trustees.

■ **Tax Exemption:** The College is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

■ **Violations:** The College does not have any material violations of finance-related legal or contractual provisions.

Note 2. Cash and Investments

Cash and cash equivalents include bank demand deposits, an overnight sweep account, petty cash held at the College and unit shares in the Local Government Investment Pool. Except for petty cash held at the College, all others are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Deposit Protection Commission (PDPC).

Investments are stated at market value. They consist of time certificates of deposit in addition to investments in equities. Time certificates of deposit have repurchase agreements with the respective financial institutions; investments in equities are subject to loss of all 100% of the balance of investments.

GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The College's policy is to invest in short-term financial instruments with an original maturity of 12 months or less, this in order to maintain the goal of liquidity.

The College, through its investment policy, where applicable, manages its exposure to custodial credit risk, credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

	June 30, 2006	June 30, 2005
Cash on hand	\$ 18,883	\$ 18,183
Bank demand and time deposits	656,878	(99,971)
Local government investment pool	<u>17,187,662</u>	<u>15,301,733</u>
Total cash and cash equivalents	<u>\$17,863,423</u>	<u>\$ 15,219,945</u>

Interest Rate Risk – The College manages its exposure to interest rate changes by limiting the duration of investments and structuring the maturities of investments to mature at various points in the year. No investment may exceed 12 months.

Concentration of Credit Risk– The College's Time Certificates of Deposit are insured through either the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Deposit Protection Commission (PDPC). Endowment fund investment policy allows for the investments in equities of domestic publicly listed corporations on national exchanges.

Investments	Fair value	Investment Maturities			
		One year or less	1-5 years	6-10 years	10+ years
Operating Funds					
Time certificate of deposits	\$ 10,000,000	\$10,000,000	\$ –	\$ –	\$ –
Endowment funds					
Bonds	612,728	124,423	106,143	130,770	251,392
Equities	<u>749,278</u>	N/a	N/a	N/a	N/a
Total investments	<u>\$ 11,362,006</u>				

Note 3. Funds with State Treasurer

Funds with the State Treasurer represent the College's share of net earnings of the Normal School Permanent Fund as well as tuition distribution, reduced by expenditures for capital projects and debt service over the years (Fund 066) and the balance of licensing revenues held by the State Treasurer (Fund 786). At June 30, 2006, the balance held with the State Treasurer totaled \$4,069,947.

The Normal School Permanent Fund, established under RCW 43.79.160 is a permanent endowment fund, which derives its corpus from the sale of state lands and timber. The Washington State Investment Board manages the investing activities of the fund and the State Department of Natural Resources manages the sale of state land and timber. Interest earned from the investments is either reinvested or used exclusively for the benefits of Central Washington University, Eastern Washington University, The Evergreen State College and Western Washington University.

Note 4. Accounts and Student Loans Receivable

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

Accounts receivable at June 30 consisted of the following:		
	2006	2005
Student tuition and fees	\$ 721,933	\$ 416,857
Federal, state and private grants	862,225	827,296
State appropriation receivable	5,136,817	2,673,779
Auxiliary enterprises	1,063,176	626,879
Other operating activities	<u>781,083</u>	<u>720,893</u>
Subtotal	8,565,234	5,265,704
Allowance for uncollectibles	<u>(166,419)</u>	<u>(210,263)</u>
Net accounts receivable	<u>\$ 8,398,815</u>	<u>\$ 5,055,441</u>

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

	2006	2005
Perkins loans	\$ 3,759,386	\$ 3,860,656
Other loans	<u>302,613</u>	<u>280,997</u>
Subtotal	4,061,999	4,141,653
Allowance for uncollectibles	<u>(5,119)</u>	<u>(2,549)</u>
Total student loans receivable	<u>\$ 4,056,880</u>	<u>\$ 4,139,104</u>

Note 5. Inventories

Inventories consist of the following:

Inventories	Balance June 30, 2006	Balance June 30, 2005
Enterprise funds	\$ 418,238	\$ 382,449
Working capital funds	<u>192,551</u>	<u>232,287</u>
Totals	<u>\$ 610,789</u>	<u>\$ 614,736</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2006 is summarized as follows:

	Balance June 30, 2005	Additions/ Transfers	Retirements	Balance June 30, 2006
Non-depreciable assets				
Land	\$ 4,997,751	\$ —	\$ —	\$ 4,997,751
Construction in progress	<u>7,268,460</u>	<u>14,700,431</u>	<u>1,552,116</u>	<u>20,416,775</u>
Total non-depreciable assets	<u>12,266,211</u>	<u>14,700,431</u>	<u>1,552,116</u>	<u>25,414,526</u>
Depreciable assets				
Infrastructure	11,669,600	1,529,266	—	13,198,866
Buildings	114,235,535	4,272,850	—	118,508,385
Furniture, fixtures and equipment	10,451,927	92,606	—	10,544,533
Library resources	<u>17,158,618</u>	<u>384,213</u>	<u>331,138</u>	<u>17,211,693</u>
Total depreciable assets	<u>153,515,680</u>	<u>6,278,935</u>	<u>331,138</u>	<u>159,463,477</u>
Less accumulated depreciation				
Infrastructure	6,223,874	295,659	—	6,519,533
Buildings	32,908,608	2,540,776	—	35,449,384
Furniture, fixtures and equipment	7,493,750	525,921	—	8,019,671
Library resources	<u>12,972,519</u>	<u>796,321</u>	<u>331,138</u>	<u>13,437,702</u>
Total accumulated depreciation	<u>59,598,751</u>	<u>4,158,677</u>	<u>331,138</u>	<u>63,426,290</u>
Net capital assets	<u>\$106,183,140</u>	<u>\$ 16,820,689</u>	<u>\$ 1,552,116</u>	<u>\$121,451,713</u>

Note 7. Accrued Leave Liabilities

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses 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 balance as of June 30, 2006 was \$2,494,707 and sick leave totaled \$693,997.

Note 8. Long-Term Liabilities

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion	Long-Term Portion
Long-Term Liabilities						
Accrued leave liabilities	\$ 2,341,242	\$ 1,412,437	\$ 564,975	\$ 3,188,704	\$ 2,494,707	\$ 693,997
Other liabilities	—	120,000	—	120,000	—	120,000
Leases/contracts payable	1,461,159	—	492,692	968,467	504,871	463,596
Pension liability	128,000	64,000	—	192,000	—	192,000
Bonds payable	1,965,000	7,550,000	1,965,000	7,550,000	350,000	7,200,000
Total	<u>\$ 5,895,401</u>	<u>\$ 9,146,437</u>	<u>\$3,022,667</u>	<u>\$12,019,171</u>	<u>\$ 3,349,578</u>	<u>\$ 8,669,593</u>

Note 9. Bonds Payable

In March 2006, the College sold \$7,550,000 in Housing Revenue Bonds, with interest rates ranging from 3.75% to 4.25%. Proceeds of the bond issue went to refund the outstanding Housing Series 1994 Revenue Bonds, and the remaining proceeds are being used to construct a Housing Administration Building, and to remodel and refurbish existing housing structures.

	Interest Rate	Original Issue	Balance June 30, 2006	Balance June 30, 2005
System revenue bonds				
Series 1994	3.4% to 5.875%	\$ 6,565,000	\$ —	\$ 1,965,000
Series 2006	3.75% to 4.25%	7,550,000	7,550,000	—

Debt Service Requirements. The scheduled maturities of system revenue bonds are as follows:

Fiscal Year	Principal	Interest	Total
2007	\$ 350,000	\$ 273,991	\$ 623,991
2008	340,000	283,081	623,081
2009	355,000	270,331	625,331
2010	370,000	257,019	627,019
2011	380,000	243,144	623,144
2012-2016	2,135,000	990,531	3,125,531
2017-2021	1,635,000	618,756	2,253,756
2022-2026	1,985,000	258,694	2,243,694
	<u>\$ 7,550,000</u>	<u>\$ 3,195,547</u>	<u>\$10,745,547</u>

Internal Revenue Code regulations prohibit investing the proceeds from the issuance of debt, whose interest is exempt for income tax purpose at a higher rate of return than what the interest rate paid on the debt. This is known as Arbitrage, an exemption to this regulation exists for issues up to \$10,000,000 for which proceeds are used to finance capital expenditures in accordance with a 2-year schedule. The College is in compliance at June 30, 2006.

Note 10. Lease Obligations

The College has acquired certain improvements and equipment under various capital lease agreements. In 1998, the College entered into an agreement with the Office of State Treasurer for upgrading student housing wiring. In 2004, the College entered into an agreement with the Office of State Treasurer for constructing new childcare facilities, and in 2005, the College entered into an agreement with the Office of State Treasurer for purchasing a point of sales system for the bookstore.

Lease Payable as of June 30, 2006 is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 504,871	\$ 28,763	\$ 533,634
2008	463,596	12,913	476,509
	<u>\$ 968,467</u>	<u>\$ 41,676</u>	<u>\$1,010,143</u>

In addition to the above, the College has an operating lease rental of the Tacoma Branch Campus, along with several photo copier operating leases.

Operating lease payments for the next five years are as follows:

2007	\$ 890,822
2008	793,520
2009	793,520
2010	702,540
2011	273,165
	<u>\$ 3,453,567</u>

Total operating lease expenses in 2006 were \$877,939.

Note 11. Commitments

Remaining commitments totaled \$2,090,003 for the Library Phase I and Lab I capital project remodels. Encumbrances for current funds carried forward as of June 30, 2006 totaled \$2,914,044.

Note 12. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2006 and 2005 are summarized as follows:

	<u>FY2006</u>	<u>FY2005</u>
Instruction	\$ 26,706,697	\$ 24,179,312
Scholarship and aid	12,093,972	11,228,729
Operation and maintenance	10,671,175	11,346,837
Auxiliary enterprises	10,398,280	10,547,997
Institutional support	8,857,979	7,764,410
Academic support	6,403,225	5,932,532
Student services	4,996,543	4,558,852
Depreciation	4,158,677	3,211,783
Public service	1,573,860	2,309,444
Research	62,628	61,202
Total operating expenses	<u>\$ 85,923,036</u>	<u>\$ 81,141,098</u>

Note 13. Contingencies and Risk Management

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the College.

The College is a party to various litigations and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position of the College.

During the year, a settlement was reached with the general contractor for the Seminar II Building that called for the College to pay \$4.25 million to settle claims arising from disputes involving its construction. This settlement was funded by an appropriation from the State Legislature.

The College participates in the State of Washington risk management self-insurance program. Premiums are based on actuarially determined projections. The College assumes its potential liability and property losses for all properties except for Housing, which were acquired with proceeds of bond issues where the bond agreement requires the College to carry insurance on Housing property.

In accordance with State policy, the College self-insures unemployment compensation for all employees. The College is on a pay-as-you-go basis, in which claims are paid in the period incurred.

Note 14. Deferred Compensation

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, death or unforeseeable financial emergency.

Note 15. Retirement Plans

The College offers four contributory pension plans, which cover eligible faculty, staff and administrative employees: The Washington State Public Employees' Retirement System (PERS), the Washington State Teachers Retirement System (TRS) and the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) are multiple-employer, defined benefit, public retirement systems administered by the state of Washington, Department of Retirement Systems (DRS), as

established in the Revised Code of Washington (RCW) chapter 41.50. The Evergreen State College (TESCRP) is a defined contribution plan for the faculty and some exempt staff, with supplemental payment, when required.

The payroll for the College's employees for the year ended June 30, 2006 was \$12,539,706 for PERS, \$496,349 for LEOFF, \$375 for TRS and \$18,195,049 for TESCRP. Total covered payroll was \$31,231,479.

PERS, TRS and LEOFF Plans

Plan Descriptions

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

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

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

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

PERS Plan III is a hybrid defined benefit and defined contribution plan. College contributions fund the defined benefit component, providing retirement and disability. In addition, PERS III has a defined contribution component, which is fully funded by employee contributions. PERS defined benefit plan benefits are vested after an employee completes five years of eligible service. Information regarding the plan descriptions and benefit provisions is included in a Comprehensive Annual Financial Report publicly available from the Washington State Retirement Systems, P.O. Box 48380, Olympia, WA 98504.

Funding Policy

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determines the actuarially required contribution rates for PERS, TRS and LEOFF plans, except where employee contribution rates are set by statute. All employers are required to contribute at the level established by state law. The contribution rates at June 30, 2006 were as follows:

PERS, TRS and LEOFF 2006 Contribution Rates

Plan	Member	College
PERS I	6.00%	2.44%
PERS II	2.25%	2.44%
PERS III	Various	2.44%
TRS II	2.48%	2.92%
LEOFF II	6.75%	6.94%

The Evergreen State College Retirement Plan

Plan Description

The plan is a defined contribution plan administered by the College and covers most faculty and exempt staff. Contributions to the plan are invested in annuity contracts with or mutual fund accounts offered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100% vested interest in their accumulations.

Employee contribution rates, which are based on age, range from 5% to 10%. The College matches the employee contributions. Employer and employee contributions for the years ended June 30, 2006 and 2005 were \$1,561,920 and \$1,535,503, respectively.

The benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% contribution after age 50, the benefit goal is 1.5% for each year of full-time service for the years in which the lower contribution was selected. No significant changes were made in the faculty benefit provisions for the year ended June 30, 2006.

The plan has a supplemental payment plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The College makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component of the TESCRP is financed on a pay-as-you-go basis.

The College received an actuarial evaluation of the supplemental component of the TESCRP for fiscal year 2004. The previous evaluation was performed in 1999. The Unfunded Actuarial accrued Liability (UAL) calculated as of June 30, 2004 and 1999 was \$445,000 and \$164,000, respectively, and is amortized over a 19.5-year period. The Annual Required Contribution (ARC) of \$64,000 consists of amortization of the UAL (\$26,000) and normal, or current, cost (\$37,000). The UAL and ARC were established using the entry age normal cost method.

The actuarial assumptions include an investment rate of return ranging from 6% to 8% and projected salary increases ranging from 2% to 4%. The following reflects the activity in the Net Pension Obligation (NPO) for the years ended June 30, 2006 and 2005:

Balance as of June 30, 2004	\$ 64,000
2005 Annual Required Contribution	64,000
2005 Payments to Beneficiaries	-
Balance as of June 30, 2005	128,000
2006 Annual Required Contribution	64,000
2006 Payments to Beneficiaries	-
Balance as of June 30, 2006	<u>\$192,000</u>

The College reports the NPO as a long-term liability.

Note 16. Segment Information

The Evergreen State College operates residence halls "Housing" located on the College campus. Revenue bonds are issued from time to time to build or remodel Housing facilities. Housing pledges net revenues to cover the costs of debt service for the bonds, therefore, for accounting purposes, the Housing is a segment of the College. Presented below are condensed financial statements for Housing as reviewed by The State Auditor's Office (SAO) as of and for the years ended June 30, 2006 and 2005.

	June 30, 2006	June 30, 2005
Condensed Statement of Net Assets		
Assets		
Current assets	\$ 6,781,686	\$ 375,752
Noncurrent assets	<u>7,917,734</u>	<u>8,221,402</u>
Total assets	<u>14,699,420</u>	<u>8,597,154</u>
Liabilities		
Current liabilities	1,031,005	943,748
Noncurrent liabilities	<u>7,367,154</u>	<u>1,703,055</u>
Total liabilities	<u>8,398,159</u>	<u>2,646,803</u>
Net assets		
Invested in capital assets, net of related debt	5,999,980	6,020,008
Unrestricted	<u>301,281</u>	<u>(69,657)</u>
Total net assets	<u>\$ 6,301,261</u>	<u>\$ 5,950,351</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues	\$ 3,735,914	\$ 3,614,288
Operating expenses	<u>3,238,545</u>	<u>2,724,560</u>
Net operating income	<u>497,369</u>	<u>889,728</u>
Nonoperating revenues (expenses)	(146,459)	(152,246)
Changes in net assets	<u>350,910</u>	<u>737,482</u>
Total net assets beginning of year	<u>5,950,351</u>	<u>5,212,869</u>
Total net assets, end of year	<u>\$ 6,301,261</u>	<u>\$ 5,950,351</u>
Condensed Statement of Cash Flows		
Net cash flows provided by operating activities	\$ 1,127,048	\$ 1,036,007
Net cash flows provided (used) by capital financing activities	5,183,185	(843,270)
Net cash flows provided by investing activities	<u>27,494</u>	<u>-</u>
Net increase in cash	6,337,727	192,737
Cash beginning of year	<u>192,987</u>	<u>250</u>
Cash end of year	<u>\$ 6,530,714</u>	<u>\$ 192,987</u>



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It is the policy of The Evergreen State College Foundation Board of Governors to offset a portion of the costs of fundraising by assessing a gift fee of 5 percent, which is below the national average of 15-20 percent for not-for profit organizations.

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