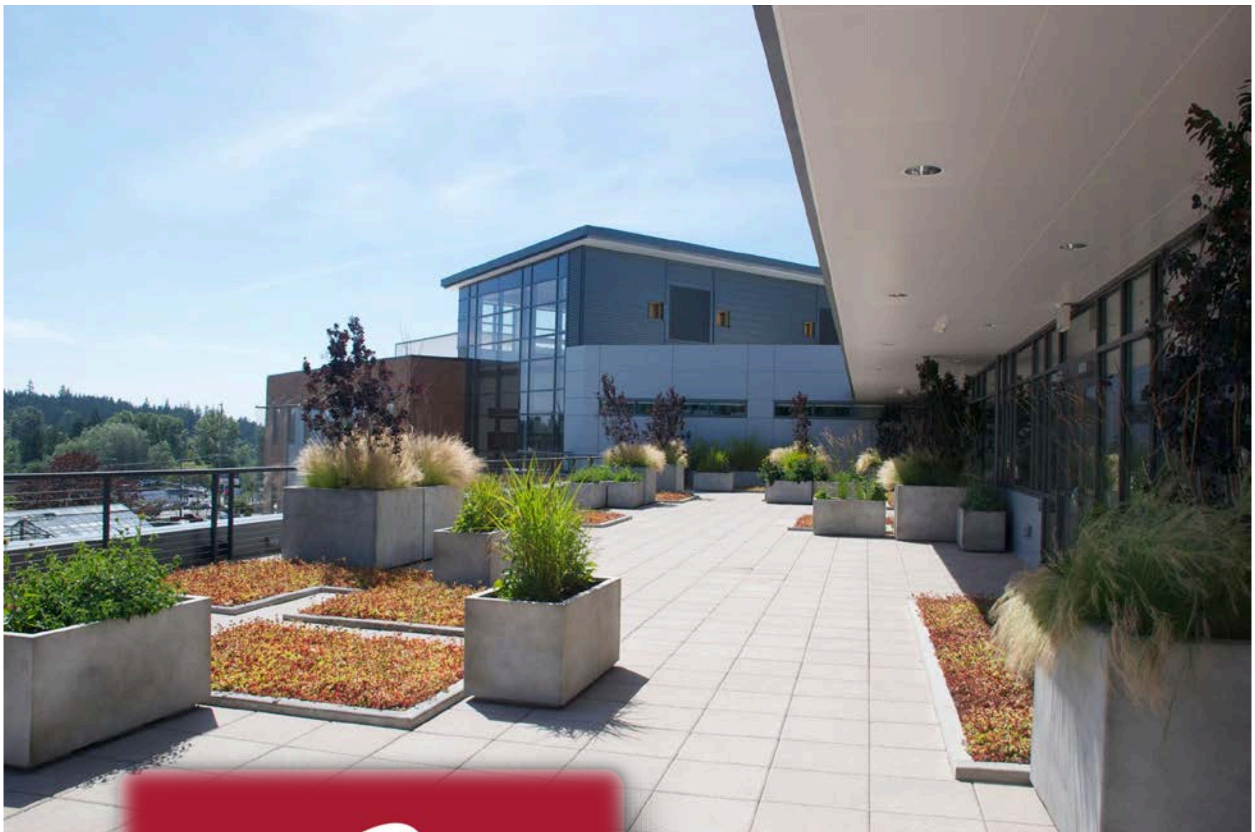
2017 Annual Financial Report



Skagit Valley College

Where Learning Comes to Life

Skagit Valley College
2017 Financial Report
Fiscal Year Ended June 30, 2017

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Trustees and Executive Officers

Trustees and Officer list effective as of October 31, 2017

Independent Auditor's Report on Financial Statements

Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Skagit Valley College

For the period July 1, 2016 through June 30, 2017

Published January 16, 2018 Report No. 1020612

Office of the Washing ton State Auditor
Pat McCarthy

January 16, 2018

Board of Trustees
Skagit Valley College
Mount Vernon, Washington

Report on Financial Statements

Please find attached our report on the Skagit Valley College's financial statements.

We are issuing this report in order to provide information on the College's financial condition.

Sincerely,

Pat McCarthy

Pat McCarthy
State Auditor
Olympia, WA

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Skagit Valley College
July 1, 2016 through June 30, 2017

Board of Trustees
Skagit Valley College
Mount Vernon, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Skagit Valley College, Skagit County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 4, 2018. As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*

Our report includes a reference to other auditors who audited the financial statements of the Skagit Valley College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation. The Foundation prior year comparative information has been derived from the Foundation's 2016 basic financial statements, on which other auditors issued their report dated October 11, 2016.

The financial statements of the Skagit Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy
State Auditor
Olympia, WA

January 4, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Skagit Valley College
July 1, 2016 through June 30, 2017

Board of Trustees
Skagit Valley College
Mount Vernon, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Skagit Valley College, Skagit County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *in Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Skagit Valley College, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2017, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Skagit Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The Foundation financial statements include summarized prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2106, from which such summarized information was derived. Other auditors have previously audited the Foundation's 2016 basic financial statements and they expressed an unmodified opinion in their report dated October 11, 2016.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 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 January 4, 2018 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.

Pat McCarthy

State Auditor

Olympia, WA

January 4, 2018

Management's Discussion and Analysis

Skagit Valley College

The following discussion and analysis provides an overview of the financial position and activities of Skagit Valley College (the College) for the fiscal year ended June 30, 2017 (FY 2017). 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

Skagit Valley College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 9,000 students. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. The College was established in 1926 and its primary purpose is to provide opportunities for students in pursuit of their educational and employment goals, while contributing to the economic and cultural enrichment of it communities.

The College's main campus is located in Mount Vernon, Washington, a community of about 34,000 residents. The College operates a second, smaller campus located in Oak Harbor, a city of about 22,000 residents on Whidbey Island. In addition, the College operates three educational centers – one in Friday Harbor on San Juan Island, another in Clinton at the south end of Whidbey Island, and a Marine Technology Center in Anacortes. The College also operates a Craft Brewing program in Burlington. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, its Foundation. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2017. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

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.

During 2017, the College adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 as amended by GASB Statement No. 71.* It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in an additional amount of $3,302,493 in pension liability.

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 position at year-end. A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	**FY 2017**	**FY 2016**
Assets		
Current Assets	21,379,494	22,825,321
Capital Assets, net	81,313,123	83,259,545
Other Assets, non-current	651,836	645,277
Total Assets	**$ 103,344,453**	**$ 106,730,143**
Deferred Outflows	**$ 1,866,421**	**$ 1,317,144**
Liabilities		
Current Liabilities	10,617,111	11,718,613
Other Liabilities, non-current	36,173,179	33,774,225
Total Liabilities	**$ 46,790,290**	**$ 45,492,838**
Deferred Inflows	**$ 912,422**	**$ 1,044,626**
Net Position	**$ 57,508,162**	**$ 61,509,822**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The modest decrease of current assets in FY 2017 can be attributed to a decrease in cash and a decrease in short-term investments. The decrease in short-term investments is from an investment maturity that was not renewed. Instead, the investment was deposited in our Local Government Investment Pool, which is included in cash equivalents. The decrease in cash during FY 2017 can be attributed to local funding of the College's share of the Health Care Authority lawsuit settlement payment out of reserves.

Net capital assets decreased by $1,946,422 from FY 2016 to FY 2017. The decrease is primarily the result of current depreciation expense of $2,625,219. This decrease was offset in part by ongoing acquisitions of capitalizable equipment and the addition of a building modular for our Head Start program.

Non-current assets are the long-term portion of certain investments.

Deferred outflows of resources and deferred inflows of resources represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in FY 2015 and Statement No. 73 in FY 2017. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $1,317,144 in FY 2016 and $1,866,421 in FY2017 of pension-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the decrease in deferred inflows in 2017 reflects the decrease in difference between actual and projected investment earnings on the state's pension plans and also the implementation of GASB Statement No. 73.

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

The decrease in current liabilities from FY 2016 to FY 2017 is due to the result of the payout related to the settlement of Moore vs. HCA, which was accrued as a liability in FY 2016.

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

The College's non-current liabilities increased due to the implementation of GASB Statement 73, reflecting the College's proportionate share of the pension liability for the State Board Supplemental Retirement Plan.

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.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

As stated earlier, the College's net position was adjusted by $3,302,493 to reflect the implementation of GASB Statement No. 73 to report the State Board Retirement Plan pension liability.

Net Position As of June 30th	**FY 2017**	**FY 2016**
Net investment in capital assets	$58,666,559	$59,447,826
Restricted		
Expendable - 3.5% Institutional Loan Fund	$268,602	$122,638
Student Loans	$4,551	$2,168
Unrestricted	-$1,431,550	$1,937,190
Total Net Position	**$57,508,162**	**$61,509,822**

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 2017. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred 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, 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 comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2017 and 2016 is presented below.

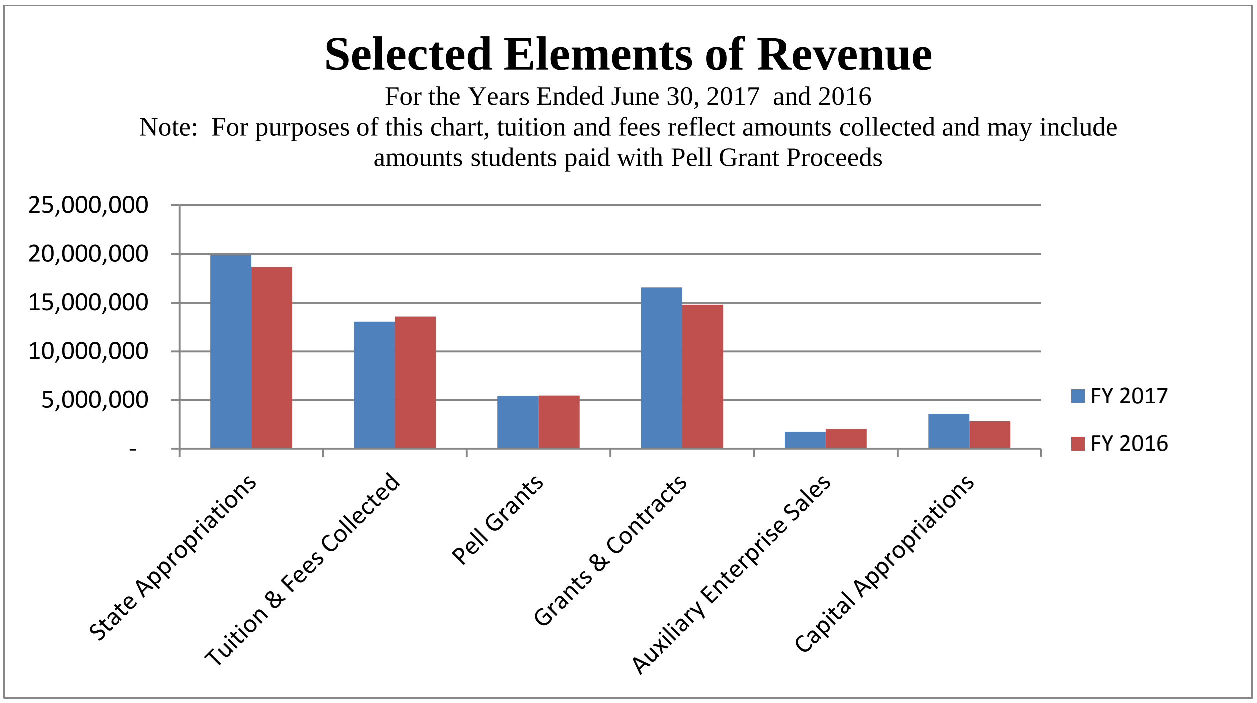
As of June 30th	FY 2017	FY 2016
Operating Revenues		
Student tuition and fees, net	13,065,065	13,591,403
Auxiliary enterprise sales	1,754,598	2,026,934
State and local grants and contracts	10,733,608	9,858,074
Federal grants and contracts	5,821,902	4,922,965
Other Operating Revenues	2,112,773	2,451,263
Total operating revenues	**33,487,946**	**32,850,635**
Operating Expenses	60,571,113	58,936,153
Operating Loss	**(27,083,167)**	**(26,085,518)**
Non-Operating Revenues		
State appropriations	19,883,352	18,657,091
Federal Pell grant revenue	5,417,283	5,468,172
Investment income, net	90,187	46,352
Non-Operating Expenses	(2,582,062)	(2,890,769)
Net non-operating revenues (expenses)	**22,808,760**	**21,280,846**
Income (Loss) before capital contributions	**(4,274,407)**	**(4,804,672)**
Capital Appropriations and Contributions	3,575,240	2,881,656
Change in Net Position	**(699,167)**	**(1,923,016)**
Net Position, Beginning of the Year	**61,509,822**	**65,107,963**
Prior period adjustment	**(3,302,493)**	**(1,675,125)**
Net Position, End of the Year	**$ 57,508,162**	**$ 61,509,822**

Revenues

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2017, the SBCTC moved forward with a new allocation model, allocating funds to each of the 34 college's based on 3 year average FTE actuals. In FY 2017, the College saw an increase in its state allocation due to the implementation of this new model. In addition, the College received a one-time allocation of $628,980 for a portion of its share of Moore vs HCA settlement cost. This allocation does not carry forward to future years.

In FY 2016, the Legislature enacted a 2 year tuition reduction plan called the Affordable Education Act. This reduced tuition by 5% at the college in FY16. Decreased tuition rates combined with declining College enrollment have resulted in a decrease in overall tuition revenues. Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2017, so did the College's Pell Grant revenue. In FY 2017, grant and contract revenues increased by $1,774,471 when compared with FY 2016. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also received a new National Science Foundation grant during FY2017 and additional Head Start federal grant funds.

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

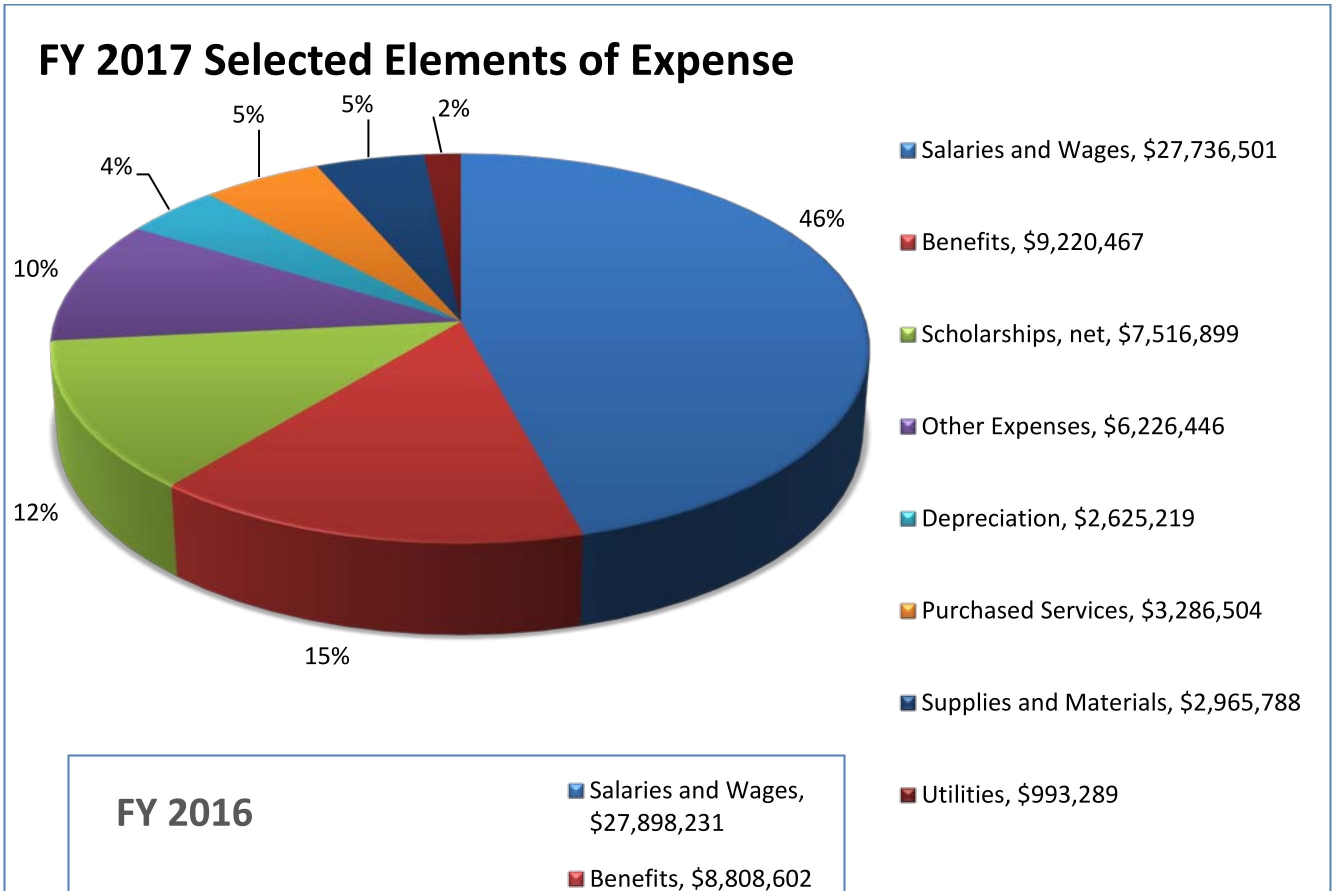


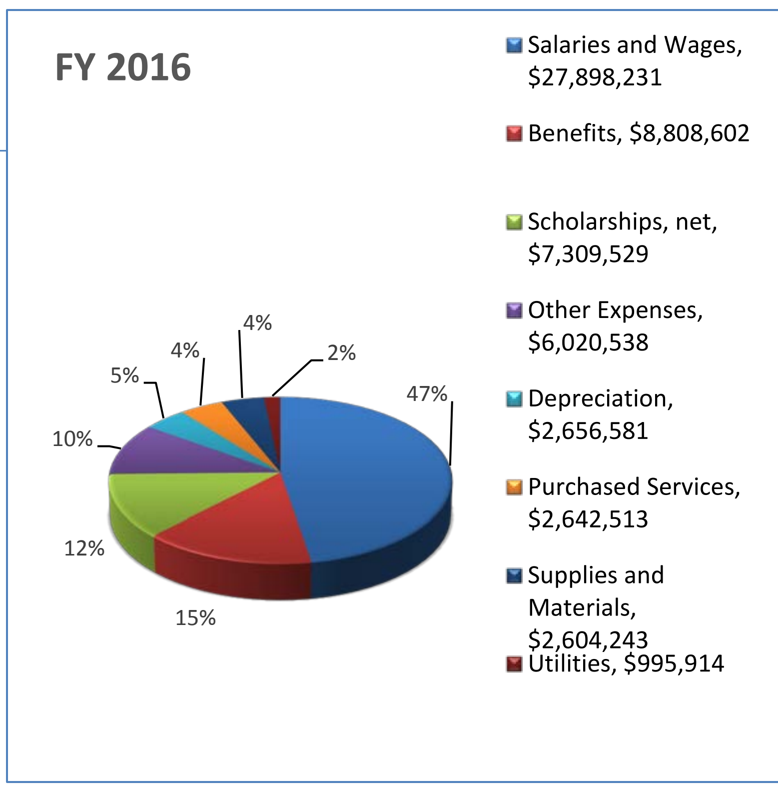
<u>Expenses</u>

Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College was subject to various state spending freezes and employee salary reductions. 2017 operating expenses are comparable to 2016 levels.

Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2017 and FY 2016.





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, 2017, the College had invested $81,313,123 in capital assets, net of accumulated depreciation. This represents a decrease of $1,946,422 from last year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	$1,868,450	$1,868,450	$0
Construction in Progress	$105,716	$0	$105,716
Buildings, net	$77,549,492	$79,284,155	-$1,734,663
Other Improvements and Infrastructure, net	$649,667	$711,629	-$61,962
Equipment, net	$1,050,699	$1,292,507	-$241,808
Library Resources, net	$89,098	$102,804	-$13,706
Total Capital Assets, Net	**$81,313,123**	**$83,259,545**	**-$1,946,422**

The decrease in net capital assets can be attributed to current year depreciation expense. Additional information on capital assets can be found in Note 7 of the Notes to the Financial Statements.

At June 30, 2017, the College had $22,646,564 in outstanding debt on three Certificates of Participation (COP).

	June 30, 2017	June 30, 2016
Certificates of Participation	$22,646,564	$23,811,719
Total	**$22,646,564**	**$23,811,719**

Additional information on notes payable, long term debt and debt service schedules can be found in Notes 13, 14, and 15 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however partially backfill this loss. In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Due to decreases in enrollment, the College may see a decrease in state operating appropriations and tuition collections in future years. It is unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years.

Skagit Valley College Statement of Net Position

Skagit Valley College
Statement of Net Position
June 30,2017

Assets		
Current assets		
Cash and cash equivalents		17,664,005
Short-term investments		625,012
Accounts Receivable		2,317,091
Student Loans Receivable		128,155
Inventories		508,580
Prepaid Expenses		136,651
	Total current assets	21,379,494
Non-Current Assets		
Long-term investments		651,836
Non-depreciable Capital Assets		1,974,166
Capital assets, net of depreciation		79,338,957
	Total non-current assets	81,964,959
	Total assets	**103,344,453**
Deferred outflows of resources related to pensions		1,866,421
Total deferred outflows of resources related to pensions		1,866,421
Liabilities		
Current Liabilities		
Accounts Payable		576,687
Accrued Liabilities		7,148,901
Compensated absences		387,859
Deposits Payable		5,481
Unearned Revenue		1,267,100
Certificates of Participation Payable		1,231,083
	Total current liabilities	10,617,111
Noncurrent Liabilities		
Compensated Absences		3,783,251
Pension liabilty		10,974,447
Long-term liabilities		21,415,481
	Total non-current liabilities	36,173,179
	Total liabilities	**46,790,290**
Deferred inflows of resources related to pensions		912,422
Total deferrediInflows of resources related to pensions		912,422
Net Position		
Net Investment in Capital Assets		58,666,559
Restricted for:		
Nonexpendable		-
Expendable		268,602
Student Loans		4,551
Unrestricted		(1,431,550)
Total Net Position		**57,508,162**

The notes are an integral part of the Financial Statements

Skagit Valley College Statement of Revenues, Expenditures and Changes in Net Position

Skagit Valley College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating Revenues	
Student tuition and fees, net	13,065,065
Auxiliary enterprise sales	1,754,598
State and local grants and contracts	10,733,608
Federal grants and contracts	5,821,902
Other operating revenues	2,112,773
Total operating revenue	33,487,946
Operating Expenses	
Operating Expenses	6,226,446
Salaries and wages	27,736,501
Benefits	9,220,467
Scholarships and fellowships	7,516,899
Supplies and materials	2,965,788
Depreciation	2,625,219
Purchased services	3,286,504
Utilities	993,289
Total operating expenses	60,571,113
Operating income (loss)	(27,083,167)
Non-Operating Revenues (Expenses)	
State appropriations	19,883,352
Federal Pell grant revenue	5,417,283
Investment income, gains and losses	90,187
Building fee remittance	(1,189,176)
Innovation fund remittance	(294,019)
Capital asset adjustments	(774)
Interest on indebtedness	(1,098,093)
Net non-operating revenues (expenses)	**22,808,760**
Income or (loss) before other revenues, expenses, gains, or losses	(4,274,407)
Capital appropriations	3,575,240
Increase (Decrease) in net position	(699,167)
Net Position	
Net position, beginning of year	61,509,822
Net position change due to GASB 73	(3,302,493)
Adjusted Net position, beginning of year	58,207,329
Net position, end of year	57,508,162

The notes are an integral part of the Financial Statements

Skagit Valley College Statement of Cash Flows

Skagit Valley College
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flow from operating activities	
Student tuition and fees	12,717,541
Grants and contracts	16,803,339
Payments to vendors	(7,347,783)
Payments for utilities	(1,006,778)
Payments to employees	(27,579,134)
Payments for benefits	(9,515,329)
Auxiliary enterprise sales	1,728,577
Payments for scholarships and fellowships	(7,516,899)
Loans issued to students and employees	(18,048)
Collection of loans to students and employees	0
Other receipts (payments)	(3,933,021)
Net cash used by operating activities	(25,667,535)
Cash flow from noncapital financing activities	
State appropriations	19,571,092
Pell grants	5,417,283
Amounts for other than capital purposes	0
Building fee remittance	(1,171,430)
Innovation fund remittance	(289,324)
Net cash provided by noncapital financing activities	23,527,621
Cash flow from capital and related financing activities	
Proceeds of capital debt	0
Capital appropriations	3,652,775
Purchases of capital assets	(691,315)
Certificate of participations proceeds	0
Principal paid on capital debt	(1,165,155)
Interest paid	(1,098,093)
Net cash used by capital and related financing activities	698,210
Cash flow from investing activities	
Purchase of investments	839,702
Proceeds from sales and maturities of investments	0
Income of investments	90,187
Net cash provided by investing activities	929,889
Increase in cash and cash equivalents	(511,815)
Cash and cash equivalents at the beginning of the year	18,175,820
Cash and cash equivalents at the end of the year	17,664,005
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(27,083,167)

Continued on next page

Skagit Valley College Statement of Cash Flows – Continued

Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,625,219
Changes in assets and liabilities	
Receivables , net	168,064
Inventories	(16,662)
Other assets	(45,603)
Accounts payable	(327,581)
Accrued liabilities	(923,874)
Unearned revenue	(69,925)
Compensated absences	277,762
Pension liability adjustment expense	(256,119)
Deposits payable	2,400
Loans to students and employees	(18,048)
Net cash used by operating activities	(25,667,535)
	(25,667,535)
	(0)

The notes are an integral part of the Financial Statements

Foundation Statement of Financial Position

Skagit Valley College Foundation

Statements of Financial Position

June 30, 2017 and 2016

Assets

	2017	2016
Assets		
Cash and cash equivalents	$ 834,129	$ 974,248
Pledges receivable	296,791	304,853
Advances due from Skagit Valley College	219,124	30,405
Investments	12,015,800	11,282,808
Property and equipment, net	1,660,968	1,709,083
Other assets	38,431	23,571
Total assets	$ 15,065,243	$ 14,324,968

Liabilities and Net Assets

	2017	2016
Liabilities		
Accounts payable and accrued liabilities	$ 35,496	$ 33,031
Advances due to Skagit Valley College	236,988	300,588
Life income annuities payable	77,700	66,700
Tenant security deposits and prepaid rent	43,500	57,654
Long-term debt, net	1,099,941	1,232,790
Total liabilities	1,493,625	1,690,763
Net assets		
Unrestricted		
Board designated - endowment	1,453,117	1,284,008
Board designated - Campus View Village	885,914	828,004
Board designated - Booster Club	73,704	105,845
Undesignated	608,492	72,744
Total unrestricted	3,021,227	2,290,601
Temporarily restricted	2,702,131	2,673,259
Permanently restricted	7,848,260	7,670,345
Total net assets	13,571,618	12,634,205
Total liabilities and net assets	$ 15,065,243	$ 14,324,968

Foundation Statement of Activities

Skagit Valley College Foundation

Statements of Activities

Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue								
Contributions	$ 513,743	$ 273,013	$ 177,915	$ 964,671	$ 352,024	$ 957,190	$ 545,818	$ 1,855,032
Investment return (loss)	342,158	746,278	-	1,088,436	(110,959)	(56,721)	-	(167,680)
Campus housing and related income	666,841	-	-	666,841	676,080	-	-	676,080
Fundraising activities	155,937	-	-	155,937	101,068	-	-	101,068
Other income	118,431	-	-	118,431	81,482	-	-	81,482
Satisfaction of restrictions	990,419	(990,419)	-	-	842,063	(842,063)	-	-
Total support and revenue	2,787,529	28,872	177,915	2,994,316	1,941,758	58,406	545,818	2,545,982
Expenses								
Program services	1,670,193	-	-	1,670,193	1,559,409	-	-	1,559,409
Management and general	238,542	-	-	238,542	225,639	-	-	225,639
Fundraising activities	148,168	-	-	148,168	108,403	-	-	108,403
Total expenses	2,056,903	-	-	2,056,903	1,893,451	-	-	1,893,451
Change in net assets	730,626	28,872	177,915	937,413	48,307	58,406	545,818	652,531
Net assets - beginning of year	2,290,601	2,673,259	7,670,345	12,634,205	2,242,294	2,614,853	7,124,527	11,981,674
Net assets - end of year	$ 3,021,227	$ 2,702,131	$ 7,848,260	$ 13,571,618	$ 2,290,601	$ 2,673,259	$ 7,670,345	$ 12,634,205

Notes to the Financial Statements

June 30, 2017

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

The Skagit Valley College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1978 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to solicit and receive contributions to provide enhancements at Skagit Valley College and support for its students. Activities include support of academic programs and scholarship assistance to students, and operation of student housing. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A 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. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2017, the Foundation distributed approximately $761,771 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 360-416-7821.

Basis of Presentation

The 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. For the financial statements, intra-agency 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.

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.

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.

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, cash equivalents, and investments at amortized cost, which approximates fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis

Accounts Receivable

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

Inventories
Inventories, consisting primarily of merchandise for resale and course-related supplies in the college bookstore, are valued at cost using First In, First Out (FIFO) method.

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.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. 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. 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 are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

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, 2017, 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. Unearned revenues also include tuition and fees paid with financial aid funds. 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 Pension Liability
For purposes of measuring the net pension liability in accordance with GASB 68 , deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY17, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions).* The reporting requirements are similar to GASB68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position
The College's net position is classified as follows.

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

Classification of Revenues and Expenses
The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

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

Examples include a contract with OSPI to offer Running Start. The college also receives Adult Basic Education grants that support the primary educational mission of the college.

Operating Expenses. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.

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

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation Loans.

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, 2017 are $3,880,839.

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.

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College's remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position.

2. Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of $3,302,493 as a result of the implementation of GASB Statement No. 73.

Accounting Standard Impacting the Future

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 18, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determine OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. This Statement will have a significant impact on the College's financial statements.

3. Cash, Cash Equivalents and Investments

<u>Cash and Cash Equivalents</u>

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.

The LGIP portfolio is invested in a manner that meets the requirements set forth by tl1e Governmental Accounting Standards Board for the maturity, quality, diversification and liquidity for external investment pools that wish to measure all of its investments at amortized costs. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, or online at: http://www.tre.wa.gov/lgip/cafr/LgipCafr.shtml. In addition, more information is available regarding the LGIP in the Washington State Consolidated Annual Financial report, which can be found online at http://www/ofm/wa/gov/cafr/.

The College can contribute or withdraw funds in any amount from the LGIP on a daily basis. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The College adjusts its LGIP investment amounts monthly to reflect interest earnings as reported from the Office of the State Treasurer.

As of June 30, 2017, the carrying amount of the College's cash and equivalents was $17,664,005 as represented in the table below.

Cash and Cash Equivalents	**June 30, 2017**
Petty Cash and Change Funds	$9,390
Bank Demand and Time Deposits	$3,095,301
Local Government Investment Pool	$14,559,314
Total Cash and Cash Equivalents	**$17,664,005**

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).

Investments
The College measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

*Level 1 inputs (quoted market price*s) - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access at the measurement date (for example prices derived from NYSE, NASDAQ and the Chicago Board of Trade). Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. If a level 1 input is available for a particular investment, it must be used to value that investment.

Level 2 inputs (observable inputs) - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed on market data obtained from sources independent of the College (e.g. matrix pricing, yield curves and indices).

Level 3 inputs - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Unobservable inputs are those that reflect the College's own assumptions about the assumptions that market participants would use in pricing the asset developed, based on the best information available in the circumstances (e.g. investment manager pricing for private placements, private equities and hedge funds).

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All of the College's investments fall within the hierarchy of Level 1.

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

Investment Maturities	**Fair Value**	**One Year or Less**	**1 - 5 Years**	**6 - 10 Years**	**10 or More Years**
Time Certificate of Deposits	$ 625,012	$ 625,012			
Fixed Annuity	$ 651,836		$ 651,836		
Total Investments	**$ 1,276,848**	**$ 625,012**	**$ 651,836**	**$ -**	**$ -**

Custodial Credit Risks—Deposits

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

Interest Rate Risk—Investments

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

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2017, all of the College's investments were held by the College's custodian banks in the College's name.

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2017 were $887.

4. 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, 2017, accounts receivable were as follows.

Accounts Receivable	Amount	
Student Tuition and Fees	$	436,001
Due from the Federal Government	$	199,712
Due from Other State Agencies	$	364,111
Auxiliary Enterprises	$	44,846
Other	$	1,278,436
Subtotal	$	2,323,105
Less Allowance for Uncollectible Accounts	$	(6,014)
Accounts Receivable, net	**$**	**2,317,091**

5. Loans Receivable
Loans receivable as of June 30, 2017 consisted primarily of student loans, as follows.

Loans Receivable	Amount	
Student Loans Receivable	$	133,093
Subtotal	$	133,093
Less Allowance for Uncollectible Accounts	$	(4,938)
Loans Receivable, net	**$**	**128,155**

6. Inventories
Inventories, stated at cost, consisted of the following as of June 30, 2017.

Inventories	Amount	
Merchandise Inventories	$	508,580
Inventories	**$**	**508,580**

7. Capital Assets
A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $2,625,219.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 1,868,450			$ 1,868,450
Construction in progress	0	105,716		105,716
Total nondepreciable capital assets	1,868,450	105,716	0	1,974,166
Depreciable capital assets				
Buildings	102,637,181	383,894		103,021,075
Other improvements and infrastructure	1,302,923			1,302,923
Equipment	5,971,415	174,631	(23,591)	6,122,455
Library resources	3,252,810	15,302		3,268,112
Subtotal depreciable capital assets	113,164,329	573,827	(23,591)	113,714,565
Less accumulated depreciation				
Buildings	23,356,048	2,115,535		25,471,583
Other improvements and infrastructure	588,272	64,984		653,256
Equipment	4,678,908	415,664	(22,817)	5,071,755
Library resources	3,150,006	29,008		3,179,014
Total accumulated depreciation	31,773,234	2,625,191	(22,817)	34,375,608
Total depreciable capital assets	81,391,095	(2,051,364)	(774)	79,338,957
Capital assets, net of accumulated depreciation	**$ 83,259,545**	**$ (1,945,648)**	**$ (774)**	**$ 81,313,123**

8. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in statement of net position relates to pensions.

Deferred outflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

Deferred inflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

9. Accounts Payable and Accrued Liabilities

At June 30, 2017, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,924,099
Accounts Payable	$ 576,687
Amounts Held for Others and Retainage	$ 5,224,803
Total	**$ 7,725,588**

10. Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 1,198,864
Housing and Other Deposits	68,235
Total Unearned Revenue	$ 1,267,100

11. Risk Management

The College is exposed to various risk of loss related to tort liability, injuries to employees, errors and omissions, theft of, damage to, and destruction of assets, and natural disasters. The College purchases insurance to mitigate these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2016 through June 30, 2017, were $119,606.

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.

12. 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. Accrued annual and sick leave are categorized as non-current liabilities. The accrued vacation leave totaled $1,339,642, and accrued sick leave totaled $2,138,665 at June 30, 2017.

In addition to vacation and sick leave accrued, compensated absences also includes faculty tenure purchase retirement options. These faculty retirement buyouts may be spread out over a period of years. The amount due to faculty in fiscal year 2017 is categorized as a current liability in the amount of $387,859, and the amount spread over longer periods is categorized as non-current liabilities in the amount of $304,944.

13. Notes Payable

In February 2007, the College obtained financing in order to renovate the Student Campus Center Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $3,250,000. The interest rate charged was 4.29%. In April 2016, OST refinanced this debt in the amount of $1,380,000 at a new interest rate of 1.38%. Students assess themselves, on a quarterly basis, a mandatory fee that services a portion of this debt. The remaining portion of the debt is covered by the general operating budget of the college. Student fees related to these COP(s) are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget.

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

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

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

14. Annual Debt Service Requirements

Future debt service requirements at June 30, 2017 are as follows.

Annual Debt Service Requirements				
	Certificates of Participation			
Fiscal year	**Principal**	**Interest**	**Total**	
2018	$ 1,231,083	$ 1,036,998	$ 2,268,081	
2019	1,287,110	982,674	$ 2,269,784	
2020	1,353,244	918,319	$ 2,271,563	
2021	1,424,436	850,656	$ 2,275,093	
2022	1,495,689	779,434	$ 2,275,124	
2023-2027	7,045,000	2,854,500	$ 9,899,500	
2028-2032	8,810,000	3,352,773	$ 12,162,773	
Total	**22,646,564**	**10,775,354**	**33,421,917**	

15. Schedule of Long Term Liabilities

	Balance outstanding 6/30/16	Additions	Reductions	Balance outstanding 6/30/17	Current portion
Certificates of Participation	23,811,719		(1,165,155)	22,646,564	1,231,083
Compensated absences	4,117,378	1,468,917	(1,415,185)	$ 4,171,110	387,859
Net pension obligation	7,246,592	4,794,215	(1,066,360)	$ 10,974,447	
Total	**$ 35,175,689**	**$6,263,132**	**$ (3,646,700)**	**$ 37,792,121**	**$1,618,942**

16. Pension Liability

Pension liabilities reported as of June 30, 2017 consists of the following:

Pension Liability by Plan		
PERS 1	$	3,879,839
PERS 2/3		4,184,775
TRS 1		226,227
TR 2/3		30,995
SBRP		2,652,611
Total	**$**	**10,974,447**

17. Retirement Plans

A. General

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 FY2017, the payroll for the College's employees was $7,968,133 for PERS, $308,347 for TRS, and $15,340,525 for SBRP. Total covered payroll was $23,617,005.

Basis of Accounting

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for Skagit Valley College, for fiscal year 2017:

Aggregate Pension Amounts - All Plans

Pension liabilities	$ (10,974,447)
Deferred outflows of resources related to pensions	$ 1,866,421
Deferred inflows of resources related to pensions	$ (912,422)
Pension expense/expenditures	$ 677,423

As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state. The College implemented Statement No. 73 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 for the fiscal year 2017 financial reporting. The College has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the Higher Education Supplemental Retirement Plan in alignment with the State CAFR.

B. College Participation in Plans Administered by the Department of Retirement Systems

PERS and TRS

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

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

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

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2017, 2016, and 2015 are as follows.

Contribution Rates at June 30

	FY 2015		**FY 2016**		**FY 2017**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.96%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required/Actual Contributions

Required/Actual Contributions						
	FY2015		FY2016		FY2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$26,973	$41,403	$22,483	$45,445	$13,133	$24,470
Plan 2	$251,204	$470,296	$316,566	$578,334	$307,985	$570,244
Plan 3	$147,728	$213,314	$165,616	$287,930	$169,396	$303,757
TRS						
Plan 1	$14,190	$24,573	$6,228	$12,903	$4,542	$9,939
Plan 3	$8,230	$11,323	$9,376	$15,893	$16,179	$30,509

Investments

The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB adopted investment policies for the various asset classes in which the WSIB invests.

For the year ended June 30, 2016, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	2.19%
PERS Plan 2/3	2.47%
TRS Plan 1	2.09%
TRS Plan 2/3	2.51%

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	**100%**	

The inflation component used to create the above table is 2.20 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Pension Expense

Pension expense is included as part of "Employee Benefits" expense in the statement of revenues, expenses and changes in net position. The table below shows the components of each pension plans expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
FY16 Pension Expense	$226,928	$570,889	$14,527	$8,451	$820,794
FY17 Amortization of change in proportionate liability	$ (52,748)	$20,813	$(218,381)	$2,038	$(248,278)
FY16 Amortization of change in proportionate liability	$0	$(3,737)	$0	$(447)	$(4,184)
Total Pension Expense	**$174,182**	**$587,964**	**$(203,854)**	**$10,042**	**$568,332**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2015 to 2016 for each retirement plan are listed below:

	2015	2016
PERS 1	0.073200%	0.072244%
PER 2/3	0.083494%	0.083115%
TRS 1	0.013044%	0.006626%
TRS 2/3	0.002490%	0.002257%

The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating state agencies, actuarially determined.

Actuarial Assumptions
The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.00%
- Salary Increases 3.75%
- Investment rate of return 7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Discount Rate
The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability).

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the net pension liability of the College calculated using the discount rate of 7.50 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	4,678,694	3,879,839	3,192,373
PERS Plan 2/3	7,704,923	4,184,775	(2,178,417)
TRS Plan 1	278,102	226,227	181,545
TRS Plan 2/3	70,147	30,995	(36,007)

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions
The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2017:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$0	$0	$222,836	$138,146
Difference between expected and actual earnings of pension plan investments	$97,688	$0	$512,096	$0
Changes of Assumptions	$0	$0	$43,253	$0
Changes in College's proportionate share of pension liabilities	$0	$0	$36,245	$11959
Contributions to pension plans after measurement date	$400,855	$0	$492,894	$0
	$498,543	**$0**	**$1,307,324**	**$150,105**

TRS 1		TRS 2/3	
Deferred	Deferred	Deferred	Deferred

	Outflows	Inflows	Outflows	Inflows
Difference between expected and actual experience	$0	$0	$2,345	$1,375
Difference between expected and actual earnings of pension plan investments	$7,175	$0	$4,989	$0
Changes of Assumptions	$0	$0	$316	$0
Changes in College's proportionate share of pension liabilities	$0	$0	$5,934	$1,969
Contributions to pension plans after measurement date	$24,318	$0	$15,477	$0
	$31,494	**$0**	**$29,060**	**$3,344**

The $1,866,421 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year ended June 30	PERS 1**	PERS 2/3	TRS 1**	TRS 2/3
2018	(24,053)	19,967	(1,855)	1,499
2019	(24,053)	12,352	(1,855)	1,499
2020	89,716	390,051	6,713	5,149
2021	56,078	241,955	4,172	2,370
2022				(276)
2023				
Total	**$97,688**	**$664,325**	**$7,175**	**$10,240**

<u>C. College Participation in Plan Administered by the State Board for Community and Technical Colleges</u>

State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plan

<u>Plan Description</u>

The State Board Retirement Plan is a privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee’s retirement date. The supplemental component is financed on a pay-as-you-go basis. Skagit Valley College participates in this plan as authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.

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, 2017 were each $1,336,006.

Benefits Provided. The State Board Supplemental Retirement Plans provide retirement, disability, and death benefits to eligible members.

As of July 1, 2011, all the Supplemental Retirement Plans were closed to new entrants.

Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is the one-twelfth of 2 percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of fifty percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member would receive from their defined contribution Retirement Plan benefit in the first month of retirement had they invested all employer and member contributions equally between a fixed income and variable income annuity investment.

Plan members have the option to retire early with reduced benefits.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $902,000. 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 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $76,704.93. As of June 30, 2017, the Community and Technical College system accounted for $13,280,149.81 of the fund balance.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to the June 30, 2017, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25%-6.25%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most actuarial assumptions used in the June 30, 2016, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017, measurement date.

Pension Expense

For the year ended June 30, 2017, Skagit Valley College reported $109,091 for pension expense in the Higher Education Supplemental Retirement Plans.

Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 2.79%. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's, actuarially determined.

Plan Membership

Membership of the State Board Supplemental Retirement Plans consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Number of Participating Members				
District	Inactive Members (Or Beneficiaries) Currently Receiving Benefits)	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
Skagit Valley College	19	4	162	185

Change in Total Pension Liability/ (Asset)

The following table presents the change in total pension liability/(asset) of Higher Education Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans (expressed in thousands):

Change in Total Pension Liability/(Asset)	
Total Pension Liability	Amount
Service Cost	$ 151
Interest	98
Changes of benefit terms	-
Differences between expected and actual experience	(707)
Changes of assumptions	(167)
Benefit Payments	(25)
Other	-
Net Change in Total Pension Liability	(650)
Total Pension Liability - Beginning	3,302
Total Pension Liability - Ending (a)	2,653

Sensitivity of the Total Pension Liability/ (Asset) to Changes in the Discount Rate

The following table presents the total pension liability/(asset), calculated using the discount rate of 3.58 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate (expressed in thousands):

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% increase
State Board for Community and Technical Colleges (SBCTC)	$ 109,199.00	$ 95,050.00	$ 83,332.00
Skagit Valley College	$ 3,047.47	$ 2,652.61	$ 2,325.59

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the State Board Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Skagit Valley College	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 614.05
Changes of assumptions		$ 144.92
Transactions subsequent to the measurement date		
Total	$ -	$ 758.97

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

Skagit Valley College	
2018	(115.01)
2019	(115.01)
2020	(115.01)
2021	(115.01)
2022	(115.01)
Thereafter	(183.94)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 11.B for TRS Plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

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.

18. Other Post-Employment Benefits

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $19,865,433, with an annual required contribution (ARC) of $1,789,916. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $384,046. The College's net OPEB obligation at June 30, 2017 was approximately $5,236,160. This amount is not included in the College's financial statements.

The College paid $4,664,388 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

19. 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, 2017.

Expenses by Functional Classification	
Instruction	$ 20,686,674
Academic Support Services	4,161,280
Student Services	11,980,882
Institutional Support	6,251,661
Operations and Maintenance of Plant	4,832,740
Scholarships and Other Student Financial Aid	6,780,004
Auxiliary enterprises	3,252,653
Depreciation	2,625,219
Total operating expenses	**$ 60,571,113**

20. Commitments and Contingencies

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

The College has commitments of $2,788,734 for various capital improvement projects that include athletic field improvements, construction and completion of a Fire Station for the Fire Tech Program, and renovations of existing buildings.

21. Subsequent Events

The College does not have any subsequent events as of June 30, 2017 to report.

Required Supplemental Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Skagit Valley College's Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 1

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.073192%	$ 3,687,081	$ 7,524,995	49.00%	61.19%
2015	0.073200%	$ 3,829,041	$ 7,844,434	48.81%	59.10%
2016	0.072244%	$ 3,879,839	$ 8,143,706	47.64%	57.03%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Skagit Valley College's Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 2/3

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.082904%	$ 1,675,789	$ 7,086,491	23.65%	93.29%
2015	0.083494%	$ 2,983,289	$ 7,408,500	40.27%	89.20%
2016	0.083115%	$ 4,184,775	$ 7,754,061	53.97%	85.82%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Skagit Valley College’s Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability
Teachers’ Retirement System (TRS) Plan 1
Measurement Date of June 30

Fiscal Year	College’s proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College’s proportionate share of the net pension liability as a percentage of its covered payroll	Plan’s fiduciary net position as a percentage of the total pension liability
2014	0.013816%	$ 407,497	$ 334,008	122.00%	68.77%
2015	0.013044%	$ 413,252	$ 350,737	117.82%	65.70%
2016	0.006626%	$ 226,227	$ 223,193	101.36%	62.07%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Skagit Valley College's Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.002125%	$ 6,864	$ 94,927	7.23%	96.81%
2015	0.002490%	$ 21,011	$ 116,554	18.03%	92.48%
2016	0.002257%	$ 30,995	$ 111,474	27.80%	88.72%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*These schedules are to be built prospectively until they contain 10 years of data.

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions

Public Employees' Retirement System (PERS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 323,968	$ 323,968	$ -	$ 7,524,995	4.31%
2015	$ 336,426	$ 336,426	$ -	$ 7,844,434	4.29%
2016	$ 409,693	$ 409,693	$ -	$ 8,143,706	5.03%
2017	$ 395,749	$ 395,749	$ -	$ 8,018,878	4.94%
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions

Public Emplyees' Retirement System (PERS) Plan 2/3

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 350,221	$ 350,221	$ -	$ 7,086,491	4.94%
2015	$ 371,927	$ 371,927	$ -	$ 7,408,500	5.02%
2016	$ 479,817	$ 479,817	$ -	$ 7,754,061	6.19%
2017	$ 484,067	$ 484,067	$ -	$ 7,783,921	6.22%
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions

Teachers' Retirement System (TRS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 27,321	$ 27,321	$ -	$ 334,008	8.18%
2015	$ 29,189	$ 29,189	$ -	$ 350,737	8.32%
2016	$ 20,137	$ 20,137	$ -	$ 223,193	9.02%
2017	$ 24,386	$ 24,386	$ -	$ 309,244	7.89%
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 5,215	$ 5,215	$ -	$ 94,927	5.49%
2015	$ 6,618	$ 6,618	$ -	$ 116,554	5.68%
2016	$ 7,367	$ 7,367	$ -	$ 111,474	6.61%
2017	$ 15,662	$ 15,662	$ -	$ 233,057	6.72%
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios Skagit Valley College Fiscal Year Ended June 30 *(expressed in thousands)*	
	2017
Total Pension Liability	
Service Cost	$ 151
Interest	98
Changes of benefit terms	-
Differences between expected and actual experience	(707)
Changes of assumptions	(167)
Benefit Payments	(25)
Other	-
Net Change in Total Pension Liability	**(650)**
Total Pension Liability - Beginning	**3,302**
Total Pension Liability - Ending	**$ 2,653**
College's Proportion of the Pension Liability	2.79%
Covered-employee payroll	$ 15,679
Total Pension Liability as a percentage of covered-employee payroll	16.92%

Notes: These schedules will be built prospectively until they contain 10 years of data.

State Board Supplemental Defined Benefit Plans
Notes to Required Supplementary Information

The State Board Supplemental Retirement Plans are financed on a pay-as-you-go basis. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, salary growth and the variable income investment return.