



Everett Community College

2017 Financial Report
Fiscal Year Ended June 30, 2017

2017 Financial Report

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You may view the financial report at www.everettcc.edu.

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Trustees and Administrative Officers

BOARD OF TRUSTEES

Bob Bolerjack, chairperson

Betty Cobbs

Gigi Burke

Mike Deller

Toraya Miller

EXECUTIVE OFFICERS

Dr. David N. Beyer, President

Gail Miulli, Interim Executive Vice-President of Instruction and Student Services

Patrick Sisneros, Vice President of College Services

Jennifer Howard, Vice President of Administrative Services

Dr. John Olson, Vice President of College Advancement and Executive Director EvCC Foundation

John Bonner, Vice President of Corporate and Continuing Education

Heather Bennett, Executive Director of Institutional Effectiveness and Resource Development

Maria Peña, Chief Diversity and Equity Officer



Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

March 8, 2018

Board of Trustees
Everett Community College
Everett, 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 Everett Community College, 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 in the table of contents.

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 Everett Community College Foundation (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregately discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and in 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 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 Everett Community 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.

The financial statements of the Everett Community 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

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 in the table of contents 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.

Supplementary and Other Information


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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated March 8, 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.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

Management's Discussion and Analysis

Everett Community College

The following discussion and analysis provides an overview of the financial position and activities of Everett Community 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

Everett Community 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 19,600 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1941 and its primary purpose is to educate, equip, and inspire each student to achieve personal and professional goals, contribute to our diverse communities, and thrive in a global society.

The College's main campus is located in Everett, Washington, a community of about 103,019 residents. The College also has operations in Monroe, Marysville and Arlington. 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, the Everett Community College 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 \$3,985,925 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 and includes all assets and liabilities of the College. 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	\$ 18,599,765	\$ 21,590,175
Capital Assets, net	\$ 137,661,517	\$ 138,655,579
Other Assets, non-current	\$ 23,936,591	\$ 25,383,713
Total Assets	\$ 180,197,873	\$ 185,629,467
Deferred Outflows	\$ 2,883,031	\$ 2,037,685
Liabilities		
Current Liabilities	\$ 10,166,709	\$ 10,765,811
Other Liabilities, non-current	\$ 34,599,827	\$ 29,539,405
Total Liabilities	\$ 44,766,536	\$ 40,305,216
Deferred Inflows	\$ 1,382,080	\$ 1,495,017
Net Position	\$ 136,932,288	\$ 145,866,919

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease of current assets in FY 2017 of just under three million dollars can be attributed to the college's strategic use of its reserves to fund large equipment purchases and Guided Pathways planning activity. This resulted in revenues less than expenditures.

Non-current assets consist primarily of the long term portion of the college's investments in bonds (maturity beyond one year), capital assets, as well as the discretionary financial aid reserves (3 ½% funds).

Net capital assets decreased by just over two million dollars from FY 2016 to FY 2017. The decrease is consistent with prior years. In FY 2016, the decrease was just over 3 million. In FY 2017, the decrease was less, at just over 2 million.

This continuing decrease is primarily the result of a high existing depreciation expense without a commensurate offset of new assets. The college constructed five new buildings in the last 10 years, which created new annual depreciation costs. Due to these capital projects and construction, current depreciation expense is at \$5.4 million.

In FY 2016, the College had \$1.4 million in additions to capital assets. In FY 2017, additions to capital assets were at \$4.5 million. In FY 2017, various projects such as the AMTEC remodel and HVAC upgrades for Olympus Hall were completed. Upon completion, these projects became additions to assets. This is why the FY 2017 decrease to total net capital assets was less than FY2016, at just over 2 million.

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 \$2,037,685 in FY 2016 and \$2,883,031 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 expense accruals for capital projects in FY16 that were still in progress. In FY 17 there were very few expense accruals due to the fact that it was the end of the biennium and projects must be completed prior to the end of the biennium since capital funding does not carryforward. Another decrease in current liabilities were the result of the payout related to the settlement of Moore vs. HCA, which was accrued as a liability in FY 2016.

The increase in unearned revenue is primarily attributable to the change in classification of international tuition revenue.

The College's non-current liabilities primarily consist of the long term portion of the COP debt, along with the long-term pension liability due to the implementation of GASB 68 and GASB 73. The overall change is an increase of approximately \$5 million.

The College's non-current liabilities decreased by approximately \$1,090,000 as the College pays down the principal owed on Certificates of Participation for capital construction, infrastructure, and remodel projects. The College's non-current liabilities increased by approximately \$6 million due to the implementation of GASB Statement GASB 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:

Nonexpendable – consists of funds in which a donor or external party has imposed the restriction that the principal is not available for spending but for investment purposes only. Over the last 33 years, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. Prior to the creation of the Foundation, donors contributed directly to the College, and the principal of these funds remains in College accounts.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are the donation amounts over and above the principle, and the discretionary financial aid reserves (3 ½% funds).

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. The decrease is reflective of the college's strategic investment of reserves as described in the 'current assets' portion of the MD&A.

The College's net position was adjusted by \$4,962,466 to record the beginning balance adjustment to long-term obligations as a result of the implementation of GASB Statement No. 73.

Net Position As of June 30th	FY 2017	FY 2016
Net investment in capital assets	\$ 128,755,376	\$ 129,951,782
Restricted		
Expendable -Supplemental financial aid	\$ 1,325,034	\$ 1,310,896
Nonexpendable - Principal for investment only	\$ 78,557	\$ 78,557
Unrestricted	\$ 6,773,321	\$ 14,525,684
Total Net Position	\$136,932,288	\$145,866,919

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 services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government entity without directly giving equal value to that government entity 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	\$	21,707,263	\$	25,619,311
Auxiliary enterprise sales	\$	2,544,926	\$	1,796,842
State and local grants and contracts	\$	19,770,454	\$	14,957,431
Federal grants and contracts	\$	1,939,443	\$	1,473,485
Other Operating revenues	\$	1,567,702	\$	1,410,862
Total operating revenues	\$	47,529,788	\$	45,257,931
Operating Expenses	\$	82,458,523	\$	76,535,544
Operating Loss	\$	(34,928,735)	\$	(31,277,613)
Non-Operating Revenues				
State appropriations	\$	25,898,482	\$	25,040,863
Federal Pell grant revenue	\$	6,408,938	\$	6,406,631
Investment income, net	\$	(35,358)	\$	177,755
Non-Operating Expenses	\$	(2,908,914)	\$	(3,582,728)
Net non-operating revenues (expense)	\$	29,363,148	\$	28,042,521
Income (loss) before capital contributions	\$	(5,565,587)	\$	(3,235,092)
Capital Appropriations and Contributions	\$	1,571,424	\$	1,899,885
Non Cash Capital Contribution	\$	22,000	\$	80,285
Change in Net Position	\$	(3,972,163)	\$	(1,254,922)
Net Position, Beginning of the Year	\$	145,866,919	\$	147,121,841
Cummulative Effect of change in accounting principle	\$	(4,962,466)		
Net Position, End of the Year	\$	136,932,290	\$	145,866,919

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 a decrease in its state allocation due to the implementation of this new model.

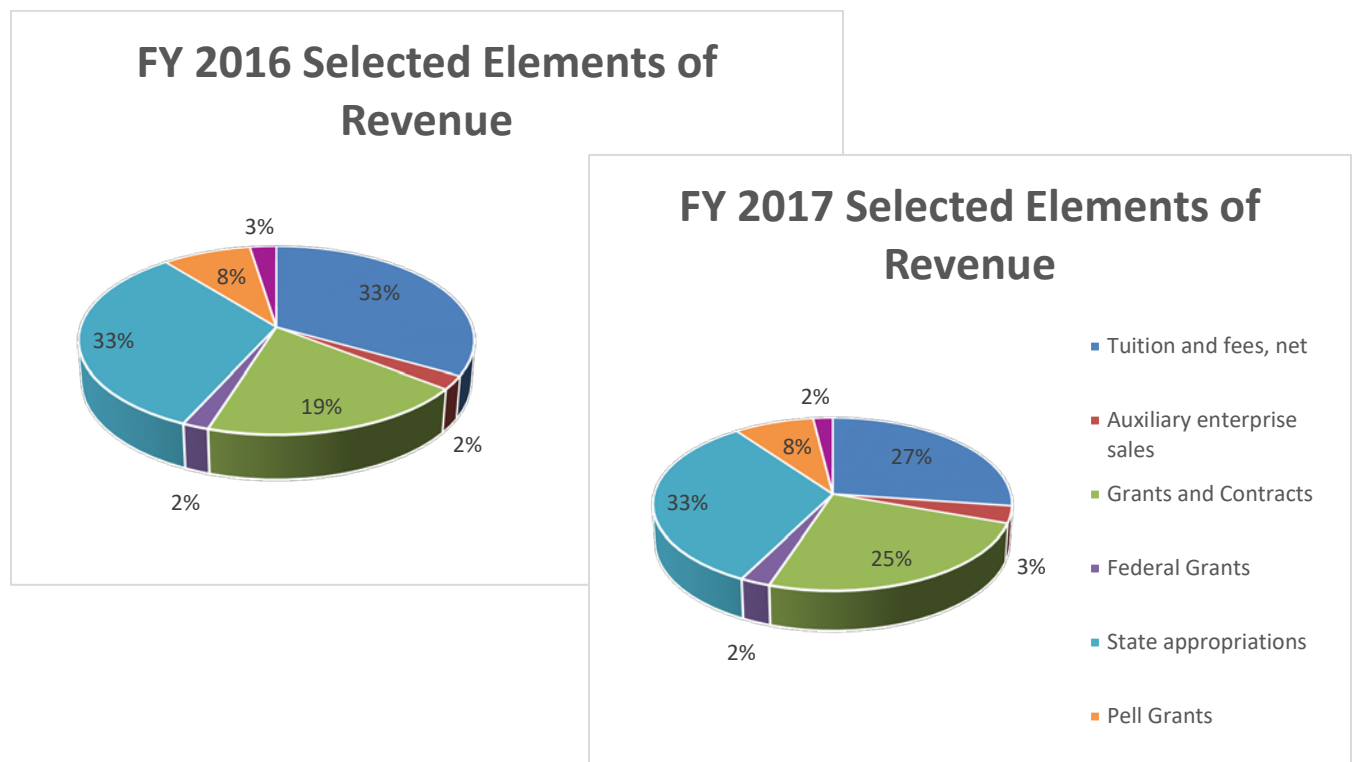
In FY 2017, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. While this action helped make college affordable for more students, this reduced the amount of tuition revenue collected by the College.

In FY 2017, the College's decrease in tuition and fee revenue is primarily attributable to the change in classification of international tuition revenue. Based on a directive from the State Board of Community and Technical Colleges (SBCTC), the College changed the classification for international students to 'non-state funded FTE'. Thus, any 'tuition' collected from international students is classified as contract revenue, not tuition. For the College, the amount reclassified from tuition to contract revenue in FY 2017 is over 3 million dollars.

Pell grant revenues generally follow enrollment trends. The College showed an imperceptible increase in both enrollment and Pell grant revenues.

In FY 2017, grant and contract revenues increased by approximately \$5 million 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 serves contracted international students who are not supported by state dollars.

In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenses from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenses 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.



Expenses

The College prioritizes investing in programs and staffing to ensure student success. The investments are conservative and are projected to bring additional revenues. In future years, the College anticipates additional revenues from state allocation, because student enrollments and student achievement are a significant portion of how funds are distributed in the new allocation model.

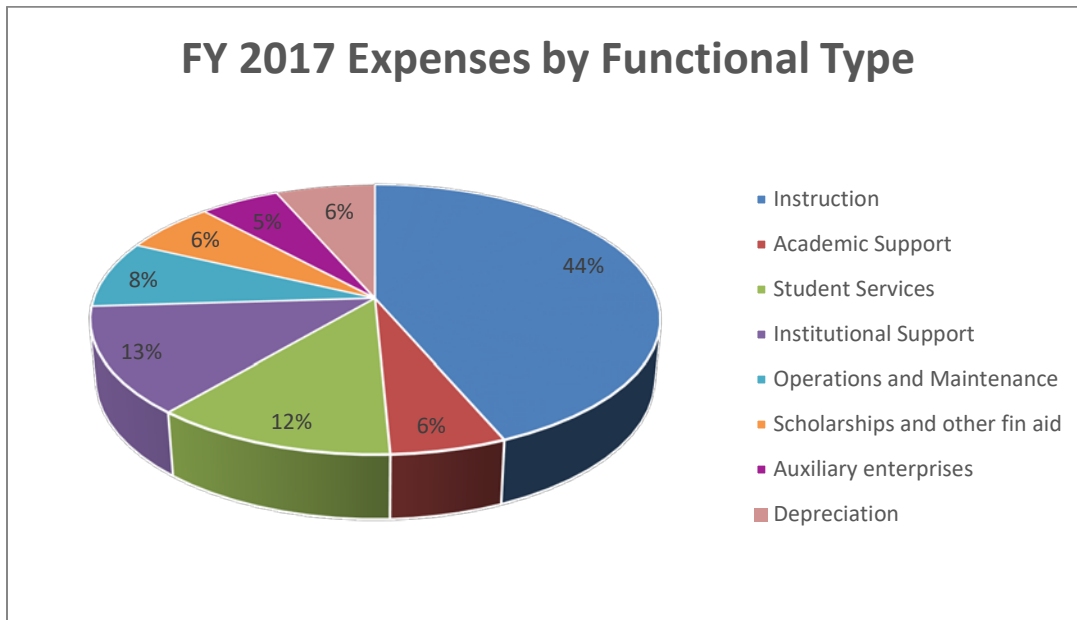
In FY 2017, salary and benefit costs increased as result of the 1.8% salary increase required by the Legislature, negotiated increases for classified staff, and having to compete in the job market in order to replace retiring exempt employees and/or faculty. Additionally, the College created new positions in financial aid (among other areas) to better serve students.

Utility costs have also increased as a result of rate increases. The usage also increased because the College is paying the utilities for Mountain View, the new student housing facility. Supplies and materials and purchased services are lower in FY 2017, primarily as a result of a reduced spending.

All other costs are reported as operating expenses. Examples include consumable supplies, non-capitalizable remodeling and equipment costs and travel costs.

Operating Expenses by Function

The chart below shows the percentage of each functional area of operating expenses for FY 2017.



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.

At June 30, 2017, the College had \$146,220,375 in capital assets, net of accumulated depreciation. This represents a decrease of \$2,382,376 from last year, as shown in the table below. The decrease is consistent with prior years. In FY 2016, the decrease was just over 3 million. In FY 2017, the decrease was less, at just over 2 million.

This continuing decrease is primarily the result of a high existing depreciation expense without a commensurate offset of new assets. The college constructed five new buildings in the last 10 years, which created new annual depreciation costs. Due to these capital projects and construction, current depreciation expense is at \$5.4 million.

In FY 2016, the College had \$1.4 million in additions to capital assets. In FY 2017, additions to capital assets were at \$4.5 million. In FY 2017, various projects such as the AMTEC remodel and HVAC upgrades for Olympus Hall were completed. Upon completion, these projects became additions to assets. This is why the FY 2017 decrease to total net capital assets was less than FY2016, at just over 2 million.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	\$ 8,558,859	\$ 8,558,859	\$ -
Construction in Progress	\$ -	\$ 1,388,313	\$ (1,388,313)
Buildings, net	\$ 133,210,600	\$ 134,122,658	\$ (912,058)
Other Improvements and Infrastructure, net	\$ 809,367	\$ 847,262	\$ (37,895)
Equipment, net	\$ 3,407,417	\$ 3,453,645	\$ (46,228)
Library Resources, net	\$ 234,132	\$ 232,014	\$ 2,118
Total Capital Assets, Net	\$ 146,220,375	\$ 148,602,751	\$ (2,382,376)

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 \$17,465,000 in outstanding debt. A significant portion of this debt is related to the student fitness center. The fitness center was financed with a 20-year COP. In 2007 the student body approved a dedicated student fee as their contribution to payment of the fitness center COP. Additional debt includes the remodel of CCEC, and an on-going capital lease for fiber-optic infrastructure project.

	June 30, 2017
Certificates of Participation	\$17,465,000
Capital Leases	\$0
Total	\$17,465,000

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

Economic Factors That May Affect the Future

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. Over the next years, SBCTC will be adjusting the distribution parameters to address the equity gap in student achievement. The College will be well-positioned to increase its allocation under this plan, as we have an increasing population of traditionally underrepresented students. The other anticipated change in distribution is that Running Start students will no longer be counted in student achievement calculations. This will negatively impact the College, as we have a significant Running Start enrollment. The other SBCTC cost that will impact the College is the ctc link technology system replacement. On-going costs, and delay of implementation have increased the costs to each college, and this will increase College expenditures to fund its share of ctc link costs for the next ten years.

In the previous biennium, the state legislators approved use of local funds to finance bargained faculty salary increases. As of July 1, 2017, this language was not included in the budget language for the 17/19 biennium. However, requests have already been made by union representatives at the state level to reinstate the use of local funds for bargaining. Should the state approve use of local funds, the College will need to bargain with faculty to determine what, if any, amount of local funds would be used to finance across the board salary increases.

It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations such as the McCleary Act.

Statement of Net Position

Everett Community College

June 30, 2017

Assets		
Current assets		
Cash and cash equivalents		11,938,290
Restricted Cash		56,570
Accounts Receivable		6,367,308
Interest Receivable		49,734
Inventories		187,863
	Total current assets	<u>18,599,765</u>
Non-Current Assets		
Long-term investments		14,063,088
Restricted cash		1,314,644
Non-depreciable Capital Assets		8,558,859
Capital assets, net of depreciation		137,661,517
	Total non-current assets	<u>161,598,109</u>
	Total assets	<u>180,197,874</u>
Deferred Outflows of Resources		<u>2,883,031</u>
Deferred Outflows of Resources related to pensions		<u>2,883,031</u>
	Total Assets and Deferred Outflows	<u>183,080,905</u>
Liabilities		
Current Liabilities		
Accounts Payable		978,202
Accrued Liabilities		2,837,603
Compensated absences		1,453,693
Deposits Payable		38,722
Unearned Revenue		3,768,489
Certificates of Participation Payable		1,090,000
	Total current liabilities	<u>10,166,709</u>
Noncurrent Liabilities		
Compensated Absences		2,508,157
Pension liability		15,716,670
Long-term liabilities		16,375,000
	Total non-current liabilities	<u>34,599,827</u>
	Total liabilities	<u>44,766,536</u>
Deferred Inflows of Resources		<u>1,382,080</u>
Deferred Inflows of Resources related to pensions		<u>1,382,080</u>
Net Position		
Net Investment in Capital Assets		128,755,376
Restricted for:		
Nonexpendable		78,557
Expendable		1,325,034
Unrestricted		6,773,321
	Total Net Position	<u>136,932,289</u>
	Total Liabilities, Inflows and Net Position	<u>183,080,905</u>
Total assets & outflows		183,080,905

The notes to the financial statements are an integral part of this statement.

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

Operating Revenues	
Student tuition and fees, net	21,707,263
Auxiliary enterprise sales	2,544,926
State and local grants and contracts	19,770,454
Federal grants and contracts	1,939,443
Other operating revenues	<u>1,567,702</u>
Total operating revenue	<u>47,529,788</u>
Operating Expenses	
Operating Expenses	8,535,928
Salaries and wages	40,404,500
Benefits	13,545,906
Scholarships and fellowships	8,607,945
Supplies and materials	1,232,715
Depreciation	5,420,538
Purchased services	3,667,255
Utilities	<u>1,043,736</u>
Total operating expenses	<u>82,458,523</u>
Operating income (loss)	<u>(34,928,735)</u>
Non-Operating Revenues (Expenses)	
State appropriations	25,898,482
Federal Pell grant revenue	6,408,938
Investment income, gains and losses	(35,358)
Building fee remittance	(1,845,692)
Innovation fund remittance	(448,903)
Other non-operating revenues (expenses)	218,184
Interest on indebtedness	<u>(832,504)</u>
Net non-operating revenue (expenses)	<u>29,363,147</u>
Income or (loss) before other revenues, expenses, gains, or losses	<u>(5,565,588)</u>
Capital Revenues	
Capital appropriations	1,571,424
Non cash capital contribution	<u>22,000</u>
	<u>1,593,424</u>
Increase (Decrease) in net position	<u>(3,972,164)</u>
Net Position	
Net position, beginning of year	<u>145,866,919</u>
Cummulative effect of change in accounting principle	<u>(4,962,466)</u>
Net position, end of year	<u>136,932,289</u>

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
 Everett Community College
 For the Year Ended June 30, 2017

Cash flow from operating activities	
Student tuition and fees	21,872,132
Grants and contracts	21,220,180
Payments to vendors	(6,039,662)
Payments for utilities	(1,039,790)
Payments to employees	(40,177,409)
Payments for benefits	(13,438,131)
Auxiliary enterprise sales	2,588,348
Payments for scholarships and fellowships	(8,607,945)
Other payments	(8,243,734)
Other receipts	1,806,051
Net cash used by operating activities	(30,059,960)
 Cash flow from noncapital financing activities	
State appropriations	26,079,573
Pell grants	6,408,938
Building fee remittance	(1,827,156)
Innovation fund remittance	(445,477)
Net cash provided by noncapital financing activities	30,215,878
 Cash flow from capital and related financing activities	
Capital appropriations	1,910,091
Purchases of capital assets	(3,039,710)
Principal paid on capital debt	(1,185,968)
Interest paid	(832,504)
Net cash used by capital and related financing activities	(3,148,092)
 Cash flow from investing activities	
Purchase of investments	72,621
Income of investments	176,107
Net cash provided by investing activities	248,728
 Increase in cash and cash equivalents	 (2,743,445)
 Cash and cash equivalents at the beginning of the year	 16,052,949
 Cash and cash equivalents at the end of the year	 13,309,504
 Reconciliation of Operating Loss to Net Cash used by Operating Activities	
 Operating Loss	 (34,928,735)

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Statement of Cash Flows, continued

Adjustments to reconcile net loss to net cash used by operating activities

Depreciation expense	5,420,538
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Changes in assets and liabilities

Receivables , net	(209,419)
Inventories	(83,260)
Accounts payable	(923,363)
Accrued liabilities	121,901
Unearned revenue	166,342
Compensated absences	241,683
Pension liability adjustment expense	110,170
Deposits payable	24,184

Net cash used by operating activities	<u>(30,059,960)</u>
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The notes to the financial statements are an integral part of this statement.

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	\$ 922,176	\$ 740,658
Short-term investments	372,582	372,829
Current portion of pledges receivable, net	60,557	79,198
TOTAL CURRENT ASSETS	1,355,315	1,192,685
OTHER ASSETS:		
Pledges receivable, net of current portion	50,000	116,000
Assets held for sale	29,900	32,400
Property and equipment, net	92,488	94,935
Long-term investments	2,679,940	2,373,632
Cash restricted for endowments	185,700	309,160
Collection items	176,601	176,601
TOTAL OTHER ASSETS	3,214,629	3,102,728
	\$ 4,569,944	\$ 4,295,413

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 36,735	\$ 14,233
NET ASSETS:		
Unrestricted	755,965	787,863
Temporarily restricted	1,593,041	1,346,229
Permanently restricted	2,184,203	2,147,088
TOTAL NET ASSETS	4,533,209	4,281,180
	\$ 4,569,944	\$ 4,295,413

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT:				
Contributions	\$ 23,938	\$ 434,395	\$ 37,115	\$ 495,448
In-kind contributions	153,992	140,943	0	294,935
Special events revenue	95,655	1,980	0	97,635
Contract revenue	53,204	0	0	53,204
Investment income	10,257	61,507	0	71,764
Net realized and unrealized gain on investments	29,659	202,801	0	232,460
Net assets released from restrictions	594,814	(594,814)	0	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>961,519</u>	<u>246,812</u>	<u>37,115</u>	<u>1,245,446</u>
EXPENSES:				
College program support	542,184	0	0	542,184
Scholarships	134,086	0	0	134,086
Total program support	<u>676,270</u>	<u>0</u>	<u>0</u>	<u>676,270</u>
Administration	187,350	0	0	187,350
Fundraising	129,797	0	0	129,797
Total support services	<u>317,147</u>	<u>0</u>	<u>0</u>	<u>317,147</u>
TOTAL EXPENSES	<u>993,417</u>	<u>0</u>	<u>0</u>	<u>993,417</u>
CHANGE IN NET ASSETS	(31,898)	246,812	37,115	252,029
NET ASSETS AT BEGINNING OF YEAR	<u>787,863</u>	<u>1,346,229</u>	<u>2,147,088</u>	<u>4,281,180</u>
NET ASSETS AT END OF YEAR	<u>\$ 755,965</u>	<u>\$ 1,593,041</u>	<u>\$ 2,184,203</u>	<u>\$ 4,533,209</u>

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ 252,029	\$ (48,340)
Adjustments to reconcile change in net assets:		
Contributions restricted for endowment	(44,715)	(12,541)
Depreciation expense	2,447	2,448
Net realized and unrealized (gain) loss on investments	(232,460)	51,195
In-kind contribution of assets held for sale	2,500	(32,400)
Reinvested interest on certificates of deposit	(837)	(1,059)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Pledges receivable	84,641	(95,198)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	22,502	(6,163)
Total adjustments and changes	(165,922)	(93,718)
	86,107	(142,058)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Investment of assets restricted for endowment	(44,715)	(12,541)
Payments for purchases of investments	(562,115)	(703,516)
Proceeds from sale of investments	657,526	799,485
	50,696	83,428
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Contributions restricted for endowment	44,715	12,541
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	181,518	(46,089)
BEGINNING CASH AND CASH EQUIVALENTS	740,658	786,747
ENDING CASH AND CASH EQUIVALENTS	\$ 922,176	\$ 740,658
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITY:		
Equipment donations capitalized	\$ 0	\$ 32,400
Equipment contributed to College	\$ 2,500	\$ 0

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

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

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

The Everett Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1984 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to provide scholarships to students, professional development opportunities to faculty and staff, equipment to aid in the teaching process, and financial assistance to the College to meet its greatest needs as may be determined by the Foundation Board of Directors. 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 component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. 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. For the fiscal year ended June 30, 2017, the distribution from the Foundation to the College for restricted and/or unrestricted purposes which includes both student and scholarships and program support was approximately \$676,270. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 2000 Tower Street, Everett, WA 98201.

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 outflows, liabilities, deferred inflows, 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 in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. 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. Endowment investments are classified as noncurrent assets. 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. The internal investment pool is comprised of cash, cash equivalents and U.S. Agency securities.

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. Where applicable, accounts receivable includes proceeds from Certificates of Participation that have not yet been received from the State Treasurer. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories, consisting primarily of supplies used by aviation and cosmetology programs, are valued at cost using the first in, first out 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. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives 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 and housing deposits as unearned revenues.

Tax Exemption

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

Net 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 Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for 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 and/or Technical High School. 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 \$6,455,022.

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 \$4,962,466 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 19, 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 and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets, and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State

Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state

considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

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 the 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/lqip/cafr/LqipCafr.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 \$13,309,504 as represented in the table below.

Cash and Cash Equivalents	June 30, 2017
Petty Cash and Change Funds	\$5,350
Bank Demand and Time Deposits	\$8,841,169
Local Government Investment Pool	\$3,083,179
Deposits in Transit	\$8,592
Total Cash and Cash Equivalents	\$11,938,290
Cash Restricted for retainage held	\$56,570
Cash restricted for supplemental financial aid	\$1,314,644
Total Restricted Cash	\$1,371,214

Outside of investment in the LGIP, investments by the college consist of U.S. Agency bonds. The college measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

All bonds held by the College are obligations of the United States or its agencies and are classified as Level 2 in the fair value hierarchy. As of June 30, 2017, the fair value of investments was \$14,063,089 with maturities ranging from 1 -5 years.

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

The College manages its exposure to interest rate changes by limiting the duration of investments to mature at various points in the year. The portfolio average maturity is three years or less.

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 none of the College's investments are exposed to custodial credit risk because the investments are held by US Bank Safekeeping of Washington 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 \$736.

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 expenses made according to sponsored agreements. At June 30, 2017, accounts receivable was as follows.

Student Tuition and Fees	\$ 2,059,507
Due from the Federal Government	\$ 585,655
Due from Other State Agencies	\$ 4,147,890
Auxiliary Enterprises	\$ 135,513
Interest Receivable	\$ 4,182
Subtotal	\$ 6,932,748
Less Allowance for Uncollectible Accounts	\$ (565,440)
Accounts Receivable, net	\$ 6,367,308

5. Inventories

Inventories, stated at cost using first in, first out method, consisted of consumable inventories in the amount of \$187,863 as of June 30, 2017.

6. 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 \$5,420,538.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	\$ 8,558,859	\$ -	\$ -	\$ 8,558,859
Construction in progress	\$ 1,388,313	\$ -	\$ 1,388,313	\$ -
Total nondepreciable capital assets	\$ 9,947,172	\$ -	\$ 1,388,313	\$ 8,558,859
Depreciable capital assets				
Buildings	\$ 175,739,904	\$ 3,496,397	\$ -	\$ 179,236,301
Other improvements and infrastructure	\$ 1,136,839	\$ -	\$ -	\$ 1,136,839
Equipment	\$ 9,905,120	\$ 910,415	\$ 495,582	\$ 10,319,953
Library resources	\$ 493,959	\$ 75,208	\$ 54,014	\$ 515,153
Subtotal depreciable capital assets	\$ 187,275,823	\$ 4,482,020	\$ 549,596	\$ 191,208,247
Less accumulated depreciation				
Buildings	\$ 41,617,246	\$ 4,408,455	\$ -	\$ 46,025,701
Other improvements and infrastructure	\$ 289,577	\$ 37,895	\$ -	\$ 327,472
Equipment	\$ 6,451,476	\$ 901,098	\$ 440,039	\$ 6,912,535
Library resources	\$ 261,945	\$ 73,090	\$ 54,014	\$ 281,021
Total accumulated depreciation	\$ 48,620,244	\$ 5,420,538	\$ 494,053	\$ 53,546,729
Total depreciable capital assets	138,655,579	(938,518)	55,543	137,661,518
Capital assets, net of accumulated depreciation	\$148,602,751	\$ (938,518)	\$ 1,443,856	\$146,220,377

7. 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.

8. Accounts Payable and Accrued Liabilities

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

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	\$ 1,507,851
Accounts Payable	\$ 978,202
Compensated Absences	\$ 1,453,693
Amounts Held for Others and Retainage	\$ 1,368,475
Total	\$ 5,308,221

9. 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	\$ 3,634,206
Housing and Other Deposits	134,283
Total Unearned Revenue	\$ 3,768,489

10. 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 \$120,311. 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.

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees’ Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled \$1,562,803, and accrued sick leave totaled \$2,399,048 at June 30, 2017.

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

12. Leases Payable

The College has leases for student residences, classroom space and other assets with various vendors. These leases are classified as operating leases. As of June 30, 2017, the minimum lease payments under operating leases consist of the following.

Leases Payable		
Fiscal year	Capital Leases	Operating Leases
2018		1,489,390
2019		1,359,199
2020		1,169,582
2021		1,141,666
2022		1,141,791
2023-27		5,677,328
2028-2032		4,905,656
2033-2037		4,116,056
Total minimum lease payments	0	21,000,666

13. Notes Payable

In August, 2012, the College obtained financing to remodel the Corporate and Continuing Education Building through a certificate of participation (COP), issued by the Washington State Treasurer (OST) in the amount of \$3,545,000. The interest rate charged is approximately 3.103%.

In August, 2009, the College obtained financing to build the Health Education & Fitness Center through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$20,440,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2011. The interest rate charged is approximately 4.463%.

Student fees related to the Health Education & Fitness Center COP which are used to pay a portion of the principal and interest are accounted for in a dedicated fund, apart from the general operating budget. The College's debt service requirements for these note agreements for the next five years and thereafter are listed below.

14. Annual Debt Service Requirements

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

Annual Debt Service Requirements						
Fiscal year	Certificates of Participation			Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 1,090,000	\$ 783,383	\$ 1,873,383			
2019	1,140,000	739,108	\$ 1,879,108			
2020	1,185,000	692,058	\$ 1,877,058			
2021	1,235,000	643,158	\$ 1,878,158			
2022	1,285,000	590,814	\$ 1,875,814			
2023-27	7,340,000	2,048,225	\$ 9,388,225			
2028-2032	4,190,000	372,850	\$ 4,562,850			
2033-2037						
2038-2042						
2043-2047						
Total	17,465,000	5,869,594	23,334,594	-	-	-

15. Schedule of Long Term Liabilities

	Balance outstanding 6/30/16	Additions	Reductions	Balance outstanding 6/30/17	Current portion
Certificates of Participation	\$ 18,515,000	\$ -	\$ 1,050,000	\$ 17,465,000	\$ 1,090,000
Compensation Absences	\$ 3,720,167	\$ 1,785,017	\$ 1,543,333	\$ 3,961,851	\$ 1,453,693
Capital Leases	\$ 135,968	\$ -	\$ 135,968	\$ -	\$ -
Net Pension Liability	\$ 9,685,750	\$ 9,187,371	\$ 3,156,451	\$ 15,716,670	\$ -
Total	\$ 32,056,885	\$ 10,972,388	\$ 5,885,752	\$ 37,143,521	\$ 2,543,693

16. Pension Liability

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

Pension Liability by Plan		
PERS 1	\$	(5,261,072)
PERS 2/3		(6,019,149)
TRS 1		(365,119)
TRS 2/3		(85,405)
SBRP		(3,985,925)
Total	\$	(15,716,670)

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 Systems. The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

For FY2017, the payroll for the College's employees was \$11,865,849 for PERS, \$493,089 for TRS, and \$27,798,724 for SBRP. Total covered payroll was \$40,157,661.

Everett Community College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the State Board Retirement Plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB. In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

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 State Board Retirement Plan in alignment with the State CAFR.

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 Everett Community College, for fiscal year 2017:

Aggregate Pension Amounts - All Plans

Pension liabilities	\$ 15,716,670
Deferred outflows of resources related to pensions	\$ 2,883,031
Deferred inflows of resources related to pensions	\$ 1,382,080
Pension expense	\$ 1,534,911

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 classified employee with pre-existing eligibility who continue to participate in TRS 1.

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	4.69%	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 Contributions						
	FY2015		FY2016		FY2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	\$ 13,536	\$ 20,778	\$ 14,571	\$ 27,150	\$ 14,311	\$ 26,667
Plan 2	\$ 404,510	\$ 757,299	\$ 535,722	\$ 978,756	\$ 533,177	\$ 977,010
Plan 3	\$ 146,006	\$ 209,454	\$ 164,071	\$ 272,277	\$ 189,625	\$ 322,925
TRS						
Plan 1	\$ 7,052	\$ 12,212	\$ 6,519	\$ 13,944	\$ 4,500	\$ 9,847
Plan 3	\$ 26,085	\$ 37,129	\$ 28,418	\$ 39,514	\$ 35,087	\$ 54,896

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:

<u>Pension Plan</u>	<u>Rate of Return</u>
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
Actuarially determined pension expense	307,715	821,135	23,446	23,287	1,175,582
Amortization of change in proportionate liability	120,880	93,061	(62,472)	6,112	157,580
Total Pension Expense	428,595	914,195	(39,027)	29,398	1,333,162

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	.095772%	.097963%
PER 2/3	.118019%	.119548%
TRS 1	.012530%	.010694%
TRS 2/3	.007363%	.006219%

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	6,344,327	5,261,072	4,328,869
PERS Plan 2/3	11,082,333	6,019,149	(3,133,314)
TRS Plan 1	448,842	365,119	293,003
TRS Plan 2/3	193,284	85,405	(99,215)

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	-	-	320,515	198,702
Difference between expected and actual earnings of pension plan investments	132,466	-	736,570	-
Changes of Assumptions	-	-	62,213	-
Changes in College's proportionate share of pension liabilities	-	-	183,632	29,459
Contributions to pension plans after measurement date	587,188	-	735,872	-
	\$719,654	\$-	\$2,038,802	\$228,161

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-	6,461	3,790
Difference between expected and actual earnings of pension plan investments	11,581	-	13,748	-
Changes of Assumptions	-	-	870	-
Changes in College's proportionate share of pension liabilities	-	-	28,061	9,665
Contributions to pension plans after measurement date	36,084	-	27,771	-
	\$47,665	\$-	\$76,911	\$13,455

The \$1,386,915 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	(32,616)	97,218	(2,993)	5,860
2019	(32,616)	52,089	(2,993)	5,860
2020	121,655	573,357	10,834	16,931
2021	76,042	352,105	6,733	8,182
2022				(1,147)
2023				
Total	132,466	1,074,770	11,581	35,684

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

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

Plan Description.

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. Everett Community College participates in this plan as authorized by chapter 28B.10 RCW and reports its proportionate share of the total pension liability. 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 \$2,022,228.

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. The College's share of this amount was \$37,825. 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 \$138,993. This amount was not used as a part of GASB73 calculations its status as an asset has not been determined by the Legislature. 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, Everett Community College reported \$201,749 for pension expense in the State Board Retirement Plans.

Proportionate Shares of Pension Liabilities

The College’s proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 4.19%. 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				
	Inactive Members (Or Beneficiaries) Currently	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total members
Everett Community College	4	-	235	239

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	\$ 227
Interest	\$ 147
Change of benefit terms	-
Difference between expected and actual experience	\$ (1,062)
Changes of assumptions	\$ (251)
Benefit Payments	\$ (38)
Other	\$ -
Net Change in Total Pension Liability	\$ (976)
Total Pension Liability- Beginning	\$ 4,958
Total Pension Liability- Ending (a)	\$ 3,983

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
Everett Community College	\$ 4,575	\$ 3,983	\$ 3,492

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Higher Education Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Everett Community College		
Difference between expected and actual experience	\$ -	\$ 922
Changes of assumptions	\$ -	\$ 218
Transaction subsequent to the measurement date	\$ -	\$ -
Total	\$ -	\$ 1,140

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):

Everett Community College	
2018	\$ (173)
2019	\$ (173)
2020	\$ (173)
2021	\$ (173)
2022	\$ (173)
Thereafter	\$ (276)

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 \$25,021,072, with an annual required contribution (ARC) of \$2,254,450. 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 \$483,717. The College's net OPEB obligation at June 30, 2017 was approximately \$6,595,091. This amount is not included in the College's financial statements.

The College paid \$6,517,347 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

18. 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	\$ 36,011,699
Academic Support Services	4,696,458
Student Services	9,820,987
Institutional Support	10,561,858
Operations and Maintenance of Plant	6,603,264
Scholarships and Other Student Financial Aid	5,030,536
Auxiliary enterprises	4,339,101
Depreciation	5,394,619
Total operating expenses	\$ 82,458,522

19. 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 \$1,315,268 for various capital improvement projects that include renovations of existing buildings.

20. Subsequent Events

The college entered into a lease agreement for student housing to be constructed on September 10, 2017. Construction was completed and the lease term began in September 2017. The initial lease term is 20 years and may be extended for an additional two successive renewal terms of 10 years each. Rent is \$94,492 per month for the first year and will be adjusted by a CPI-U factor each year thereafter.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Everett Community College's Proportionate Share of the Net Pension Liability

Schedule of Everett Community 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	0.096618%	\$ 4,867,177	\$ 10,406,371	46.77%	61.19%	
2015	0.095772%	\$ 5,009,766	\$ 10,696,455	46.84%	59.10%	
2016	0.097963%	\$ 5,261,075	\$ 11,403,906	46.13%	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 Everett Community College's Proportionate Share of the Net Pension Liability

Schedule of Everett Community 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	0.119316%	\$ 2,411,808	\$ 10,221,300	23.60%	93.29%	
2015	0.118000%	\$ 4,216,886	\$ 10,472,588	40.27%	89.20%	
2016	0.119548%	\$ 6,019,147	\$ 11,161,338	53.93%	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 Everett Community College's Proportionate Share of the Net Pension Liability

Schedule of Everett Community 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	0.013539%	\$ 399,327	\$ 20,044,844	1.99%	68.77%	
2015	0.012530%	\$ 396,968	\$ 21,627,257	1.84%	65.70%	
2016	0.010694%	\$ 365,118	\$ 22,382,376	1.63%	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 Everett Community College's Proportionate Share of the Net Pension Liability

Schedule of Everett Community 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	0.003654%	\$ 11,802	\$ 19,841,074	0.06%	96.81%
2015	0.007400%	\$ 62,129	\$ 21,507,394	0.29%	92.48%
2016	0.006219%	\$ 85,405	\$ 22,270,317	0.38%	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	\$ 427,661	\$ 427,661	\$ -	\$ 10,406,371	4.11%	
2015	\$ 440,170	\$ 440,170	\$ -	\$ 10,696,455	4.12%	
2016	\$ 555,544	\$ 555,544	\$ -	\$ 11,403,906	4.87%	
2017	\$ 579,708	\$ 579,708	\$ -	\$ 11,840,026	4.90%	
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 Contributions

Schedule of Contributions Public Employees' 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	\$ 504,038	\$ 504,038	\$ -	\$10,221,300	4.93%	
2015	\$ 525,719	\$ 525,719	\$ -	\$10,472,588	5.02%	
2016	\$ 690,137	\$ 690,137	\$ -	\$11,161,338	6.18%	
2017	\$ 722,693	\$ 722,693	\$ -	\$11,600,265	6.23%	
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 Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30							
Fiscal Year	Contractually Required Contributions	Contractually Required Contributions	Contributions in relation to the	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll	
2014	\$ 26,773	\$ 26,773		\$ -	\$20,044,844	0.13%	
2015	\$ 28,039	\$ 28,039		\$ -	\$21,627,257	0.13%	
2016	\$ 27,657	\$ 27,657		\$ -	\$22,382,375	0.12%	
2017	\$ 36,185	\$ 36,185		\$ -	\$23,863,016	0.15%	
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 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	\$ 107,373	\$ 107,373	\$ -	\$ 19,841,074	0.54%	
2015	\$ 125,374	\$ 125,374	\$ -	\$ 21,507,394	0.58%	
2016	\$ 134,961	\$ 134,961	\$ -	\$ 22,270,317	0.61%	
2017	\$ 144,937	\$ 144,937	\$ -	\$ 23,784,784	0.61%	
2018						
2019						
2020						
2021						
2022						
2023						

*These schedules are to 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	
Everett Community College	
Fiscal Year Ended June 30	
<i>(expressed in thousands)</i>	
	2017
Total Pension Liability	
Service Cost	\$ 227
Interest	147
Changes of benefit terms	-
Differences between expected and actual experience	(1,062)
Changes of assumptions	(251)
Benefit Payments	(38)
Other	-
Net Change in Total Pension Liability	(976)
Total Pension Liability - Beginning	4,962
Total Pension Liability - Ending	\$ 3,986
College's Proportion of the Pension Liability	4.190000%
Covered-employee payroll	\$ 23,390
Total Pension Liability as a percentage of covered-employee payroll	17.041%

*These schedules are to 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.