Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Edmonds Community College

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

Published March 8, 2018

Report No. 1020888

Office of the Washington State Auditor

Pat McCarthy

March 8, 2018

Board of Trustees
Edmonds Community College
Lynnwood, Washington

Report on Financial Statements

Please find attached our report on the Edmonds Community College's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Edmonds Community College
July 1, 2016 through June 30, 2017

Board of Trustees
Edmonds Community College
Lynnwood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Edmonds 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, and have issued our report thereon dated February 26, 2018. As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of Edmonds Community College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

The financial statements of the Edmonds 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we communicated to the management of the College in a separate letter dated February 26, 2018.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we communicated to the management of the College in a separate letter dated February 26, 2018.

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

February 26, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Edmonds Community College
July 1, 2016 through June 30, 2017

Board of Trustees
Edmonds Community College
Lynnwood, 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 Edmonds 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 on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Edmonds 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 account 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 Edmonds 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.

As discussed in Note 1, the financial statements of the Edmonds 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 unit. 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 on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 26, 2018

FINANCIAL SECTION

Edmonds Community College
July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management’s Discussion and Analysis

Edmonds Community College

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

Edmonds Community College is one of thirty four 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 18,000 students annually. The College confers associate degrees, certificates, and high school diplomas. The College was established in 1967 and its mission is Teaching | Learning | Community.

The College’s main campus is located in Lynnwood, Washington, a community of about 38,000 residents. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. In accordance with Washington State law governing technical colleges, the College’s board includes one member from business and one member from labor. In addition, the College has a Governor-appointed student trustee who is prohibited from voting on personnel or collective bargaining matters. 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 Edmonds Community College Foundation. The College’s financial statements include:

- The Statement of Net Position
- The Statement of Revenues, Expenses, and Changes in Net Position
- The Statement of Cash Flows

The Statement of Net Position provides information about the College at a moment in time, 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 as a whole.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position are reported under the accrual basis of accounting where all of the current year’s revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College’s financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and, accordingly, is reported within a single column in the basic financial statements.

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*. 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. See Notes to the Financial Statements, Note 2: Change in Accounting Principle, for additional details.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, presents the College's assets, liabilities, and net position at fiscal 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 (Prior to GASB 73)
Assets		
Current Assets	19,434,905	24,855,152
Capital Assets, net	94,858,723	95,312,976
Other Assets, non-current	18,761,736	14,461,400
Total Assets	**133,055,364**	**134,629,528**
Deferred Outflows	**3,138,459**	**2,099,433**
Liabilities		
Current Liabilities	10,099,418	9,830,488
Other Liabilities, non-current	28,343,278	23,602,186
Total Liabilities	**38,442,696**	**33,432,674**
Deferred Inflows	**1,659,672**	**1,807,952**
Net Position	**96,091,455**	**101,488,335**

Current assets consist primarily of cash, investments, and various accounts receivable. The primary decrease of current assets in FY 2017 can be attributed to directing cash and short-term investments to long-term investments reported as Other Assets, non-current, offset by an increase in cash on-hand maintained as contingency funds. The College increased its available contingency funds due to delays by the state legislature in passing the budget for the biennium beginning July 1, 2017.

The decrease of net Capital Assets is attributed to depreciation offset by the acquisition of the Lynnwood Elks property and other projects completed and in-progress.

Non-current assets consist primarily of the long-term portion of investments. The College increased its long-term investments by approximately $5 million in FY 2017. In addition, the College acts as a fiscal agent for a twenty-year federal endowment matching grant called Title III Challenge Grant. The funds for this grant are invested in a portfolio and, prior to FY 2017, had been included in the College's non-current investments at market value. In FY 2017 the Title III Challenge Grant investments totaling $739,696 were de-recognized from the College's financial statements to avoid duplicate reporting of the assets which are also included in the financial statements of the Edmonds Community College Foundation.

Deferred outflows of resources increased by $1.04M. These relate to the net pension liability as required by GASB Statement No. 68.

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. Current liabilities at the end of FY 2016 included an accrual of $661K for the *Moore v. HCA* settlement as discussed in Note 18 of the FY 2016 Annual Financial Report. This amount was paid in FY 2017. Other minor changes include accrued payables, inter-agency payables, and an increase in short-term COP debt. Furthermore, because the investments of the Title III Challenge Grant had been held as agency funds, the accrued liabilities for amounts held for others have been reduced accordingly and there is no effect on net position as a result of de-recognizing these investments.

Non-current liabilities primarily consist of the long-term portion of vacation and sick leave earned but not yet used by employees, the long-term portion of Certificates of Participation debt, and the long-term pension liabilities. In FY 2017, the pension liabilities increased by $7.2M of which $4.7M is the result of the implementation of GASB 73 as mentioned earlier. This increase in long-term liabilities was offset by a decrease of $1M long-term COP debt which represents the current portion due in FY 2018. A majority of the non-current liability, ($18.5M) reflects the College's proportionate share of the net pension liabilities as required by GASB 68 and 73. The College's non-current liabilities associated with COPs continue to decrease as the College pays down the principal owed on Certificates of Participation for buildings, energy projects, and equipment.

Deferred inflows of resources decreased by $150K. These relate to the College's net pension liability as required by GASB 68 and 73. Deferred inflows of resources include the calculated difference between expected and actual experience in the measurement of the total pension plan liabilities.
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 three categories:

> ***Net Investment in Capital Assets -*** The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.
>
> ***Restricted Expendable -*** These restrictions on net position are imposed by either an external source or through enabling legislation. The primary restricted expendable fund for the College is for the Institutional Financial Aid. All non-expendable restricted funds are directed to the

Edmonds Community College's Foundation.

Unrestricted - Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees. The College has a board approved $3.2M reserved for emergencies and other purposes, which is maintained in the Debt Service Reserve account. At June 30th the College also had $8,170,758 in uncommitted unrestricted funds held as working capital for several locally funded projects. They include the final $2.6M for alternatives directed to the Science, Engineering, and Technology building (SET), $2M for the Elks building renovation, $534K for President's Cabinet approved projects identified by the College's Strategic Councils and the Operational Simple Plan, and $1.8M for debt service reserve.

As stated earlier in this section, the College's net position was adjusted by $5,840,288 to reflect the implementation of GASB 73.

Condensed Net Position, as of June 30th	FY 2017	FY 2016 (Prior to GASB 73)
Net Investment in Capital Assets	87,375,450	86,917,014
Restricted - Expendable	79,044	354,858
Unrestricted	14,477,249	14,216,463
Change in accounting principle due to implementation of GASB 73	(5,840,288)	0
Total Net Position	**96,091,455**	**101,488,335**

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position accounts for the College's changes in total net position during FY 2017. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition is included in this category, as are all grants and contracts which support educational operations. In contrast, non-operating revenues include monies the college receives from other government agencies without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed comparison of the Statement of Revenues, Expense and Changes in Net Position for the fiscal years ended June 30, 2017 and 2016 is presented below.

Condensed Statement of Revenue, Expenses & Changes in Net Position, as of June 30th	FY 2017	FY 2016 (Prior to GASB 73)
Operating Revenues		
Student tuition and fees, net	39,375,021	40,549,805
Auxiliary enterprise sales	4,044,636	4,046,377
State and local grants and contracts	15,155,973	15,770,236
Federal grants and contracts	9,688,291	11,222,287
Other operating revenues	1,523,499	2,471,896
Total operating revenues	69,787,420	74,060,601
Operating Expenses	(107,116,381)	(108,406,461)
Net Operating Loss	**(37,328,961)**	**(34,345,860)**
Non-Operating Revenues		
State appropriations	29,636,527	27,688,821
Federal Pell grant revenue	5,906,546	6,047,725
Investment income, net	116,503	149,454
Non-Operating Expenses	(2,373,685)	(2,186,841)
Net non-operating revenues (expense)	33,285,891	31,699,159
Income (loss) before capital contributions	**(4,043,070)**	**(2,646,700)**

(Continued)

Condensed Statement of Revenue, Expenses & Changes in Net Position, as of June 30th (continued)	FY 2017	FY 2016 (Prior to GASB 73)
Income (loss) before capital contributions	**(4,043,070)**	**(2,646,700)**
Capital Appropriations and Contributions	4,486,478	3,099,163
Change in Net Position	**443,408**	**452,463**
Net Position, Beginning of Year	101,488,335	101,035,872
Change in accounting principle due to implementation of GASB 73	(5,840,288)	0
Net Position, End of Year	**96,091,455**	**101,488,335**

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 colleges based on 3 year average actual full time equivalent (FTE) students. Although the College's allocation has decreased as a result of the implementation of this new model, the SBCTC included a provision for phasing in the decrease over a four-year period. In addition, the College received a one-time allocation for a portion of its share of *Moore v. HCA* settlement cost. The net result of these and other measures was an increase in the College's allocation of approximately $1.9M compared to FY 2016. Allocations do not carry forward to future years.

There were no tuition rate changes in FY 2017, but a 2.2% increase in tuition was approved for FY 2018.

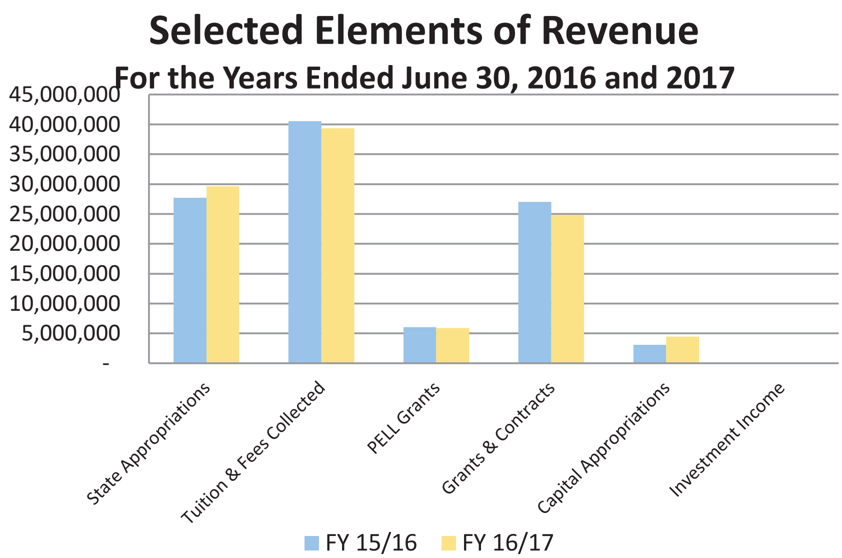
Tuition revenue also decreased as enrollments decreased in FY 2016 and FY 2017, which resulted in the College falling short of its state target by 632 FTEs. The statewide council of community and technical college presidents brought some relief by allowing contracted international student FTEs to be reclassified into FTEs that would count toward the College's target. Even with this transfer, the College's international program remained stable with an overall increase of 29 FTEs. Other contracted, community service, Running Start, and other miscellaneous categories experienced an FTE decrease of 99. In FY 2017 the total number of FTEs decreased by 298.

Pell grant revenues generally follow enrollment trends. As the College's enrollment decreased during FY 2016 and FY 2017, so did the College's Pell grant revenue. For FY 2017, the College attempted to hold other fees as stable as possible, resulting in only small changes in revenues from other fees. In addition, the College offers some programs on a fee-only basis as allowed by law. Examples include the Creative Retirement Institute and Intensive English as a Second Language.

The overall revenue in grant-funded programs and activities has decreased in FY 2017. State-supported grants and contracts continue to show a decreasing trend of revenues recorded ($600K) when compared with FY 2016, and federal revenues decreased by $1.5M during these same two years. Although the revenues decreased in FY 2017, the College continues to manage more grants and contracts than any other single community college in the state. 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 as mentioned above.

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

The chart below shows the dollar amount for selected elements of for FY 2017 and FY 2016.



Note: for the purpose of this chart, tuition and fees reflect the amounts collected and may include amounts students paid with PELL Grant proceeds.

Expenses

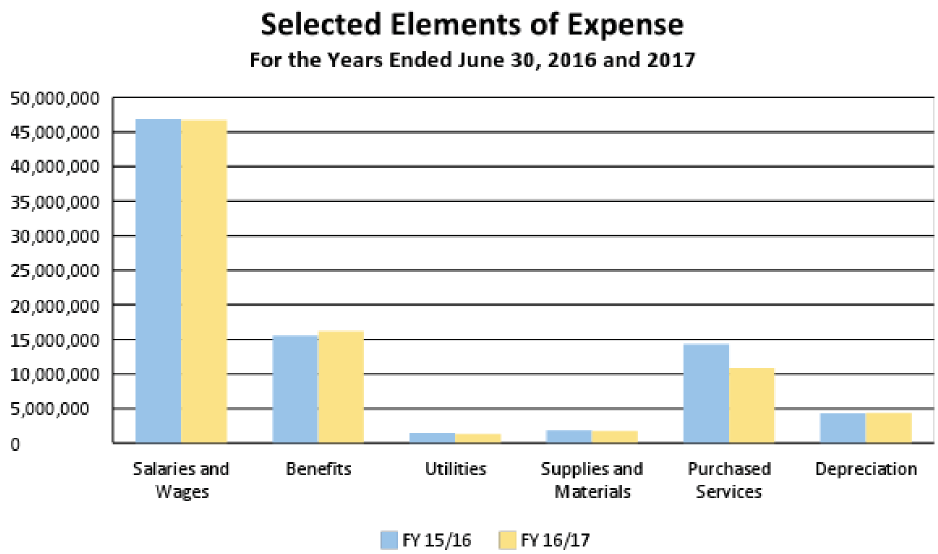
The college has kept expense growth to less than 1% year to year, largely through staff turnover and replacement position savings, and because of the need for fewer part time faculty due to declining enrollment. Legislatively approved salary increases, on the other hand, contributed a modest increase in staffing expense by costing more than the funding estimated and provided by the legislature.

Utility costs decreased for electricity, heating fuel, container hauling, and water/sewage, due to the College's efforts to reduce utility usage with the help of several energy-saving projects supported by grants, local funds, and state capital allocation. Utility rates continue to increase, however, so utility expenses are again continuing to grow.

Supplies and materials remained stable over the last two years. Purchased services decreased by over $3.4M due primarily to reduced capital spending. Certain capital project costs do not meet accounting criteria for capitalization and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when large depreciable assets are placed in service.

Comparison of Selected Operating Expenses by Function

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



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, and alternative financing capital leases. The primary funding source for college capital projects are state general obligation bonds. The state's revenue determines its debt capacity, which in turn supports the number and magnitude of projects that can be financed.

At June 30, 2017, the College had invested $94,858,723 in capital assets, net of accumulated depreciation. This represents a decrease of $454,253 from last year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	6,326,372	5,344,267	982,105
Construction in Progress	3,153,337	2,449,059	704,278
Buildings, net	76,782,128	79,360,740	(2,578,612)
Other Improvements/Infrastructure, net	5,558,628	4,888,655	669,973
Equipment, net	2,938,080	3,165,996	(227,916)
Library Resources, net	100,178	107,259	(4,081)
Total Capital Assets, Net	**94,858,723**	**95,312,976**	**(454,253)**

The decrease in net capital assets can be attributed to depreciation of $4.4M, offset by the acquisition of the Elks property ($1.65M in land, building, and improvements), two smaller projects coming to completion, and the ongoing acquisition of equipment and library resources. The two projects in construction include the Science, Engineering, and Technology (SET) building at $2,912,987 and student center remodel at $240,350. Land and Construction in Progress are never depreciated.

At June 30, 2017, the College had $7,483,273 in outstanding debt compared to $8,395,962 at June 30, 2016. The decrease in FY 2017 is due to the short-term debt service payment of $912,689. The College has no other capital leases at this time.

Economic Factors That May Affect the Future

In FY 2017, the SBCTC elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model rebased the average funding amount per FTE to all 34 colleges in the system and also increased the percentage of the allocation to be distributed through an existing performance-based (Student Achievement Initiative points) formula (from less than 1% of the total allocation to 5% of the allocation). The model incorporates a three-year rolling average of enrollments and completions relative to all other community and technical colleges in the system. The new model resulted in a roughly $1.9m decrease in the College's allocation, to be phased in over a four-year period.

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. Furthermore, the legislators failed to timely pass the capital budget for the biennium beginning July 1, 2017. As a result, many projects across the state, including the College's Science, Engineering, and Technology (SET) building, have been delayed. The delay resulted in ongoing escalation cost increases which have not funded in the capital budget approved in the winter of 2018.

Despite these challenges, the College has made significant progress in creating additional opportunities for students. Most notably, the College developed its first four-year degree program. The Bachelor of Applied Science in Child, Youth, and Family Studies program will commence Fall Quarter of 2017. Statewide growth in demand for such programs bodes well for future enrollment.

Edmonds Community College
Statement of Net Position
June 30, 2017

Assets	
Current assets	
Cash and cash equivalents	13,044,498
Cash and cash equivalents - restricted	79,044
Short-term investments	2,670,765
Accounts receivable, net	3,604,563
Interest receivable	36,035
Total current assets	19,434,905
Non-Current Assets	
Cash and investments - restricted	34,148
Long-term investments	18,727,588
Capital assets, nondepreciable	9,479,709
Capital assets, net of depreciation	85,379,014
Total non-current assets	113,620,459
Total Assets	**133,055,364**
Deferred Outflows of Resources	
Deferred Outflows of Resources Related to Pensions	3,138,459
Total Deferred Outflows of Resources	**3,138,459**
Liabilities	
Current Liabilities	
Accounts payable	566,251
Accrued liabilities	3,050,226
Compensated absences	1,827,713
Unearned revenue	3,619,801
Leases and certificates of participation payable	1,035,427
Total current liabilities	10,099,418
Noncurrent Liabilities	
Deposits held in custody for others	34,148
Compensated absences	3,391,629
Pension liabilty	18,469,655
Long-term liabilities	6,447,846
Total non-current liabilities	28,343,278
Total Liabilities	**38,442,696**
Deferred Inflows of Resources	
Deferred Inflows of Resources Related to Pensions	1,659,672
Total Deferred Inflows of Resources	**1,659,672**
Net Position	
Net Investment in Capital Assets	87,375,450
Restricted for:	
Institutional financial aid	79,044
Unrestricted	8,636,961
Total Net Position	**96,091,455**

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

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

Operating Revenues	
Student tuition and fees, net	39,375,021
Auxiliary enterprise sales, net	4,044,636
State and local grants and contracts	15,155,973
Federal grants and contracts	9,688,291
Other operating revenues	1,523,499
Total operating revenue	69,787,420
Operating Expenses	
Operating expenses	15,028,530
Salaries and wages	46,739,525
Benefits	16,191,030
Scholarships and fellowships	10,811,360
Supplies and materials	1,763,170
Depreciation	4,382,558
Purchased services	10,872,335
Utilities	1,327,873
Total operating expenses	107,116,381
Operating income (loss)	(37,328,961)
Non-Operating Revenues (Expenses)	
State appropriations	29,636,527
Federal Pell grant revenue	5,906,546
Investment income, gains and losses	116,503
Building fee remittance	(1,525,122)
Innovation fund remittance	(379,693)
Interest on indebtedness	(468,870)
Net non-operating revenues (expenses)	33,285,891
Income or (loss) before capital appropriations	(4,043,070)
Capital appropriations	4,486,478
Increase in net position	**443,408**
Net Position	
Net position, beginning of year	101,488,335
Change in accounting principle due to implementation of GASB No. 73	(5,840,288)
Adjusted net position, beginning of year	95,648,047
Net position, end of year	**96,091,455**

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

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

Cash Flow from Operating Activities	
Student tuition and fees	39,086,766
Grants and contracts	26,279,239
Payments to vendors	(28,150,523)
Payments for utilities	(1,919,574)
Payments to employees	(46,292,551)
Payments for benefits	(15,910,509)
Auxiliary enterprise sales	4,014,224
Payments for scholarships and fellowships	(10,811,360)
Other receipts (payments)	1,706,459
Net cash used by operating activities	(31,997,829)
Cash Flow from Noncapital Financing Activities	
State appropriations	29,424,655
Pell grants	5,906,546
Net cash provided by noncapital financing activities	35,331,201
Cash Flow from Capital and Related Financing Activities	
Capital appropriations	3,143,061
Purchases of capital assets	(3,928,304)
Principal paid on capital debt	(912,689)
Interest paid	(468,870)
Net cash used by capital and related financing activities	(2,166,802)
Cash Flow From Investing Activities	
Purchases of investments	(3,701,254)
Income from investments	239,265
Net cash used by investing activities	(3,461,989)
Decrease in Cash and Cash Equivalents	(2,295,419)
Cash and Cash Equivalents at the Beginning of the Year	15,418,962
Cash and Cash Equivalents at the End of the Year	**13,123,542**
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	(37,328,961)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities	
Depreciation expense	4,382,558
Changes in assets and liabilities	
Receivables , net	1,346,878
Accounts payable	(180,024)
Accrued liabilities	(711,675)
Unearned revenue	(47,609)
Compensated absences	341,557
Pension liability adjustment expense	199,447
Net cash used by operating activities	**(31,997,829)**
Noncash Financing, Capital, and Investing Activities	
Net decrease in fair value of investments	(122,762)
Derecognition of Foundation Title III Challenge Grant investment	(739,696)

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

EDMONDS COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 209,197
Short-term investments	20,000
Receivables, net	155,794
Prepaid expenses	78,413
TOTAL CURRENT ASSETS	463,404
OTHER ASSETS:	
Other assets	5,816
Receivables, net of current portion	0
Long-term investments	4,725,717
Property and equipment, net	481
Cash and cash equivalents restricted for Title III	19,985
Title III assets held by Edmonds Community College	739,696
Split-interest agreements	763,637
TOTAL OTHER ASSETS	6,255,332
TOTAL ASSETS	$ 6,718,736

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 47,041
Advance sponsorships	24,500
TOTAL CURRENT LIABILITIES	71,541
NET ASSETS:	
Unrestricted:	
Designated for Endowment	629,190
Undesignated	451,219
Total unrestricted net assets	1,080,409
Temporarily restricted	1,834,080
Permanently restricted	3,732,706
TOTAL NET ASSETS	6,647,195
TOTAL LIABILITIES AND NET ASSETS	$ 6,718,736

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Contributions	$ 214,018	$ 131,336	$ 460	$ 345,814
In-kind contributions	206,722	0	0	206,722
Special events revenue	357,749	1,800	0	359,549
Investment income	29,290	45,894	0	75,184
Net realized and unrealized gain on investments	69,674	377,284	0	446,958
Change in value of split-interest agreements	0	0	61,684	61,684
Net assets released from restrictions	460,447	(460,447)	0	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,337,900	95,867	62,144	1,495,911
EXPENSES:				
College program support	203,528	0	0	203,528
Scholarships	427,649	0	0	427,649
Total program support	631,177	0	0	631,177
Administration	248,896	0	0	248,896
Fundraising	384,723	0	0	384,723
Total support services	633,619	0	0	633,619
TOTAL EXPENSES	1,264,796	0	0	1,264,796
CHANGE IN NET ASSETS	73,104	95,867	62,144	231,115
NET ASSETS AT BEGINNING OF YEAR	1,007,305	1,738,213	3,670,562	6,416,080
NET ASSETS AT END OF YEAR	$1,080,409	$1,834,080	$3,732,706	$ 6,647,195

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

EDMONDS COMMUNITY COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

CASH FLOWS USED BY OPERATING ACTIVITIES:	
Change in net assets	$ 231,115
Adjustments to reconcile change in net assets to net cash:	
Change in allowance for uncollectible pledges receivable	(2,884)
Contributions restricted for endowment	(460)
Net realized and unrealized loss (gain) on investments	(446,958)
Depreciation and amortization	1,463
Change in value of split-interest agreements	(61,684)
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Receivables	39,961
Other assets	(35,995)
Increase (decrease) in liabilities:	
Accounts payable	39,411
Total adjustments and changes	(467,146)
Total cash flows provided (used) by operating activities	(236,031)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:	
Investment of assets restricted for endowment	(460)
Proceeds from sale of investments	10,206,661
Payments for purchases of investments	(10,033,851)
Proceeds from sale of investments in Title III assets held by College	2,459,228
Payments for purchases of investments in Title III assets held by College	(2,464,647)
Total cash flows provided (used) by investing activities	166,931
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:	
Contributions restricted for endowment	460
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,640)
BEGINNING CASH AND CASH EQUIVALENTS	297,822
ENDING CASH AND CASH EQUIVALENTS	$ 229,182

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

Notes to the Financial Statements

June 30, 2017

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Edmonds Community College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers associate degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees and one student Trustee, all 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 Edmonds Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's mission supports access, success, and excellence for students, faculty, and staff at the College. Visit the Foundation's home page at http://www.edcc.edu/foundation/. 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 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 Statement of Financial Position and Statement of Activities are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2017, the Foundation distributed approximately $631,177 to the College for restricted and unrestricted purposes. The Foundation statements used in this report have been audited by an independent accounting firm. A copy of the Foundation's audited financial report may be obtained from the Foundation's Administrative Offices, 425-640-1274, or by emailing at foundation@edcc.edu.

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 bank demand deposits, petty cash held at the College, inter-agency deposits-in-transit, and liquid asset investments. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. The College records all investments at fair market value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is distributed annually to contributing funds with the remainder allocated for general operating needs of the College. The internal investment pool is comprised of cash, cash equivalents, and U.S. Agency securities.

Accounts Receivable

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

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading.

Land, buildings, infrastructure, and equipment are recorded at cost or, if acquired by gift, at acquisition value at the date of the gift. 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 15 to 50 years for buildings and building improvements, 15 to 50 years for improvements other than buildings, 7 years for library resources and 4 to 13 years for most equipment.

In accordance with GASB Statement No. 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 relate 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 advanced grant proceeds 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 FY 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73. The reporting requirements are similar to GASB 68 but use FY 2017 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 liabilities 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 property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets.
- *Restricted.* These restrictions on net position are imposed by either an external source or through enabling legislation. The primary restricted expendable funds for the College are for the Institutional Financial Aid fund. All non-expendable restricted funds are directed to the Edmonds Community College's Foundation.
- *Unrestricted*. This includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. These resources are derived from student tuition and fees and sales and services of educational departments and auxiliary enterprises.

When both restricted and unrestricted resources are available for use, it is the College's policy to use restricted resources first and then use unrestricted resources as they are needed.

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

Operating Expenses. Operating expenses include salaries, wages, fringe benefits, student financial aid, 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, federal Pell grants, and investment income.

Non-operating Expenses. Non-operating expenses include state remittances related to the building fee and the innovation fee along with interest incurred on the Certificate of Participation (COP) 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 charges 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 fiscal year ended June 30, 2017, were $4,991,049.

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 and 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 innovation fee was established in order to fund the SBCTC's Strategic Technology Plan called "ctcLink." The use of the fund is to implement new Enterprise Resource Planning software across the entire system. 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 GASB 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 GASB 68, and to clarify the application of certain provisions of GASB 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of GASB 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 $5,840,288 as a result of the implementation of GASB 73.

Prior to FY 2017, the College had reported the investments of the Title III Challenge Grant as non-current investments at market value in the Statement of Net Position. In FY 2017, these investments totaling $739,696 were de-recognized from the College's financial statements to avoid duplicate reporting of the assets which are also included in the financial statements of the Edmonds Community College Foundation. Because these investments had been held as fiduciary agency funds, the accrued liabilities for amounts held for others have been reduced accordingly and there is no effect on net position as a result of this change.

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 employers 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 16 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 determined OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources and 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, inter-agency deposits-in-transit, and liquid asset investments. As of June 30, 2017, the carrying amount of the College's cash and equivalents was $13,123,542 as represented in the table below. The decrease from FY 2016 is mostly the result of converting liquid investments into long-term investments. The College increased its available contingency funds, held in bank demand and time deposits, in response to delays by the state legislature in passing the budget for the biennium beginning July 1, 2017.

Cash and Cash Equivalents	June 30, 2017	June 30, 2016
Petty Cash and Change Funds	14,875	14,875
Inter-agency Deposits in Transit	40,536	42,846
Bank Demand and Time Deposits	2,996,636	(56,380)
Liquid Asset Accounts	9,992,451	15,051,099
Liquid Asset Accounts - Restricted	79,044	366,522
Total	**13,123,542**	**15,418,962**

General college investments consist of U.S. Treasury and Agency securities safeguarded by a registered financial institution.

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of June 30, 2017, the College had the following investments and maturities:

Investment Maturities	Total	One Year or Less	1-5 Years	6-10 Years	10 or More Years
Investments at Fair Value (Level 1):					
U.S. Agency Obligations	21,398,354	2,670,765	18,727,589		
Total Investments	**21,398,354**	**2,670,765**	**18,727,589**	**0**	**0**

U.S. Agency obligations are reported at fair market value listed by the financial institution (Level 1 inputs).

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 College's Cash and Investment Management Policy states that investments will be handled in a manner which provides maximum security with the highest investment return, while meeting the daily cash flow demands of the college and conforming to all state laws governing the investment of public funds. The majority of the College's demand deposits are with the U.S. Bank of Washington. 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 (WPDPC).

Interest Rate Risk—Investments

The College manages its exposure to changes in interest rates by staggering portfolio maturity dates. Unless matched to a specific grant, the college will not directly invest in securities maturing more than four years from the date of purchase.

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. The College's operating fund investments are held by U.S. Bank of Washington as the agent for the College. At June 30, 2017, investments totaling $21,398,354 were exposed to custodial credit risk.

Foreign Currency Risk

The College has no foreign currency risk.

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The College incurred no investment expenses for the fiscal year ended June 30, 2017.

4. Accounts Receivable

Accounts receivable consist 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 were as follows:

Accounts Receivable	Amount
Student Tuition and Fees	486,171
Due from the Federal Government	322,802
Due from other State Agencies	932,118
Auxiliary Enterprises	139,283
Other	1,976,179
Subtotal	**3,856,553**
Less Allowance for Uncollectable Accounts	(251,990)
Accounts Receivable, net	**3,604,563**

5. Capital Assets

A summary of the changes in capital assets for the fiscal year ended June 30, 2017, is presented as follows. Depreciation expense for the fiscal year ended June 30, 2017, was $4,382,558.

Capital Assets	Beginning Balance	Additions / Transfers	Retirements	Ending Balance
Nondepreciable Capital Assets:				
Land	5,344,267	982,105	0	6,326,372
Construction in Progress	2,449,059	936,481	(232,203)	3,153,337
Total Nondepreciable Capital Assets	**7,793,326**	**1,918,586**	**(232,203)**	**9,479,709**

(Continued)

Capital Assets	Beginning Balance	Additions / Transfers	Retirements	Ending Balance
Depreciable Capital Assets:				
Buildings	122,693,979	596,229	0	123,290,208
Other Improvements & Infrastructure	23,162,675	1,095,164	0	24,257,840
Equipment	8,066,034	523,118	0	8,589,152
Library Resources	327,548	27,411	(52,163)	302,796
Subtotal Depreciable Capital Assets	**154,250,236**	**2,241,922**	**(52,163)**	**156,439,996**
Less Accumulated Depreciation:				
Buildings	43,333,239	3,174,841	0	46,508,080
Other Improvements & Infrastructure	18,274,021	425,191	0	18,699,212
Equipment	4,900,038	751,034	0	5,651,072
Library Resources	223,289	31,492	(52,163)	202,618
Total Accumulated Depreciation	**66,730,587**	**4,382,558**	**(52,163)**	**71,060,982**
Total Depreciable Capital Assets	**87,519,649**	**(2,140,636)**	**0**	**85,379,014**
Capital Assets, net of Accumulated Depreciation	**95,312,976**	**(222,050)**	**(232,203)**	**94,858,723**

6. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position reports 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) 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 reports 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.

7. Accounts Payable and Accrued Liabilities

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

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	1,410,964
Accounts Payable	566,251
Amounts Held for Others	1,639,262
Total Accounts Payable and Accrued Liabilities	**3,616,477**

8. Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	1,339,418
Advance Grant Fees & Other Deposits	2,280,383
Total Unearned Revenue	**3,619,801**

9. 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. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees, except student employees. Liabilities for claims from July 1, 2016, through June 30, 2017, were $303,720. Cash reserves for unemployment compensation for all employees at June 30, 2017, were $87,817.

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.

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated 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. Exempt employees also get their accumulated vacation time credited to their VEBA account. 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. Compensatory time is categorized as a current liability since it must be used before other leave. In FY 2017, the College began estimating the current portion of accrued vacation and sick leave to be paid in the next year. The balances of accrued compensated absences at June 30, 2017, were as follows:

Compensated Absences	Current	Non-Current	Total
Accrued Sick Leave	1,077,160	2,000,441	3,077,601
Accrued Vacation	749,101	1,391,188	2,140,289
Accrued Compensatory Leave	1,452	0	1,452
Total	**1,827,713**	**3,391,629**	**5,219,342**

11. Leases Payable

The College finances some capital asset purchases and energy improvements through the Washington State Treasurer's leasing program. These are commonly called Certificates of Participation (COP) and are classified as capital leases.

Nearly all COP debt service payments are funded by the College's Debt Service Reserve (DSR). The exceptions to this are the Brier Hall COP, which is funded by a dedicated fee assessed by the students to pay principal and interest costs, and the industrial compactor, which is funded by the general operating budget. With Board approval, the College initiated a Debt Service Reserve for COP debt service payments in the fiscal year ended June 30, 2010. The following year, the board approved transferring the Reserve Fund Balance ($3.2M) to the DSR. The initial Board approval also included the availability of inter-fund borrowing. The ending balance at June 30, 2017, was $6,276,460. Debt payments from this reserve totaled $874,292 for FY 2017. Additions to the DRS in FY 2017 included $38,801 in investment interest income and $1.6M in transfers from uncommitted funds in order to cover future debt service payments.

As of June 30, 2017, the outstanding COPs included:

Certificates of Participation	Interest Rate	Lease End Date	Original or Refunded Amount	FY 2017 Payment
Mill Creek Hall	2.90000%	12/1/2018	2,535,000	315,000
Energy Improvements	2.89066%	6/1/2020	1,600,000	164,292
Compactor	2.19828%	6/1/2025	40,888	3,397
Black Box Theatre	2.11666%	6/1/2027	1,700,000	105,000
Brier Hall	2.12005%	6/1/2027	5,320,000	325,000

The College also has leases for office/program space, residence halls, parking, and office equipment with various vendors. These leases are classified as operating leases.

The College's operating leases and debt service requirements for capital leases, as of June 30, 2017, are listed in Note 12.

12. Annual Debt Service and Operating Lease Requirements

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

Annual Debt Service and Operating Lease Requirements				
Certificates of Participation				Operating Leases
Fiscal Year	**Principal**	**Interest**	**Total**	**Total**
2018	1,035,427	353,189	1,388,616	3,215,860
2019	729,254	313,576	1,042,830	3,226,060
2020	760,605	280,802	1,041,407	3,224,892
2021	614,149	247,899	862,048	3,002,679
2022	644,362	217,192	861,554	0
2023-2027	3,699,476	571,971	4,271,447	0
2028-2032	0	0	0	0
Total	**7,483,273**	**1,984,629**	**9,467,902**	**12,669,491**

13. Schedule of Long Term Liabilities

Long term liabilities reported as of June 30, 2017, consist of the following:

	Beginning Balance 6/30/2016	Additions	Reductions	Ending Balance 6/30/2017	Current Portion
Certificates of Participation	8,395,962	0	(912,689)	7,483,273	1,035,427
Pension Plans*	17,082,902	5,139,059	(3,752,306)	18,469,655	N/A
Compensated Absences**	4,876,299	2,440,935	(2,099,344)	5,217,890	1,826,261
Total	**30,355,163**	**7,579,994**	**(8,590,600)**	**31,170,818**	**2,861,688**

* The ending balance reported in the FY 2016 Annual Financial Report of $11,242,614 has been restated to reflect the inclusion of the $5,840,288 liability resulting from the implementation of GASB 73.

** These balances contain long-term sick and vacation leave only. Compensatory leave is always categorized as a short-term current liability. See Note 10.

14. Pension Liability

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

Pension Plan	Pension Liability by Plan
PERS 1	5,920,030
PERS 2/3	6,921,361
TRS 1	716,015
TRS 2/3	221,245
SBRP	4,691,004
Total	**18,469,655**

15. Retirement Plans

A. General

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a defined contribution single employer plan with a supplemental payment when required. SBRP is administered by the SBCTC and available to the faculty and 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 FY 2017, the covered payroll for the College's employees was $12,655,311 for PERS, $987,313 for TRS, and $27,200,979 for SBRP. Total covered payroll was $40,843,603.

The College implemented GASB 68 for FY 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 GASB 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 GASB 73 for FY 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 68 and 73 for Edmonds Community College, for FY 2017:

Aggregate Pension Amounts - All Plans	Amount
Pension liabilities	18,469,655
Deferred outflows of resources related to pensions	3,138,459
Deferred inflows of resources related to pensions	1,659,672
Pension expense	1,785,111

As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state. As discussed in Note 2, the College implemented GASB 73 for FY 2017 financial reporting. The College has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the Higher Education Supplemental Retirement Plan in alignment with the State CAFR.

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

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible non-academic 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 non-academic 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 one faculty member with pre-existing eligibility who continues to participate in TRS Plan 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 visiting 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 College and the employees made 100% of required contributions

Contribution Rates and Required Contributions. The College's contribution rates, expressed as a percentage of current year covered payroll, and required contributions for the above retirement plans for the fiscal years ended June 30, 2017, 2016, and 2015, are as follows.

Contribution Rates at June 30th						
	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 3	5-15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required/Actual Contributions						
	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	14,611	22,428	8,924	16,628	7,278	13,560
Plan 2	446,696	836,194	578,629	1,057,044	562,951	1,028,461
Plan 3	208,554	279,351	235,427	378,306	233,367	374,913
TRS						
Plan 1	7,394	12,804	7,298	15,779	3,548	7,765
Plan 3	39,566	46,942	63,513	96,604	80,754	124,353

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

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

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflect 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 plan's expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	346,256	944,215	45,978	60,325	**1,396,774**
Amortization of change in proportionate liability for FY 2017	(38,346)	(39,147)	207,032	14,947	**144,486**
Amortization of change in proportionate liability for FY 2016	0	7,298	0	(884)	**6,414**
Total Pension Expense	**307,910**	**912,366**	**253,010**	**74,388**	**1,547,674**

Changes in Proportionate Shares of Pension Liabilities

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

Pension Plans	FY 2015	FY 2016
PERS 1	0.110928%	0.110233%
PERS 2/3	0.136727%	0.137467%
TRS 1	0.014887%	0.020971%
TRS 2/3	0.009845%	0.016111%

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 with the results rolled forward to the June 30, 2016 measurement date 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 upon the RP-2000 Combined Health 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 7.50 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 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements.

Consistent with the long-term expected rate of return, a 7.50 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 7.50 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 1	7,138,962	5,920,029	4,871,066
PERS 2/3	12,743,459	6,921,361	(3,602,965)
TRS 1	880,182	716,015	574,581
TRS 2/3	500,723	221,245	(257,028)

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

The following represent the components of the College deferred outflows and inflows of resources as reflected on the Statement of Net Position for the fiscal year ended June 30, 2017:

Deferred Outflows and Inflows By Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 1		
Difference between expected and actual experience	0	0
Difference between expected and actual earnings of pension plan investments	149,057	0
Changes of assumptions	0	0
Changes in College's proportionate share of pension liabilities	0	0
Contributions to pension plans after measurement date	617,399	0
Total PERS Plan 1	**766,456**	**0**
PERS Plan 2/3		
Difference between expected and actual experience	368,557	228,485
Difference between expected and actual earnings of pension plan investments	846,975	0
Changes of assumptions	71,538	0
Changes in College's proportionate share of pension liabilities	23,353	76,071
Contributions to pension plans after measurement date	793,224	0
Total PERS Plan 2/3	**2,103,647**	**304,556**

(Continued)

Deferred Outflows and Inflows By Pension Plan (Continued)	Deferred Outflows of Resources	Deferred Inflows of Resources
TRS Plan 1		
Difference between expected and actual experience	0	0
Difference between expected and actual earnings of pension plan investments	22,710	0
Changes of assumptions	0	0
Changes in College's proportionate share of pension liabilities	0	0
Contributions to pension plans after measurement date	66,997	0
Total TRS Plan 1	**89,707**	**0**
TRS Plan 2/3		
Difference between expected and actual experience	16,737	9,817
Difference between expected and actual earnings of pension plan investments	35,615	0
Changes of assumptions	2,253	0
Changes in College's proportionate share of pension liabilities	60,517	3,095
Contributions to pension plans after measurement date	63,527	0
Total TRS Plan 3	**178,649**	**12,912**
Grant Total of Deferred Outflows and Inflow of Resources	**3,138,459**	**317,468**

The deferred outflows of resources from contributions the College made after the measurement date, in the amount of $1,541,147, will be recognized as a reduction of the net pension liability for the fiscal year ending June 30, 2018.

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

Fiscal Year Ending June 30	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2018	(36,701)	(27,068)	(5,870)	13,409
2019	(36,701)	(17,134)	(5,870)	13,409
2020	136,893	647,194	21,246	42,096
2021	85,566	402,875	13,204	29,180
2022	0	0	0	4,116
2023	0	0	0	0
Total	**149,057**	**1,005,867**	**22,710**	**102,210**

C. College Participation in Plans Administered by the SBCTC

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

Plan Description. The State Board Retirement Plan is a privately administered single employer defined contribution plan 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. The College participates in this plan as authorized by chapter 28B.10 RCW. The plan covers faculty and other positions as designated by each participating employer. The SBCTC 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 fiscal year ended June 30, 2017, totaled $257,711 for 5%, $1,359,908 for 7.5% and $3,105,313 for 10%.

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. Plan members have the option to retire early with reduced benefits. The supplemental benefit is a lifetime benefit equal to the amount by which a member's goal income exceeds their assumed income. The monthly goal income is 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.

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 System in the amount of $902,000. The College's share of this amount was $44,516. 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 $136,005. This amount was not used as a part of GASB 73 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 $13,280,150 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 SBRP 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, the College reported $237,437 for pension expense in the SBRP Supplemental Retirement Plan.

Proportionate Shares of Pension Liabilities

The College’s proportionate share of the SBRP pension liability for fiscal year ending June 30, 2017 was 4.9353%. 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 Colleges, actuarially determined.

Plan Membership

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

Number of Participating Members				
Plan	**Inactive Members (Or Beneficiaries) Currently Receiving Benefits**	**Inactive Members Entitled To But Not Yet Receiving Benefits**	**Active Members**	**Total Members**
State Board Retirement Plan	0	0	321	321

Change in Total Pension Liability / (Asset)

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

Change in Total Pension Liability	
Total Pension Liability	**Amount**
Service Cost	267,345
Interest	173,426
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	(1,250,408)
Changes in Assumptions	(295,131)
Benefit Payments	(44,516)
Net Change in Total Pension Liability	**(1,149,284)**
Total Pension Liability – Beginning	**5,840,288**
Total Pension Liability – Ending	**4,691,004**

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:

Pension Plan	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
State Board Retirement Plan	5,389,300	4,691,004	4,112,685

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

At June 30, 2017, the SBRP Supplemental Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State Board Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	0	1,085,914
Changes of assumptions	0	256,290
Transactions subsequent to the measurement date	0	0
Total	**0**	**1,342,205**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Board Retirement Plan will be recognized in pension expense in the fiscal years ending June 30:

Fiscal Year Ending June 30	Amount
2018	(203,384)
2019	(203,384)
2020	(203,384)
2021	(203,384)
2022	(203,384)
Thereafter	(325,285)

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 to Note 15.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.

16. Other Post-Employment Benefits

Healthcare 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 $31,041,992, with an annual required contribution (ARC) of $2,796,947. 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 $(600,115). The College's net OPEB obligation (NOO) at June 30, 2017, was approximately $8,182,094. This amount is not included in the College's financial statements.

The College paid $7,872,745 for healthcare expenses in FY 2017, which included its pay-as-you-go portion of the OPEB liability.

17. 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 fiscal year ended June 30, 2017.

Functional Classification	Amount
Instruction	38,176,006
Academic Support Services	8,262,628
Student Services	15,062,719
Institutional Support	14,158,806
Operations & Maintenance of Plant	7,523,821
Auxiliary Services	8,639,835
Student Financial Aid	10,910,008
Public Service	0
Research	0
Depreciation	4,382,558
Total Operating Expenses	**107,116,381**

18. 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 $45.53M for various capital improvement projects that include $7.8M for new construction, renovations of existing buildings, infrastructure and energy projects, and $37.7M in construction funding for the Science, Engineering, and Technology (SET) building. This funding has been approved by the legislature in the Supplemental Budget in winter of 2018.

19. Subsequent Events

Management is not aware of any subsequent events requiring disclosure or adjustments in the financial statements.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Proportionate Share of the Net Pension Liability
Measurement Date as of June 30, 2016

Pension Plan	College's proportion of the net pension liability	College's proportionate share of the net pension liability	College's 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
PERS Plan 1					
2014	0.117045%	$ 5,896,196	$ 12,338,181	47.79%	61.19%
2015	0.110928%	$ 5,802,566	$ 12,390,671	46.83%	59.10%
2016	0.110233%	$ 5,920,030	$ 12,979,683	45.61%	57.03%
2017					
2018					
2019					
2020					
2021					
2022					
2023					
PERS Plan 2/3					
2014	0.138764%	$ 2,804,922	$ 11,877,166	23.62%	93.29%
2015	0.136727%	$ 4,885,335	$ 12,130,874	40.27%	89.20%
2016	0.137467%	$ 6,921,361	$ 12,825,420	53.97%	85.82%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Proportionate Share of the Net Pension Liability
Measurement Date as of June 30, 2016

Pension Plan	College's proportion of the net pension liability	College's proportionate share of the net pension liability	College's 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
TRS Plan 1					
2014	0.016377%	$ 483,032	$ 574,573	84.07%	68.77%
2015	0.014887%	$ 471,641	$ 582,543	80.96%	65.70%
2016	0.020971%	$ 716,015	$ 913,462	78.38%	62.07%
2017					
2018					
2019					
2020					
2021					
2022					
2023					
TRS Plan 2/3					
2014	0.010302%	$ 33,274	$ 438,998	7.58%	96.81%
2015	0.009845%	$ 83,072	$ 459,312	18.09%	92.48%
2016	0.016111%	$ 221,245	$ 791,872	27.94%	88.72%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Required Supplementary Information
Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Schedule of Contributions
Measurement Date as of June 30, 2017

Pension Plan	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency or (excess)	Covered payroll	Contributions as a percentage of covered payroll
PERS Plan 1					
2014	$ 518,078	$ 518,078	$ 0	$ 12,338,181	4.20%
2015	$ 509,826	$ 509,826	$ 0	$ 12,390,671	4.11%
2016	$ 625,128	$ 625,128	$ 0	$ 12,979,683	4.82%
2017	$ 609,534	$ 609,534	$ 0	$ 12,629,259	4.83%
2018					
2019					
2020					
2021					
2022					
2023					
PERS Plan 2/3					
2014	$ 586,192	$ 586,192	$ 0	$ 11,877,166	4.94%
2015	$ 609,052	$ 609,052	$ 0	$ 12,130,874	5.02%
2016	$ 793,585	$ 793,585	$ 0	$ 12,825,420	6.19%
2017	$ 779,019	$ 779,019	$ 0	$ 12,510,787	6.23%
2018					
2019					
2020					
2021					
2022					
2023					

Required Supplementary Information
Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Schedule of Contributions
Measurement Date as of June 30, 2017

Pension Plan	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency or (excess)	Covered payroll	Contributions as a percentage of covered payroll
TRS Plan 1					
2014	$ 32,386	$ 32,386	$ 0	$ 574,573	5.64%
2015	$ 33,314	$ 33,314	$ 0	$ 582,543	5.72%
2016	$ 50,988	$ 50,988	$ 0	$ 913,462	5.58%
2017	$ 67,183	$ 67,183	$ 0	$ 1,016,963	6.61%
2018					
2019					
2020					
2021					
2022					
2023					
TRS Plan 2/3					
2014	$ 25,279	$ 25,279	$ 0	$ 438,998	5.76%
2015	$ 26,164	$ 26,164	$ 0	$ 459,312	5.70%
2016	$ 65,333	$ 65,333	$ 0	$ 791,872	8.25%
2017	$ 64,285	$ 64,285	$ 0	$ 957,853	6.71%
2018					
2019					
2020					
2021					
2022					
2023					

Required Supplementary Information
Pension Plan Information

Single Employer Plan for Edmonds Community College
Schedule of Changes in Total Pension Liability and Related Ratios
Measurement Date as of June 30, 2017

	2017
Total Pension Liability	
Service Cost	$ 267,345
Interest	173,426
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	(1,250,408)
Changes in Assumptions	(295,131)
Benefit Payments	(44,516)
Net Change in Total Pension Liability	(1,149,284)
Total Pension Liability – Beginning	5,840,288
Total Pension Liability – Ending	$ 4,691,004
Covered-employee payroll	$ 27,200,979
Total Pension Liability as a percentage of covered-employee payroll	17.25%

Notes to Required Supplementary Information

The State Board Supplemental Retirement Plan is financed on a pay-as-you-go basis. The State Board for Community and Technical Colleges 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.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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