Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

# Bates Technical College

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


Published March 29, 2018

Report No. 1020943

# Office of the Washington State Auditor

## Pat McCarthy

March 29, 2018

Board of Trustees
Bates Technical College
Tacoma, Washington

## Report on Financial Statements

Please find attached our report on the Bates Technical College's financial statements.

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

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

# TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards ........ 4

Independent Auditor's Report On Financial Statements ........ 7

Financial Section ........ 11

About The State Auditor's Office ........ 58

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**Bates Technical College**
**July 1, 2016 through June 30, 2017**

Board of Trustees
Bates Technical College
Tacoma, 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 Bates Technical 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 March 20, 2018. As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*

Our report includes a reference to other auditors who audited the financial statements of the Bates Technical College 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 Bates Technical College 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 Bates Technical College Foundation.

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

March 20, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Bates Technical College**
**July 1, 2016 through June 30, 2017**

Board of Trustees
Bates Technical College
Tacoma, 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 Bates Technical 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 Bates Technical College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Bates Technical College 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 Bates Technical College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

## Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Bates Technical 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 Bates Technical College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed 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 March 20, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

March 20, 2018

# FINANCIAL SECTION

**Bates Technical College**
**July 1, 2016 through June 30, 2017**

## REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

## BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017
Statement of Revenues, Expenses and Changes in Net Position – 2017
Statement of Cash Flows – 2017
Bates Technical College Foundation – Statement of Financial Position – 2017
Bates Technical College Foundation – Statement of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets – 2017
Bates Technical College Foundation – Statement of Changes in Net Assets – 2017
Notes to Financial Statements – 2017

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Bates Technical College's Share of Net Pension Liability – PERS 1 – 2017
Schedule of Bates Technical College's Share of Net Pension Liability – PERS 2/3 – 2017
Schedule of Bates Technical College's Share of Net Pension Liability – TRS 1 – 2017
Schedule of Bates Technical College's Share of Net Pension Liability – TRS 2/3 – 2017
Schedule of Bates Technical College Contributions – PERS 1 – 2017
Schedule of Bates Technical College Contributions – PERS 2/3 – 2017
Schedule of Bates Technical College Contributions – TRS 1 – 2017
Schedule of Bates Technical College Contributions – TRS 2/3 – 2017
Schedule of Changes in the Total Pension Liability and Related Ratios – State Board Supplemental Defined Benefit Plans – 2017
Notes to Required Supplementary Information

# Management's Discussion and Analysis

## Bates Technical College

The following discussion and analysis provides an overview of the financial position and activities of Bates Technical College (the College) for the fiscal year ended June 30, 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*

The College first opened by the Tacoma School District with vocational training on Sept. 4, 1940, the program became known as the Tacoma Vocational School. The school's name was changed to the Tacoma Vocational-Technical Institute in 1947. In 1969, the name was changed to the L. H. Bates Vocational Technical Institute. In 1991, state legislation separated the state's vocational technical institutes from local school districts and merged them under the State Board for Community and Technical Colleges (SBCTC). The College's primary purpose is to enrich diverse communities by inspiring student learning, challenging greater achievement, and educating for employment

Bates Technical College is one of 34 public community and technical college districts in the State of Washington overseen by then SBCTC. The College annually serves approximately 3,000 career training students and 10,000 more community members on three campuses in programs such as Continuing Education, Child Studies, High School, General Education and Basic Studies, and others. Classroom settings mirror the workplace, providing students with opportunities to practice and develop skills to levels required for successful employment. The College offers two-year associate of applied science degrees, certificates of competency, certificates of training, industry certifications and in specific programs prepares students for the achievement of state licensure. The College maintains articulation degrees with several four-year universities, making some of the College's two-year degrees transferable.

The College has three campuses which are located in Tacoma, Washington, a community of about 205,000 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. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

*Using the Financial Statements*

The College reports as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*, *an amendment of GASB Statement No. 34*. The basic financial statements of the College report information similar to the presentation used by private sector companies. These statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by GASB, which establishes standards for external financial reporting for public colleges and universities. The basic financial statements are comprised of three components: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, and (3) Statement of Cash Flows.

The Statement of Net Position presents information as of June 30, 2017, on all of the College's assets, deferred outflow of resources, liabilities, deferred inflow of resources with the difference being reported as net position. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. 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.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires a college to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under this requirement, the Bates Technical College Foundation is a component unit of the College and their financial statements are discretely presented into this financial report.

During 2017, the College adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68,* and *Amendments to Certain Provisions of GASB Statements 67 and 68* as amended by GASB Statement No. 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in an additional amount of $2,730,837 in pension liability.

## STATEMENT OF NET POSITION

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, deferred outflows, liabilities, deferred inflows and net position at year-end. A condensed comparison of the Statement of Net Position as of June 30, 2017 and 2016 follows:

**CONDENSED STATEMENTS OF NET POSITION**
(in thousands)
As of June 30,

| | 2017 | 2016 (restated) | Increase (Decrease) | % variance |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | $ 21,352 | $ 20,768 | $ 584 | 2.8% |
| Capital Assets, net | 54,037 | 55,553 | (1,516) | -2.7% |
| Total Assets | 75,389 | 76,321 | (932) | -1.2% |
| DEFERRED OUTFLOWS | 1,807 | 1,082 | 725 | 67.0% |
| LIABILITIES | | | | |
| Current Liabilities | 5,939 | 5,991 | (52) | -0.9% |
| Noncurrent Liabilities | 12,000 | 10,904 | 1,096 | 10.1% |
| Total Liabilities | 17,939 | 16,895 | 1,044 | 6.2% |
| DEFERRED INFLOWS | 830 | 949 | (119) | -12.5% |
| NET POSITION | $ 58,427 | $ 59,559 | $ (1,132) | -1.9% |

Current assets consist primarily of cash, various accounts receivables and inventories. Total current assets remained steady as compared to last year. The increase in cash offset a decrease in accounts receivable, net and due from state treasurer. This decrease is mainly attributed to the adjustment of allowance for uncollectible.

Capital assets, net decreased $1.5 million from 2016 to 2017. This decrease was the result of $1.8 million in depreciation expense while $0.3 million of equipment, library resources, and additional building costs were capitalized.

Deferred outflows for 2017 increased as a result of 1) changes in projected versus actual investment earnings 2) changes in expected versus actual experience in PERS 2/3 and TERS 2/3 and 3) changes in proportional share in PERS 2/3 and TERS 2/3.

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, 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. Total current liabilities remained steady in 2017 as compared to last year.

Noncurrent liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, pension liability and the long-term portion of COP debt. The College's noncurrent liabilities increased $1.1 million in 2017. This is mainly due to increase in pension liability for the recorded difference between projected and actual earnings on pension plan investments as well as implementation of GASB Statement No. 73, reflecting the College's proportionate share of the pension liability for the State Board Supplemental Retirement Plan.

Deferred inflows for 2017 decreased mainly because of lower actual returns on state's pension plans investments as compared to the projected investment earnings.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College experienced a decrease in the overall net position of $1.1 million which is reported per accounting standards in the following 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. In 2017, net investment in capital assets decreased $1.4 million from 2016 due to a decrease in capital assets, net of depreciation and related debt.

***Restricted:***

***Expendable* –** resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are institutional financial aid which decreased $0.1 million from 2016 to 2017 due to matching of federal work-study.

***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 unrestricted portion of net position increased $0.4 million from prior year primarily due to continued prudent financial stewardship by the College.

**CONDENSED NET POSITION**

(in thousands)

As of June 30,

| | 2017 | 2016 (restated) | Increase (Decrease) | % variance |
|---|---|---|---|---|
| Net Investment in Capital Assets | $ 53,349 | $ 54,731 | $ (1,382) | -2.5% |
| Restricted: | | | | |
| Expendable | 185 | 324 | (139) | -42.9% |
| Unrestricted | 4,893 | 4,504 | 389 | 8.6% |
| Total Net Position | $ 58,427 | $ 59,559 | $ (1,132) | -1.9% |

The College had a strong balance sheet for both 2016 and 2017. One measure of the College's ability to pay its short-term obligations is the current ratio which is calculated by dividing current assets over current liabilities. The College's current ratio increased from 3.47 in 2016 to 3.59 in 2017. Quick ratio is another financial measure to assess College's ability to pay its short-term obligations using its most liquid assets which is calculated by dividing cash, accounts receivable, and due from state treasurer over current liabilities. The College's quick ratio also increased from 3.45 in 2016 to 3.58 in 2017.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position provides information about details of the changes and accounts for the College's changes in total net position during 2017. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or non-operating.

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

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

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2017 and 2016 is presented below.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

(in thousands)

Years ended June 30,

| | 2017 | 2016 (restated) | Increase (Decrease) | % variance |
|---|---|---|---|---|
| OPERATING REVENUES | | | | |
| Student tuition and fees, net | $ 6,502 | $ 5,951 | $ 551 | 9.3% |
| Auxiliary enterprise sales | 499 | 789 | (290) | -36.8% |
| State and local grants and contracts | 11,614 | 11,114 | 500 | 4.5% |
| Federal grants and contracts | 163 | 137 | 26 | 19.0% |
| Other operating revenues | 671 | 723 | (52) | -7.2% |
| Total operating revenues | 19,449 | 18,714 | 735 | 3.9% |
| OPERATING EXPENSES | 45,079 | 42,948 | 2,131 | 5.0% |
| Net Operating Loss | (25,630) | (24,234) | (1,396) | 5.8% |
| NONOPERATING REVENUES | | | | |
| State appropriations | 20,219 | 20,397 | (178) | -0.9% |
| Federal Pell grant revenue | 2,916 | 2,988 | (72) | -2.4% |
| Other nonoperating revenues | 5 | 8 | (3) | -37.5% |
| NONOPERATING EXPENSES | (752) | (689) | (63) | 9.1% |
| Net non-operating revenues (expenses) | 22,388 | 22,704 | (316) | -1.4% |
| Net Loss Before Capital Appropriations | (3,242) | (1,530) | (1,712) | 111.9% |
| Capital Appropriations | 2,110 | 8,165 | (6,055) | -74.2% |
| Change in Net Position | (1,132) | 6,635 | (7,767) | -117.1% |
| Net Position, Beginning of the Year | 59,559 | 52,924 | 6,635 | 12.5% |
| Net Position, End of the Year | $ 58,427 | $ 59,559 | $ (1,132) | -1.9% |

**Revenues**

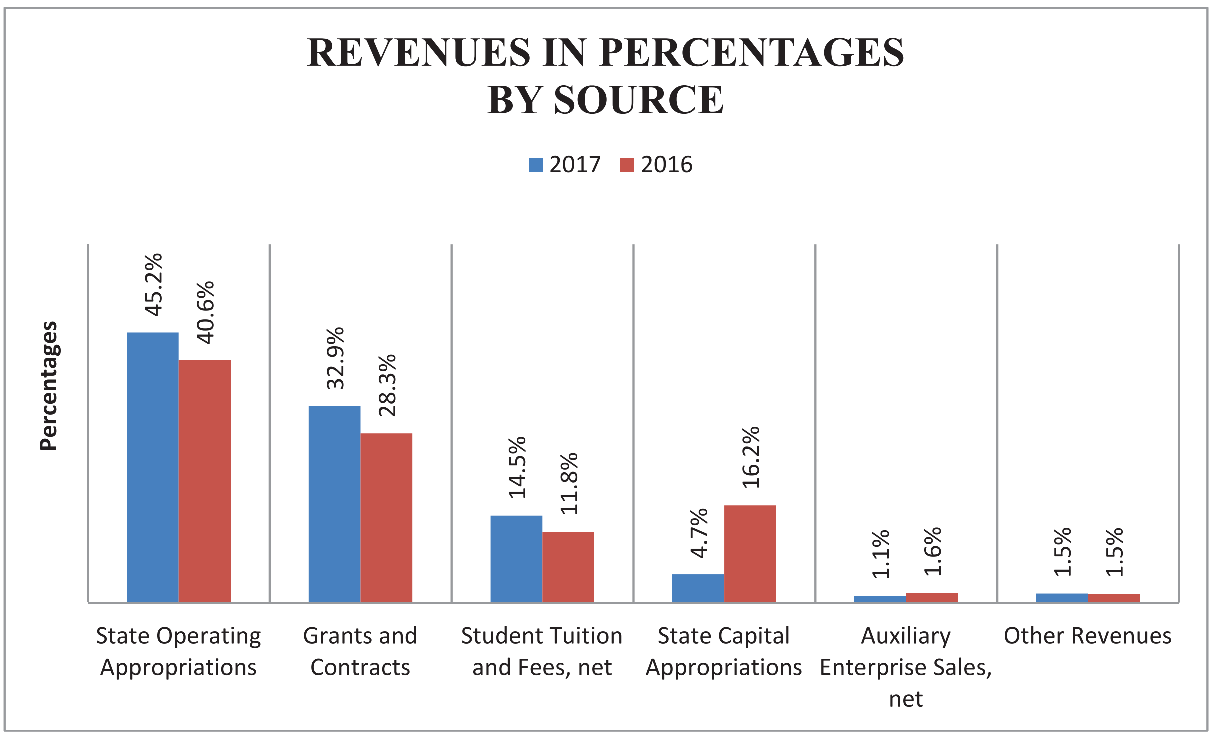
State operating appropriations, grants and contracts, student tuition and fees (net of scholarship discounts and allowances) are the primary sources for funding the College's academic programs. The $5.6 million overall decrease in revenues were primarily due to decrease in state capital appropriations of $6.0 million for the Advanced Technology Center. In 2017, the SBCTC allocated state funds using new allocation model where funds are allocated to each of the 34 colleges based on a three-year rolling average of enrollments and completions. The College saw an increase in student achievement initiative funding due to higher scoring in that area. In addition, the College received a one-time allocation of $0.1 million for a portion of its share of Moore vs HCA settlement cost which does not carry forward to future years. However, total state operating allocation decreased in 2017 as compared to 2016 due to year two rebasing of enrollment.

Student tuition and fees increased $0.6 million as College's career program enrollment increased in 2017 as a result of targeted efforts to increase enrollment. Grants and contracts also increased $0.5 million due to increase in state and local grants and contracts as College continued to serve students under the terms of contracted programs and higher Technical High School enrollment. The following table shows a comparison of revenues for years ended June 30, 2016 and 2017.

**REVENUES BY SOURCE**
(in thousands)
Years ended June 30,

| | 2017 | Percentage | 2016 | Percentage |
|---|---|---|---|---|
| State Operating Appropriations | $ 20,219 | 45.2% | $ 20,397 | 40.6% |
| Grants and Contracts | 14,693 | 32.9% | 14,239 | 28.3% |
| Student Tuition and Fees, net | 6,502 | 14.5% | 5,951 | 11.8% |
| State Capital Appropriations | 2,110 | 4.7% | 8,165 | 16.2% |
| Auxiliary Enterprise Sales, net | 499 | 1.1% | 789 | 1.6% |
| Other Revenues | 676 | 1.5% | 731 | 1.5% |
| Total Revenues | $ 44,699 | 100.0% | $ 50,272 | 100.0% |

The following chart shows a comparison of revenues in percentages by source, both operating and non-operating used to fund the College's programs for years ended June 30, 2016 and 2017.




**Expenses**
Operating expenses increased in 2017 by $2.1 million from 2016 which was mainly attributable to the rising cost of salaries and wages and employee benefits.

Salaries and wages increased $1.3 million due to additional positions as a result of opening Advanced Technology Center and retroactive pay caused by changes to child care center pay structure. In addition, state employees received a 1.8% cost of living adjustment (COLA) with an exception of Professional Technical Employees (PTE) who received 2.0% COLA. There was also a corresponding increase in employee benefits of $1.1 million as a result of higher employer health insurance premiums and increase in pension obligations. Depreciation expense also increased as a result of Advanced Technology Center was put in service. The following table shows a comparison of operating expenses for years ended June 30, 2016 and 2017.

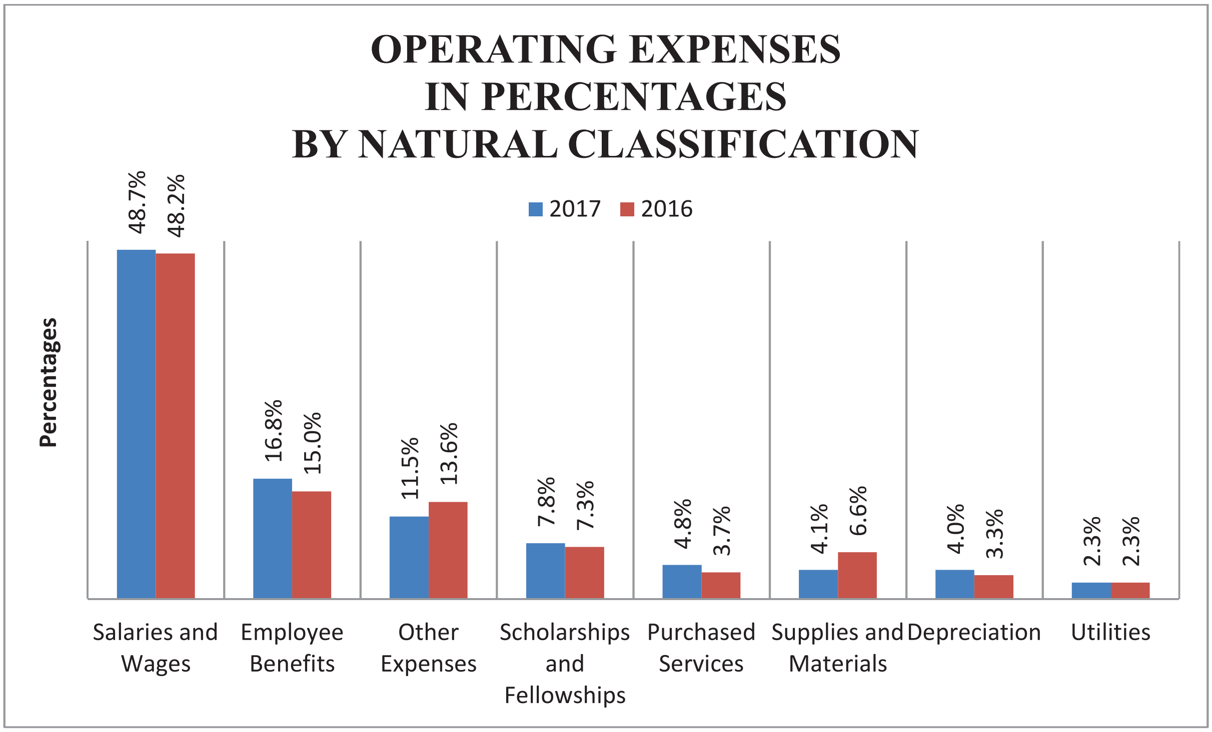
**OPERATING EXPENSES**

(in thousands)

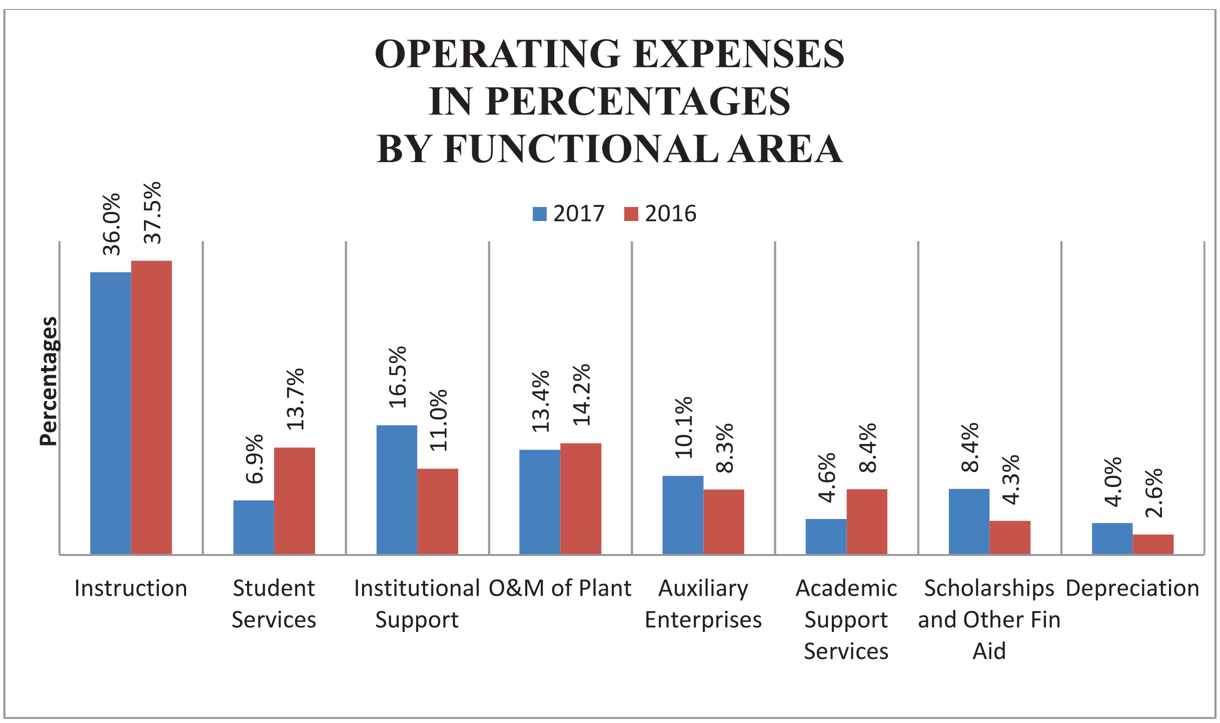
Years ended June 30,

| | 2017 | Percentage | 2016 | Percentage |
|---|---|---|---|---|
| Salaries and Wages | $ 21,973 | 48.7% | $ 20,716 | 48.2% |
| Employee Benefits | 7,565 | 16.8% | 6,454 | 15.0% |
| Other Expenses | 5,189 | 11.5% | 5,827 | 13.6% |
| Scholarships and Fellowships | 3,519 | 7.8% | 3,124 | 7.3% |
| Purchased Services | 2,144 | 4.8% | 1,607 | 3.7% |
| Supplies and Materials | 1,830 | 4.1% | 2,816 | 6.6% |
| Depreciation | 1,825 | 4.0% | 1,426 | 3.3% |
| Utilities | 1,034 | 2.3% | 978 | 2.3% |
| Total Expenses | $ 45,079 | 100.0% | $ 42,948 | 100.0% |

The following chart shows a comparison of expenses in percentages by natural classification for years ended June 30, 2016 and 2017.




The chart below shows a comparison of expenses in percentages by functional area for years ended June 30, 2016 and 2017.




**Capital Assets and Long-Term Debt Activities**

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed.

At June 30, 2017, the College had invested $54.0 million in capital assets, net of accumulated depreciation. This represents a decrease of $1.5 million from last year, as shown in the table below.

**ASSET TYPES**
(in thousands)
Years ended June 30,

| | 2017 | 2016 | Increase (Decrease) | % variance |
|---|---|---|---|---|
| Land | $ 4,506 | $ 4,506 | $ - | 0.0% |
| Buildings, net | 47,187 | 48,316 | (1,129) | -2.3% |
| Equipment, net | 2,191 | 2,579 | (388) | -15.0% |
| Library Resources, net | 153 | 152 | 1 | 0.7% |
| Total Capital Assets, Net | $ 54,037 | $ 55,553 | $ (1,516) | -2.7% |

The decrease in net capital assets is attributed to the depreciation and acquisition of equipment, library resources, and additional building costs. Additional information on capital assets can be found in Note 6 of the Notes to the Financial Statements.

At June 30, 2017, the College had $0.7 million in outstanding debt as compared to $0.8 million at June 30, 2016. The debt is made up entirely of the Certificate of Participation (COP) for the lighting HVAC and controls upgrade during 2012. The decrease of $0.1 million was the payment of debt principal.

Additional information of notes payable, long term debt and debt service schedules can be found in Notes 12 and 13 of the Notes to the Financial Statements.

**Economic Factors That May Affect the Future**

In the most recent forecast from Washington's Economic and Revenue Forecast Council (November 2017), it was observed that Washington's economy continues to outperform the nation. Seattle houses appreciate well above national levels and Washington employment has grown at a much faster level when compared to the U.S. as a whole. Over the last year, consumer prices in the Seattle area rose 2.5% compared to 1.9% for the U.S. city average. Forecasted economic growth is projected to decline from a real GDP of 2.4% in 2017 to 2.1% in 2019. It has been surveyed that consumers expect the economy to continue expanding in the months ahead but had a slightly less positive views on future economic conditions. Major threats to the U.S. and Washington State economies include slow labor productivity growth, geopolitical risks and concerns about international trade and fiscal policy. Stronger growth in the economy is shown through elevated consumer and business confidence, stock market gains, and stronger global economic growth.

Following a trend that began in fiscal year 2009, the College's state operating appropriations continued to decrease. In fiscal years 2016 and 2017, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This further reduced the amount of tuition collected by the College. The Legislature did however partially backfill this loss. In addition, in fiscal year 2018, tuition increases are limited to the average annual percentage growth rate in the median hourly wage for Washington for the previous fourteen years as the wage is determined by the federal bureau of labor statistics.

Fiscal year 2017 represents year two of a four year rebasing of the College enrollment target and state allocation. In addition, in fiscal year 2017, the State Board for Community and Technical Colleges has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Due to high scoring in student achievement points, the College saw an increase in state operating appropriation offset by enrollment rebasing. It is estimated that the college will likely see a decline in state operating appropriations in 2018 and 2019 due to last years of enrollment rebasing. Afterwards, state operating appropriations are projected to increase as a result of College's efforts to increase enrollment and additional funding provided for student retention and achievement.

It is 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 under the McCleary Act. As state funding becomes less and less reliable, the College will continue to pursue other funding sources. The College will seek opportunities to increase local fund revenues and continue to develop and expand high demand programs in response to the needs of the community and industry.

# Bates Technical College
# Statement of Net Position
# June 30, 2017

| | |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| Cash | $ 17,388,655 |
| Accounts receivable, net | 2,526,630 |
| Due from state treasurer | 1,334,049 |
| Inventories | 96,697 |
| Prepaid expenses | 5,760 |
| **Total current assets** | 21,351,791 |
| **Non-current assets** | |
| Land and construction in progress | 4,506,414 |
| Capital assets, net of depreciation | 49,530,374 |
| **Total non-current assets** | 54,036,788 |
| **Total assets** | 75,388,579 |
| **DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS** | 1,807,318 |
| **LIABILITIES** | |
| **Current liabilities** | |
| Accounts payable | 1,009,466 |
| Accrued liabilities | 2,526,678 |
| Compensated absences | 280 |
| Due to state treasurer | 313,566 |
| Unearned revenue | 1,964,117 |
| Certificates of participation | 125,584 |
| **Total current liabilities** | 5,939,691 |
| **Non-current liabilities** | |
| Compensated absences | 2,187,901 |
| Pension liability | 9,249,224 |
| Certificates of participation | 562,524 |
| **Total non-current liabilities** | 11,999,649 |
| **Total liabilities** | 17,939,340 |
| **DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS** | 829,647 |
| **NET POSITION** | |
| Net investment in capital assets | 53,348,679 |
| Restricted for: | |
| Expendable | 185,081 |
| Unrestricted | 4,893,150 |
| **Total net position** | $ 58,426,910 |

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

# Bates Technical College
# Statement of Revenues, Expenses and Changes in Net Position
# For the Year Ended June 30, 2017

| | | |
|---|---|---|
| **Operating revenues** | | |
| Student tuition and fees, net | | $ 6,502,007 |
| Auxiliary enterprise sales | | 498,767 |
| State and local grants and contracts | | 11,614,490 |
| Federal grants and contracts | | 163,128 |
| Other revenues | | 670,840 |
| | **Total operating revenue** | 19,449,232 |
| **Operating expenses** | | |
| Salaries and wages | | 21,973,712 |
| Benefits | | 7,564,595 |
| Scholarships and fellowships, net | | 3,518,550 |
| Supplies and materials | | 1,830,089 |
| Depreciation | | 1,824,833 |
| Purchased services | | 2,144,234 |
| Utilities | | 1,033,984 |
| Other expenses | | 5,189,308 |
| | **Total operating expenses** | 45,079,305 |
| | **Operating loss** | (25,630,073) |
| **Non-operating revenues (expenses)** | | |
| State appropriations | | 20,219,152 |
| Federal pell grant revenue | | 2,915,534 |
| Interest on past due receivable | | 5,419 |
| Building fee remittance | | (550,230) |
| Innovation fund remittance | | (157,929) |
| Loss on disposal | | (3,645) |
| Interest on indebtedness | | (39,796) |
| | **Net non-operating revenues (expenses)** | 22,388,505 |
| Income before capital appropriations | | (3,241,568) |
| Capital appropriations | | 2,109,514 |
| | **Increase in net position** | (1,132,054) |
| **Net position** | | |
| **Net position, beginning of year** | | 62,289,801 |
| Cumulative effect of change in accounting principle | | (2,730,837) |
| **Net position, end of year** | | $ 58,426,910 |

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

# Bates Technical College
# Statement of Cash Flows
# For the Year Ended June 30, 2017

| | |
|---|---|
| **Cash flow from operating activities** | |
| Student tuition and fees | $ 6,087,153 |
| Grants and contracts | 11,929,122 |
| Payments to vendors | (3,958,700) |
| Payments for utilities | (1,123,234) |
| Payments to employees | (21,822,639) |
| Payments for benefits | (7,276,459) |
| Auxiliary enterprise sales | 544,135 |
| Payments for scholarships and fellowships | (3,518,550) |
| Other receipts | 1,032,679 |
| Other payments | (4,927,659) |
| **Net cash used by operating activities** | (23,034,152) |
| **Cash flow from noncapital financing activities** | |
| State appropriations | 21,633,459 |
| Pell grants | 2,915,534 |
| Building fee remittance | (555,370) |
| Innovation fund remittance | (159,536) |
| Interest on past due receivable | 5,419 |
| **Net cash provided by noncapital financing activities** | 23,839,506 |
| **Cash flow from capital and related financing activities** | |
| Capital appropriations | 1,979,160 |
| Purchases of capital assets | (312,330) |
| Principal paid on capital debt | (133,745) |
| Interest paid | (39,796) |
| **Net cash provided by capital and related financing activities** | 1,493,289 |
| **Increase in cash** | 2,298,643 |
| **Cash at the beginning of the year** | 15,090,012 |
| **Cash at the end of the year** | $ 17,388,655 |

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

## Statement of Cash Flows, continued

**Reconciliation of Operating Loss to Net Cash used by Operating Activities**

| | |
|---|---|
| **Operating loss** | $ (25,630,073) |
| **Adjustments to reconcile net loss to net cash used by operating activities** | |
| Depreciation expense | 1,824,833 |
| **Changes in assets and liabilities** | |
| Receivables, net | 426,517 |
| Inventories | 51 |
| Other assets | 3,936 |
| Accounts payable | 8,573 |
| Accrued liabilities | 44,909 |
| Unearned revenue | 1,394 |
| Compensated absences | 141,736 |
| Pension liability adjustment expense | 235,945 |
| Due to State Treasurer | (91,973) |
| **Net cash used by operating activities** | $ (23,034,152) |

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

## Bates Technical College Foundation
## Statement of Financial Position
## June 30, 2017

| | |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS** | |
| Cash and cash equivalents | $ 68,236 |
| Short-term investments | 1,331,810 |
| Prepaid expenses | 3,203 |
| **Total Current Assets** | 1,403,249 |
| **FIXED ASSETS** | |
| Equipment | 24,181 |
| Less accumulated depreciation | 24,181 |
| **Total Fixed Assets** | - |
| **TOTAL ASSETS** | $ 1,403,249 |
| **LIABILITIES AND NET ASSETS** | |
| **CURRENT LIABILITIES** | |
| Accounts payable | $ 17,592 |
| **NET ASSETS** | |
| Deficit | (34,627) |
| Temporarily restricted | 551,949 |
| Permanently restricted | 868,335 |
| **Total Net Assets** | 1,385,657 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,403,249 |

## Bates Technical College Foundation
## Statement of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets
## For the Year Ended June 30, 2017

| | |
|---|---|
| **UNRESTRICTED NET ASSETS** | |
| Support | |
| Contributions | $ 64,215 |
| In-kind contributions | 239,106 |
| Realized and unrealized losses on short-term investments | (15,543) |
| Investment loss | 27 |
| **Total Support** | 287,805 |
| Net assets released from donor restrictions | 156,824 |
| | 444,629 |
| Expenses | |
| Program services | |
| In-kind services | 209,704 |
| Meetings and travel | 21,474 |
| Printing | 580 |
| Miscellaneous | 5,092 |
| Scholarships | 98,557 |
| Supplies | 27,781 |
| Program grant | 17,475 |
| Software and equipment | 20,040 |
| **Total Program Services** | 400,703 |
| Supporting services | |
| In-kind expenses | 29,402 |
| Dues and memberships | 4,536 |
| Insurance | 2,362 |
| Professional fees | 9,300 |
| Training | 650 |
| Miscellaneous | 4,521 |
| Fundraising | 4,365 |
| **Total Supporting Services** | 55,136 |
| **Total Expenses** | 455,839 |
| **DECREASE IN UNRESTRICTED NET ASSETS** | $ (11,210) |

## Bates Technical College Foundation
## Statement of Changes in Net Assets
## For the Year Ended June 30, 2017

| | |
|---|---|
| **UNRESTRICTED NET ASSETS** | |
| Support | $ 287,805 |
| Expenses | (455,839) |
| Net assets released from donor restrictions | 156,824 |
| **Decrease in Unrestricted Net Assets** | (11,210) |
| **TEMPORARILY RESTRICTED NET ASSETS** | |
| Contributions | 198,372 |
| Realized and unrealized losses | 50,516 |
| Investment income | 54,599 |
| Net asstes released from donor restrictions | (156,824) |
| **Increase in Temporarily Restricted Net Assests** | 146,663 |
| **PERMANENTLY RESTRICTED NET ASSETS** | |
| Contributions | 61,792 |
| **Increase in Permanently Restricted Net Assests** | 61,792 |
| **Increase in Net Assets** | 197,245 |
| **Net Assets at Beginning of Year** | 1,188,412 |
| **NET ASSETS AT END OF YEAR** | $1,385,657 |

## Notes to the Financial Statements

*June 30, 2017*
*These notes form an integral part of the financial statements.*

**NOTE 1 - Summary of Significant Accounting Policies**

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

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

The Bates Technical College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1992 and recognized as a tax-exempt 501(c)(3) charity. The Foundation's charitable purpose is to support student and program success by securing resources through building community relationships and awareness. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2017, the Foundation distributed approximately $401,000 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at (253) 680-7160.

**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.

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 includes cash on hand and bank demand deposits. Cash that is held with the intent to fund College operations is classified as current assets.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated for general operating needs of the College. The internal investment pool is comprised of cash as authorized by RCW 39.60.50.

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

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

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, only capital assets with a unit cost of

$5,000 or greater 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 improvements, 3 to 50 years for improvements other than buildings, 25 years for library resources and 2 to 10 years for 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 related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer quarter tuition and fees as unearned revenues.

**Tax Exemption**

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

**Net Pension Liability**

For purposes of measuring the net pension liability in accordance with GASB Statement No. 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 fiscal year 2017, the College also reports its share of the pension liability for the State Board Supplemental Retirement Plan in accordance with GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 and Amendments to Certain Provisions of GASB Statements 67 and 68.* The reporting requirements are similar to GASB Statement No. 68 but use current fiscal year end as the measurement date for reporting 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 position liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

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

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

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

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

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

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

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

**Scholarship Discounts and Allowances**
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are $2,633,469.

**State Appropriations**
The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

**Building and Innovation Fee Remittance**

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

## NOTE 2 – Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB Statement No. 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 $2,730,837 as a result of the implementation of GASB Statement No. 73.

**Accounting Standard Impacting the Future**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB),* which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 17, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determine OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. This Statement will have a significant impact on the College's financial statements.

**NOTE 3 – Cash**

Cash include bank demand deposits and petty cash held at the College. As of June 30, 2017, the carrying amount of the College's cash was $17,388,655 as represented in the table below.

| Cash | | Amount |
|---|---|---|
| Petty Cash and Change Funds | $ | 5,900 |
| Bank Demand and Time Deposits | | 17,382,755 |
| **Total** | $ | 17,388,655 |

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

**NOTE 4 - Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2017, accounts receivable were as follows.

| Accounts Receivable | | Amount |
|---|---|---|
| Student Tuition and Fees | $ | 1,370,509 |
| Due from the Federal Government | | 461,040 |
| Due from Other State Agencies | | 473,424 |
| Due from Other Governments | | 665,707 |
| Auxiliary Enterprises | | 96,356 |
| Other | | 683,654 |
| Subtotal | | 3,750,690 |
| Less: Allowance for Uncollectible Accounts | | (1,224,060) |
| **Accounts Receivable, net** | $ | 2,526,630 |

## NOTE 5 - Inventories

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

| Inventories | Amount |
|---|---|
| Consumable Inventories | $ 70,578 |
| Merchandise Inventories | 26,119 |
| **Total** | $ 96,697 |

## NOTE 6 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $1,824,833.

| Capital Assets | Beginning Balance | Additions/ Transfers | Retirements | Ending Balance |
|---|---|---|---|---|
| **Nondepreciable capital assets** | | | | |
| Land | $ 4,506,414 | $ - | $ - | $ 4,506,414 |
| Construction in progress | - | - | - | - |
| **Total nondepreciable capital assets** | 4,506,414 | - | - | 4,506,414 |
| | | | | |
| **Depreciable capital assets** | | | | |
| Buildings | 83,353,849 | 129,805 | - | 83,483,654 |
| Equipment | 7,435,483 | 165,955 | 176,237 | 7,425,201 |
| Library resources | 369,419 | 16,570 | - | 385,989 |
| **Subtotal depreciable capital assets** | 91,158,751 | 312,330 | 176,237 | 91,294,844 |
| | | | | |
| **Less accumulated depreciation** | | | | |
| Buildings | 35,038,373 | 1,259,166 | - | 36,297,539 |
| Equipment | 4,856,726 | 550,227 | 172,592 | 5,234,361 |
| Library resources | 217,130 | 15,440 | - | 232,570 |
| **Total accumulated depreciation** | 40,112,229 | 1,824,833 | 172,592 | 41,764,470 |
| | | | | |
| **Total depreciable capital assets** | 51,046,522 | (1,512,503) | 3,645 | 49,530,374 |
| | | | | |
| **Total capital assets** | | | | |
| **Net Accumulated Depreciation** | $ 55,552,936 | $ (1,512,503) | $ 3,645 | $ 54,036,788 |

## NOTE 7 - Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

## NOTE 8 - Accounts Payable and Accrued Liabilities

At June 30, 2017, accrued liabilities are as follows:

| Accounts Payable and Accrued Liabilities | Amount |
|---|---|
| Amounts Owed to Employees | $ 1,151,833 |
| Accounts Payable | 1,009,466 |
| Amounts Held for Others and Retainage | 1,374,845 |
| **Total** | $ 3,536,144 |

## NOTE 9 - Unearned Revenue

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

| Unearned Revenue | Amount |
|---|---|
| Summer Quarter Tuition & Fees | $ 1,964,117 |
| **Total** | $ 1,964,117 |

**NOTE 10 - Risk Management**

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2016 through June 30, 2017, were $65,906.

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.

**NOTE 11 - Compensated Absences**

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

The College has the following leave balances activity for the year ended June 30, 2017:

| Leave Type | Balance June 30, 2016 | Additions | Reductions | Balance June 30, 2017 |
|---|---|---|---|---|
| Sick | $ 1,099,074 | $ 219,023 | $ (182,623) | $ 1,135,474 |
| Vacation | 947,205 | 951,367 | (846,145) | 1,052,427 |
| Comp | 166 | 997 | (883) | 280 |
| **Total** | $ 2,046,445 | $ 1,171,387 | $ (1,029,651) | $ 2,188,181 |

## NOTE 12 - Notes Payable

In August 2012, the College obtained financing in order to upgrade Lightning HVAC and controls for the Downtown Campus, Mohler Campus and South Campus facilities through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $1,360,582 at 1.88% interest rate.

## NOTE 13 - Annual Debt Service Requirements

The College's future debt service requirements for the next five years and thereafter at June 30, 2017 are as follows:

**Annual Debt Service Requirements**
**Certificates of Participation**

| Fiscal year | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 125,584 | $ 33,778 | $ 159,362 |
| 2019 | 137,700 | 28,126 | 165,826 |
| 2020 | 138,456 | 21,241 | 159,697 |
| 2021 | 136,751 | 14,318 | 151,069 |
| 2022 | 149,617 | 7,481 | 157,098 |
| **Total** | $ 688,108 | $ 104,944 | $ 793,052 |

## NOTE 14 - Schedule of Long Term Liabilities

The following table shows the long term activity during the year ended June 30, 2017:

| Schedule of Long Term Liabilities | Balance outstanding 6/30/16 | Additions | Reductions | Balance outstanding 6/30/17 | Current portion |
|---|---|---|---|---|---|
| Certificates of Participation | $ 821,853 | $ - | $ (133,745) | $ 688,108 | $ 125,584 |
| Compensated Absences | 2,046,445 | 1,171,387 | (1,029,651) | 2,188,181 | 280 |
| Net Pension Liability | 8,169,325 | 2,909,939 | (1,830,040) | 9,249,224 | - |
| **Total** | $ 11,037,623 | $ 4,081,326 | $ (2,993,436) | $ 12,125,513 | $ 125,864 |

## NOTE 15 - Pension Liability

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

| Pension Liability by Plan | | |
|---|---|---|
| PERS 1 | $ | 3,079,411 |
| PERS 2/3 | | 3,489,064 |
| TRS 1 | | 344,830 |
| TRS 2/3 | | 142,471 |
| SBRP | | 2,193,448 |
| **Total** | $ | 9,249,224 |

## NOTE 16 - 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 pension plan with a supplemental payment when required. SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

For fiscal year 2017, the payroll for the College's employees was $7,264,209 for PERS, $574,096 for TRS, and $12,130,757 for SBRP. Total covered payroll was $19,969,062.

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

The College implemented Statement No. 73 of the Governmental Accounting Standards Board (GASB*) Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* for the fiscal year 2017 financial reporting. The College has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the State Board Retirement Plan in alignment with the State CAFR.

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

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

| Aggregate Pension Amounts - All Plans | | |
|---|---|---|
| Pension liabilities | $ | 9,249,224 |
| Deferred outflows of resources related to pensions | $ | 1,807,318 |
| Deferred inflows of resources related to pensions | $ | 829,647 |
| Pension expense | $ | 235,945 |

As established in chapter 28B.10 RCW, eligible higher education state employees may participate in State Board Retirement Plan. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state. The College implemented 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* for the fiscal year 2017 financial reporting. The College has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the State Board 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. The Public Employees' Retirement System (PERS) Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service.

PERS Plan 3 has a 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. PERS 3 defined benefit plan 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 College does not have any faculty participating in TRS 1 while there is one faculty member with pre-existing eligibility who continues to participate in TRS 2.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. 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. TRS 3 defined benefit plan 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 authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

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

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

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

**Contribution Rates at June 30**

| | FY 2015 | | FY 2016 | | FY 2017 | |
|---|---|---|---|---|---|---|
| **Pension Plan** | **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 | 5.00 - 15.00% | 9.21% | 5.00 - 15.00% | 11.18% | 5.00 - 15.00% | 11.18% |
| **TRS** | | | | | | |
| Plan 1 | 6.00% | 10.39% | 6.00% | 10.39 - 13.13% | 6.00% | 13.13% |
| Plan 2 | 4.96% | 10.39% | 4.96 - 5.95% | 10.39 - 13.13% | 5.95% | 13.13% |
| Plan 3 | 5.00 - 15.00% | 10.39% | 5.00 - 15.00% | 10.39 - 13.13% | 5.00 - 15.00% | 13.13% |

**Required/Actual Contributions**

| | FY 2015 | | FY 2016 | | FY 2017 | |
|---|---|---|---|---|---|---|
| **Pension Plan** | **Employee** | **College** | **Employee** | **College** | **Employee** | **College** |
| **PERS** | | | | | | |
| Plan 1 | 8,378 | 12,861 | 10,050 | 18,727 | 7,401 | 13,789 |
| Plan 2 | 241,872 | 442,856 | 315,697 | 576,669 | 339,420 | 619,263 |
| Plan 3 | 67,420 | 97,231 | 84,475 | 148,566 | 98,575 | 174,924 |
| **TRS** | | | | | | |
| Plan 1 | - | - | - | - | - | - |
| Plan 2 | 5,254 | 11,005 | 4,867 | 10,652 | 5,063 | 11,160 |
| Plan 3 | 19,614 | 24,702 | 30,078 | 56,227 | 41,078 | 64,029 |

## Investments

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

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

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

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

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

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

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

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

### Pension Expense

Pension expense is included as part of benefits expense in the Statement of Revenues, Expenses and Changes in Net Position. The table below shows the components of each pension plans expense as it affected employee benefits:

| Pension Expense | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | Total |
|---|---|---|---|---|---|
| Actuarially determined pension expense | $ (176,304) | $ 24,868 | $ (13,419) | $ 806 | $ (164,049) |
| Amortization of change in proportionate liability | 203,839 | 1,836 | 105,474 | (1,362) | 309,787 |
| **Total** | $ 27,535 | $ 26,704 | $ 92,055 | $ (556) | $ 145,738 |

### Changes in Proportionate Shares of Pension Liabilities

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

| Pension Plan | 2015 | 2016 | Increase (Decrease) |
|---|---|---|---|
| PERS 1 | 0.053645% | 0.057339% | 0.003694% |
| PER 2/3 | 0.065719% | 0.069297% | 0.003578% |
| TRS 1 | 0.007000% | 0.010100% | 0.003100% |
| TRS 2/3 | 0.007396% | 0.010374% | 0.002978% |

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% total economic inflation, 3.75% salary inflation
- Salary Increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.50%

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

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the 2007-2012 *Experience Study Report*. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

**Discount Rate**
The discount rate used to measure the total pension liability was 7.50 percent. 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. 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 change 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 (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| PERS Plan 1 | 3,713,416 | 3,079,374 | 2,533,743 |
| PERS Plan 2/3 | 6,423,967 | 3,489,049 | (1,816,252) |
| TRS Plan 1 | 423,911 | 344,838 | 276,728 |
| TRS Plan 2/3 | 322,420 | 142,466 | (165,502) |

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

At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

| | PERS Plan 1 | | PERS Plan 2/3 | |
|---|---|---|---|---|
| **Description** | **Deferred Outflows** | **Deferred Inflows** | **Deferred Outflows** | **Deferred Inflows** |
| Difference between expected and actual experience | $ - | $ - | $ 185,790 | $ 115,179 |
| Difference between expected and actual earnings of pension plan investments | 77,535 | - | 426,962 | |
| Changes of assumptions | - | - | 36,062 | |
| Changes in College's proportionate share of pension liabilities | - | - | 128,577 | 59,965 |
| Contributions to pension plans after measurement date | 356,415 | - | 451,112 | |
| **Total** | $ 433,950 | $ - | $ 1,228,503 | $ 175,144 |

| Description | TRS Plan 1 Deferred Outflows | TRS Plan 1 Deferred Inflows | TRS Plan 2/3 Deferred Outflows | TRS Plan 2/3 Deferred Inflows |
|---|---|---|---|---|
| Difference between expected and actual experience | $ - | $ - | $ 10,778 | $ 6,322 |
| Difference between expected and actual earnings of pension plan investments | 10,937 | - | 22,934 | |
| Changes of assumptions | - | - | 1,451 | |
| Changes in College's proportionate share of pension liabilities | - | - | 25,163 | 20,585 |
| Contributions to pension plans after measurement date | 35,562 | - | 38,040 | |
| **Total** | $ 46,499 | $ - | $ 98,366 | $ 26,907 |

The $881,129 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2018.

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

| Year Ended June 30, | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | Total |
|---|---|---|---|---|---|
| 2018 | $ (19,091) | $ 4,246 | $ (2,827) | $ (1,783) | $ (19,455) |
| 2019 | (19,091) | 24,235 | (2,827) | (1,783) | 534 |
| 2020 | 71,208 | 364,356 | 10,232 | 19,307 | 465,103 |
| 2021 | 44,509 | 209,410 | 6,359 | 15,839 | 276,117 |
| 2022 | - | - | - | 1,839 | 1,839 |
| **Total** | $ 77,535 | $ 602,247 | $ 10,937 | $ 33,419 | $ 724,138 |

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

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

Plan Description.

The State Board Retirement Plan is a privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. Bates Technical College participates in this plan as authorized by chapter 28B.10 RCW and reports its proportionate share of the total pension liability. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions to the SBRP for the year-end June 30, 2017 were $1,103,497 and $1,104,745, respectively.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $902,000. The College's share of this amount was $20,815. 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 fiscal year 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $60,913. This amount was not used as a part of GASB Statement No. 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 $13,280,149 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 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 State Board 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, Bates Technical College reported $90,207 for pension expense in the State Board Supplemental Retirement Plans.

**Proportionate Shares of Pension Liabilities**

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 2.31%. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's, actuarially determined.

**Plan Membership**

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

| Pension Plan | Inactive Members (Or Beneficiaries) Currently Receiving Benefits | Inactive Members Entitled To But Not Yet Receiving Benefits | Active Members | Total Members |
|---|---|---|---|---|
| State Board Supplemental Retirement Plan | - | - | 105 | 105 |

**Change in Total Pension Liability**

The following table presents the change in total pension liability of State Board Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans:

| Change in total pension liability | Amount |
| --- | --- |
| Service cost | $ 125,007 |
| Interest | 81,092 |
| Defferences between expected and actual experience | (584,674) |
| Changes of assumptions | (137,999) |
| Benefit payments | (20,815) |
| Net change in total pension liability | (537,389) |
| Total pension liability - beginning | 2,730,837 |
| Total pension liability - ending | $ 2,193,448 |

**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 Supplemental Retirement Plan | 2,519,962 | 2,193,448 | 1,923,035 |

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

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

| State Board Supplemental Retirement Plan | Deferred Outflows | Deferred Inflows |
| --- | --- | --- |
| Difference between expected and actual experience | $ - | $ 507,758 |
| Changes of assumptions | - | 119,838 |
| **Total** | $ - | $ 627,596 |

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

| Year Ended June 30, | Total |
|---|---|
| 2018 | $ (95,092) |
| 2019 | (95,092) |
| 2020 | (95,092) |
| 2021 | (95,092) |
| 2022 | (95,092) |
| Thereafter | (152,136) |
| **Total** | $ (627,596) |

***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.

**NOTE 17 - Other Post-Employment Benefits**

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB Statement No. 45 actuarially accrued liability (AAL) is $14,601,634, with an annual required contribution (ARC) of $1,315,637. The ARC represents the amortization of the liability for fiscal year 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $282,284. The College's net OPEB obligation at June 30, 2017 was approximately $3,848,720. This amount is not included in the College's financial statements.

The College paid $3,454,908 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

**NOTE 18 - Operating Expenses by Program**

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2017.

| Expenses by Functional Classification | | Amount |
|---|---|---|
| Instruction | $ | 16,228,729 |
| Academic Support Services | | 3,129,095 |
| Student Services | | 7,441,553 |
| Institutional Support | | 6,045,813 |
| Operations and Maintenance of Plant | | 4,540,642 |
| Scholarships and Other Student Financial Aid | | 2,069,395 |
| Auxiliary Enterprises | | 3,799,245 |
| Depreciation | | 1,824,833 |
| **Total Operating Expenses** | **$** | **45,079,305** |

**NOTE 19 - Commitments and Contingencies**

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

# Required Supplementary Information

## Pension Plan Information

### Cost Sharing Employer Plans

Schedules of Bates Technical College's Proportionate Share of the Net Pension Liability

**Schedule of Bates Technical College's Share of the Net Pension Liability**
**Public Employees' Retirement System (PERS) Plan 1**
Measurement Date of June 30

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| College's proportion of the net pension liability | 0.052878% | 0.053645% | 0.057339% |
| College proportionate share of the net pension liability | $ 2,663,753 | $ 2,806,132 | $ 3,079,411 |
| College covered-employee payroll | $ 5,689,341 | $ 5,972,353 | $ 6,641,070 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 46.82% | 46.99% | 46.37% |
| Plan's fiduciary net position as a percentage of the total pension liability | 61.19% | 59.10% | 57.03% |

**Schedule of Bates Technical College's Share of the Net Pension Liability**
**Public Employees' Retirement System (PERS) Plan 2/3**
Measurement Date of June 30

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| College's proportion of the net pension liability | 0.065029% | 0.065719% | 0.069297% |
| College proportionate share of the net pension liability | $ 1,314,471 | $ 2,348,178 | $ 3,489,064 |
| College covered-employee payroll | $ 5,570,197 | $ 5,831,407 | $ 6,471,812 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 23.60% | 40.27% | 53.91% |
| Plan's fiduciary net position as a percentage of the total pension liability | 93.29% | 89.20% | 85.82% |

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

## Cost Sharing Employer Plans

Schedules of Bates Technical College's Proportionate Share of the Net Pension Liability

| Schedule of Bates Technical College's Share of the Net Pension Liability<br>Teachers' Retirement System (TRS) Plan 1<br>Measurement Date of June 30 | | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| College's proportion of the net pension liability | 0.008408% | 0.007000% | 0.010100% |
| College proportionate share of the net pension liability | $ 247,990 | $ 221,770 | $ 344,830 |
| College covered-employee payroll | $ 387,602 | $ 345,941 | $ 516,271 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 63.98% | 64.11% | 66.79% |
| Plan's fiduciary net position as a percentage of the total pension liability | 68.77% | 65.70% | 62.07% |

| Schedule of Bates Technical College's Share of the Net Pension Liability<br>Teachers' Retirement System (TRS) Plan 2/3<br>Measurement Date of June 30 | | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| College's proportion of the net pension liability | 0.008644% | 0.007396% | 0.010374% |
| College proportionate share of the net pension liability | $ 27,920 | $ 62,408 | $ 142,471 |
| College covered-employee payroll | $ 377,752 | $ 345,941 | $ 516,271 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 7.39% | 18.04% | 27.60% |
| Plan's fiduciary net position as a percentage of the total pension liability | 96.81% | 92.48% | 88.72% |

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

## Pension Plan Information

### Cost Sharing Employer Plans

Schedules of Bates Technical College Contributions

**Schedule of Bates Technical College Contributions**
**Public Employees' Retirement System (PERS) Plan 1**
Fiscal Year Ended June 30

| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered– employee payroll |
|---|---|---|---|---|---|
| 2014 | $ 234,057 | $ 234,057 | $ - | $ 5,689,341 | 4.11% |
| 2015 | $ 246,551 | $ 246,551 | $ - | $ 5,972,353 | 4.13% |
| 2016 | $ 325,172 | $ 325,172 | $ - | $ 6,641,070 | 4.90% |
| 2017 | $ 351,875 | $ 351,875 | $ - | $ 7,264,209 | 4.84% |

**Schedule of Bates Technical College Contributions**
**Public Employees' Retirement System (PERS) Plan 2/3**
Fiscal Year Ended June 30

| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered– employee payroll |
|---|---|---|---|---|---|
| 2014 | $ 274,710 | $ 274,710 | $ - | $ 5,570,197 | 4.93% |
| 2015 | $ 292,749 | $ 292,749 | $ - | $ 5,831,407 | 5.02% |
| 2016 | $ 400,047 | $ 400,047 | $ - | $ 6,471,812 | 6.18% |
| 2017 | $ 443,033 | $ 443,033 | $ - | $ 7,140,869 | 6.20% |

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

**Cost Sharing Employer Plans**
Schedules of Bates Technical College Contributions

**Schedule of Bates Technical College Contributions**
**Teachers' Retirement System (TRS) Plan 1**
Fiscal Year Ended June 30

| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered– employee payroll |
|---|---|---|---|---|---|
| 2014 | $ 16,628 | $ 16,628 | $ - | $ 387,602 | 4.29% |
| 2015 | $ 15,665 | $ 15,665 | $ - | $ 345,941 | 4.53% |
| 2016 | $ 23,129 | $ 23,129 | $ - | $ 516,271 | 4.48% |
| 2017 | $ 35,661 | $ 35,661 | $ - | $ 574,096 | 6.21% |

**Schedule of Bates Technical College Contributions**
**Teachers' Retirement System (TRS) Plan 2/3**
Fiscal Year Ended June 30

| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered– employee payroll |
|---|---|---|---|---|---|
| 2014 | $ 21,210 | $ 21,210 | $ - | $ 377,752 | 5.61% |
| 2015 | $ 19,655 | $ 19,655 | $ - | $ 345,941 | 5.68% |
| 2016 | $ 41,428 | $ 41,428 | $ - | $ 516,271 | 8.02% |
| 2017 | $ 38,494 | $ 38,494 | $ - | $ 574,096 | 6.71% |

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

**State Board Retirement Plan**
Schedules of Bates Technical College's Changes in the Total Pension Liability and Related Ratios

| Schedule of Changes in the Total Pension Liability and Related Ratios<br>State Board Supplemental Defined Benefit Plans<br>Fiscal Year Ended June 30 | |
|---|---|
| | **2017** |
| **Total Pension Liability** | |
| Service Cost | $ 125,007 |
| Interest | 81,092 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | (584,674) |
| Changes of assumptions | (137,999) |
| Benefit Payments | (20,815) |
| Other | - |
| **Net Change in Total Pension Liability** | **(537,389)** |
| **Total Pension Liability - Beginning** | **2,730,837** |
| **Total Pension Liability - Ending** | **$ 2,193,448** |
| **College's Proportion of the Pension Liability** | 2.31% |
| **Covered-employee payroll** | $ 12,151,514 |
| **Total Pension Liability as a percentage of covered-employee payroll** | 18.05% |

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

### State Board Supplemental Defined Benefit Plans

### Notes to Required Supplementary Information

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

# 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.

| Contact information for the State Auditor's Office | |
|---|---|
| **Public Records requests** | PublicRecords@sao.wa.gov |
| **Main telephone** | (360) 902-0370 |
| **Toll-free Citizen Hotline** | (866) 902-3900 |
| **Website** | www.sao.wa.gov |