Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Bellevue College

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

Published February 8, 2018

Report No. 1020764

Office of the Washington State Auditor
Pat McCarthy

February 8, 2018

Board of Trustees
Bellevue College
Bellevue, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • Pat.McCarthy@sao.wa.gov

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Bellevue College
July 1, 2016 through June 30, 2017

Board of Trustees
Bellevue College
Bellevue, 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 unit of Bellevue College, King County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 2, 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 Bellevue College Foundation, as described in our report on the College's financial statements. This report includes our considerations of the results of the other auditor's testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Governmental Auditing Standards* and accordingly this report does not include reporting on internal controls over the financial reporting or instances of reportable noncompliance associated with the Foundation.

The financial statements of the Bellevue 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. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

February 2, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Bellevue College
July 1, 2016 through June 30, 2017

Board of Trustees
Bellevue College
Bellevue, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type and the aggregate discretely presented component unit of Bellevue College, King County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 10.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 opinion.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 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

February 2, 2018

FINANCIAL SECTION

Bellevue College
July 1, 2016 through June 30, 2017

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Management's Discussion and Analysis

Bellevue College

The following discussion and analysis provides an overview of the financial position and activities of Bellevue College (the College) for the fiscal year ended June 30, 2017 (FY 2017). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

Bellevue College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 31,243 students. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. The College was established in 1967 and its primary purpose is to be a student-centered, comprehensive and innovative college, committed to teaching excellence that advances the life-long educational development of its students while strengthening the economic, social and cultural life of its diverse community. The college promotes student success by providing high-quality, flexible, accessible educational programs and services; advancing pluralism, inclusion and global awareness; and acting as a catalyst and collaborator for a vibrant region.

The College's main campus is located in Bellevue, Washington, a community of about 140,700 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 addition, the college has a Governor-appointed student trustee who is prohibited from voting on personnel or collective bargaining matters. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

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

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

During 2017, the College adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 as amended by GASB Statement No. 71.* It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in $6,921,252 in pension liability.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, and net position at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	**FY 2017**	**FY 2016**
Assets		
Current Assets	$ 135,954,956	$ 104,793,892
Capital Assets, net	173,567,044	160,054,718
Other Assets, non-current	37,703,179	27,491,013
Total Assets	**$ 347,225,179**	**$ 292,339,623**
Deferred Outflows	**$ 3,662,869**	**$ 2,754,009**
Liabilities		
Current Liabilities	$ 22,793,377	$ 16,766,210
Other Liabilities, non-current	79,774,425	24,921,860
Total Liabilities	**$ 102,567,802**	**$ 41,688,070**
Deferred Inflows	**$ 2,573,321**	**$ 1,941,679**
Net Position	**$ 245,746,925**	**$ 251,463,883**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The significant increase of current assets in FY 2017 can be attributed to a new receivable related to the Certificate of Participation (COP) for construction of the Student Housing facility.

Net capital assets increased by $13,512,326 from FY 2016 to FY 2017. After taking into consideration current depreciation expense of $5,471,402, the majority of the increase is the result of the construction of the Physics RISE facility and construction in progress for the student housing facility which is expected to be completed in 2018.

Non-current assets consist primarily of the long-term portion of certain investments the College increased or its long-term investments as other investments matured.

Deferred outflows of resources and deferred inflows of resources represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in FY 2015 and Statement No. 73 in FY 2017. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $2,754,009 in FY 2016 and $3,662,869 in FY2017 of pension-related deferred outflows. The increase reflects the change in proportionate share.

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

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

The increase in current liabilities from FY 2016 to FY 2017 is due to an increase in accounts payable for several capital projects. There was a decrease in unearned revenue which offset some of the increase in current liabilities, related to a drop in enrollment from the previous year.

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

The College's significant increase in non-current liabilities is primarily the result of a new Certificate of Participation to fund the Student Housing facility.

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

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in four categories:

Net Investment in Capital Assets – The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.

Restricted:

Nonexpendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for spending but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. As a result, the college is not reporting any balance in this category.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset.

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

As stated earlier in this section, the College's net position was adjusted by $6,921,252 to reflect implementation of GASB73.

Net Position As of June 30th	**FY 2017**	**FY 2016**
Net investment in capital assets	$161,734,900	$153,829,718
Restricted		
Nonexpendable	$494,319	$355,300
Expendable	$50,649,725	$0
Unrestricted	$32,867,981	$97,278,864
Total Net Position	**$245,746,925**	**$251,463,882**

Statement of Revenues, Expenses and Changes in Net Position

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

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues. Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

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

As of June 30th	FY 2017	FY 2016
Operating Revenues		
Student tuition and fees, net	$ 54,407,148	$ 54,313,562
Auxiliary enterprise sales	$ 8,577,125	$ 9,037,046
State and local grants and contracts	$ 19,638,669	$ 19,448,710
Federal grants and contracts	$ 1,440,393	$ 2,407,086
Other Operating revenues	$ 1,478,114	$ 1,560,470
Total operating revenues	**$ 85,541,449**	**$ 86,766,874**
Operating Expenses		
Salaries and Benefits	$ 83,554,046	$ 80,239,076
Scholarships and fellowships	10,730,317	11,075,635
Depreciation	5,471,402	5,596,291
Other Operating Expenses	23,318,943	24,750,670
Total Operating Expenses	**$ 123,074,708**	**$ 121,661,672**
Operating Loss	**$ (37,533,259)**	**$ (34,894,799)**
Non-Operating Revenues		
State appropriations	$ 34,404,080	$ 33,288,569
Federal Pell grant revenue	6,598,099	7,316,114
Investment income, net	$ 394,087	$ 674,870
Total Non-Operating Revenues	**$ 41,396,266**	**$ 41,279,553**
Non-Operating Expenses	3,956,295	4,087,068
Building fee remittance	3,043,970	2,903,975
Other Non-Operating expenses	$ 912,326	$ 1,183,093
Total Non-Operating Expenses	**$ 3,956,296**	**$ 4,087,068**
Net non-operating revenues (expense)	**$ 37,439,970**	**$ 37,192,485**
Income (loss) before capital contributions	**$ (93,289)**	**$ 2,297,686**
Capital Appropriations and Contributions	**$ 2,993,272**	**$ 2,513,979**
Change in Net Position	**$ 2,899,983**	**$ 4,811,665**
Net Position, Beginning of the Year	**$ 251,463,882**	**$ 246,652,217**
Change in Accounting Principle (GASB73)	**$ (8,616,940)**	
Net Position, End of the Year	**$ 245,746,925**	**$ 251,463,882**

Revenues

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2017, the SBCTC moved forward with a new allocation model, allocating funds to each of the 34 college's based on 3 year average FTE actuals. In FY 2017, the College saw an increase in its state allocation due to the implementation of this new model. In addition, the College received a one-time allocation of $762,700 for a portion of its share of Moore vs HCA settlement cost. This allocation does not carry forward to future years.

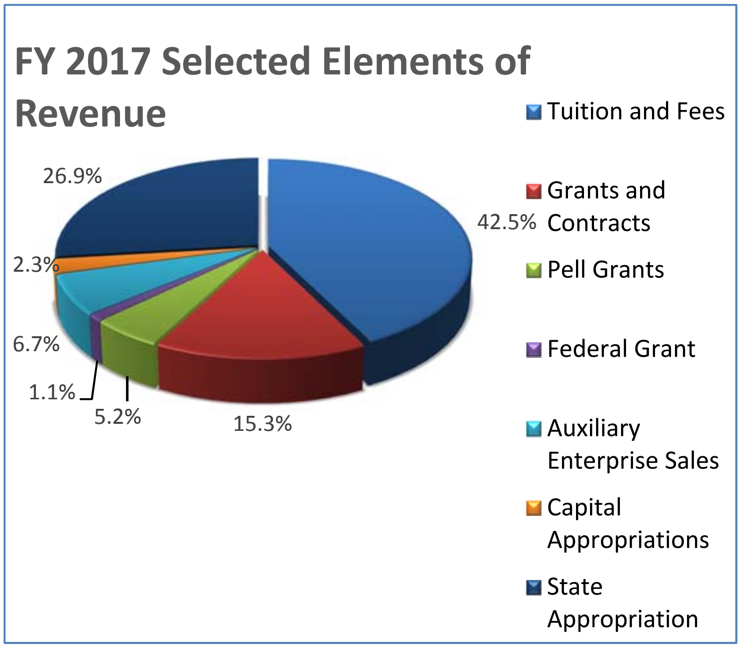
Since enrollments decreased in FY 2017, the College's increase in tuition and fee revenue is primarily attributable to an increase in tuition rates along with new baccalaureate self-support enrollments.

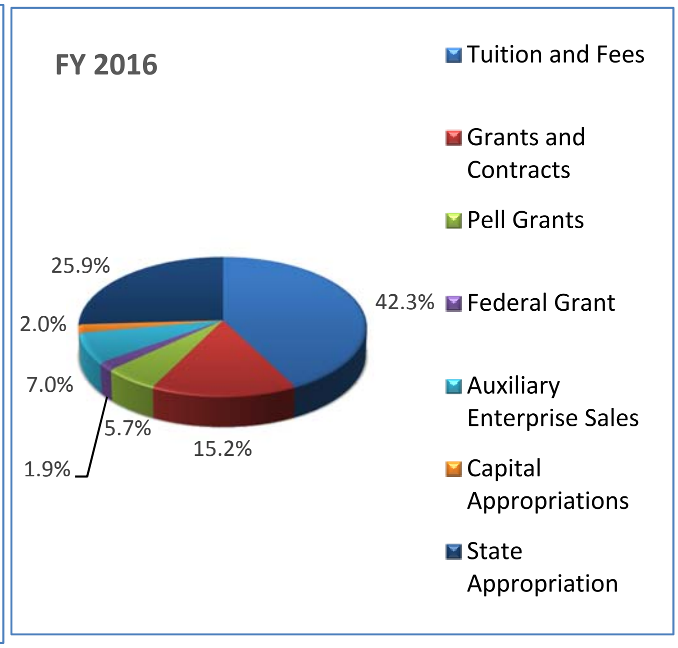
In FY 2017, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This reduced the amount of tuition revenue collected by the College. The Legislature did however backfill a portion of this loss.

Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2017, so did the College's Pell Grant revenue. For FY 2017, the College attempted to keep other fees even, resulting in only small changes in these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law. Examples included self-support baccalaureate programs, and intensive English and other programs for International students.

In FY 2017, grant and contract revenues decreased by $776,734 when compared with FY 2016 due to several federal grants ending. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars.

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





Expenses

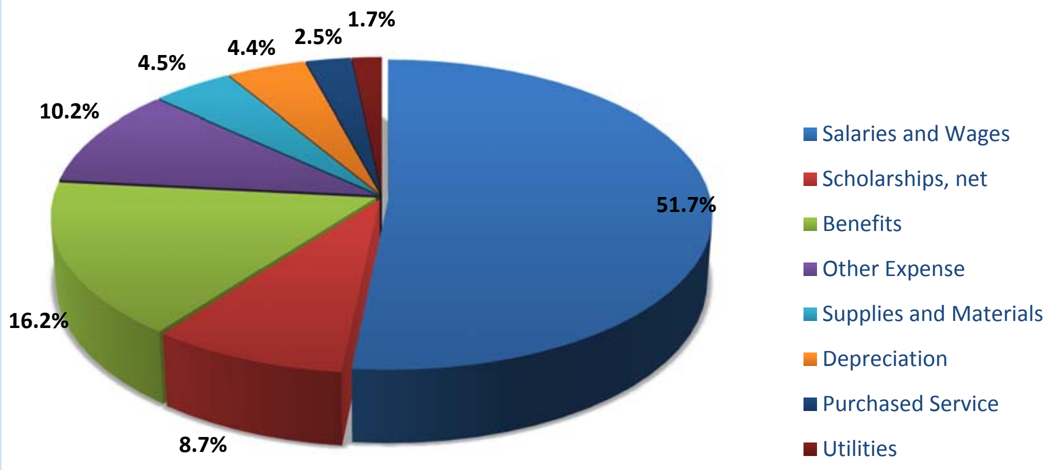
In FY 2017, salary and benefit costs increased as result of the 1.8% salary increase enacted by the Legislature, negotiated increases for classified staff and faculty, and having to compete in the competitive job market in order to replace retiring exempt employees and faculty

Utility costs have also increased as a result of rate increases for electricity. Supplies and materials costs were relatively even and purchased services were lower in FY 2017, primarily as a result of reduced grant activity. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service. All other costs are reported as operating expenses. Examples include travel, professional development, and non-capitalized equipment.

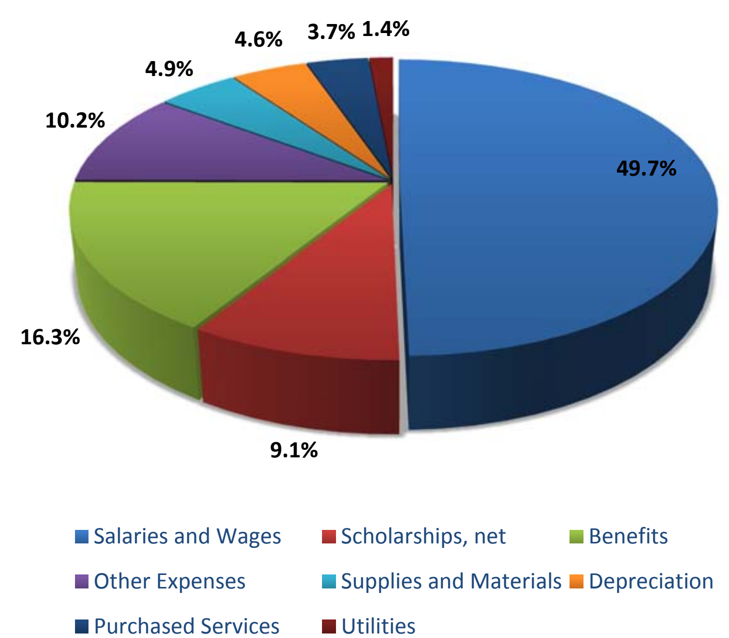
Comparison of Selected Operating Expenses by Function

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

FY 2017 Selected Elements of Expense

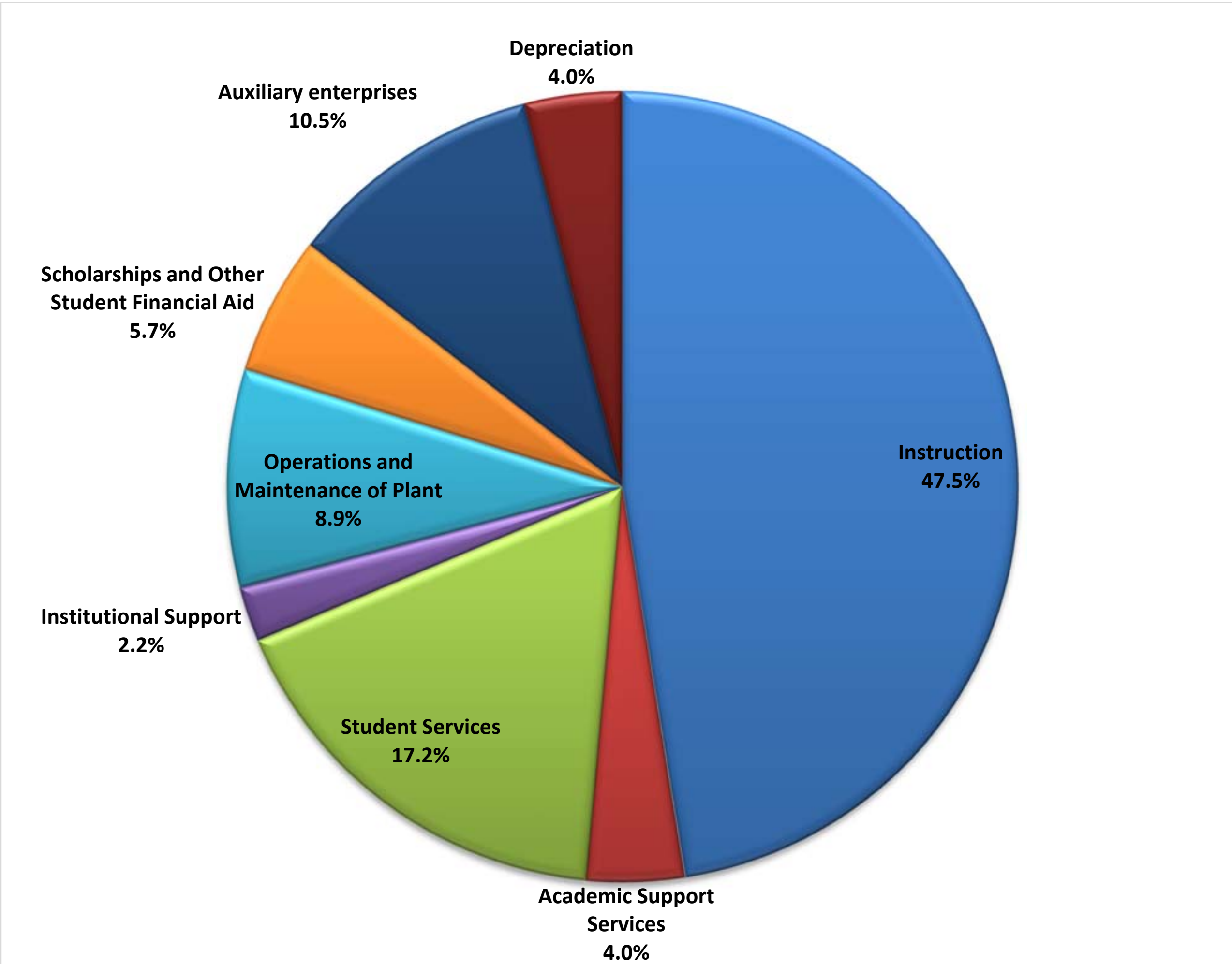


FY 2016 Selected Elements of Expense



Operating Expenses by Function

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



Capital Assets and Long-Term Debt Activities

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

At June 30, 2017, the College had invested $173,567,047 in capital assets, net of accumulated depreciation. This represents an increase of $13,512,329 from last year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	$15,995,246	$14,821,746	$1,173,500
Construction in Progress	$10,855,716	$1,143,557	$9,712,159
Buildings, net	$137,020,578	$137,327,032	-$306,454
Other Improvements and Infrastructure, net	$6,278,334	$2,601,273	$3,677,061
Equipment, net	$3,096,855	$3,787,936	-$691,081
Library Resources, net	$320,318	$373,174	-$52,856
Total Capital Assets, Net	**$173,567,047**	**$160,054,718**	**$13,512,329**

The increase in net capital assets can be largely attributed to the construction of student housing and the improvement of athletic fields. These projects were the most significant capital projects that were in process on June 30, 2017. 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 $48,205,000 in outstanding debt. The College entered into a Certificate of Participation (COP) for the student housing facility during FY 2017. The College continued to make payments on another COP obtained to construct the parking garage in 2003.

	June 30, 2017
Certificates of Participation	$48,205,000
Total	**$48,205,000**

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

Economic Factors That May Affect the Future

The Legislature approved a 2.2% tuition increase for 2018. It is expected that another similar tuition increase will be approved for 2019 during the Supplemental Budget session. The increase that was approved, is intended to partially pay for the approved cost of living increase expected to be paid from local funds. In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Due to a trend toward decreased enrollment in state programs, it is estimated that the College will likely see a decrease in state operating appropriations in future years unless other colleges also experience similar enrollment declines. The college will finish construction of a new student housing facility in summer 2018 and will begin operating the facility in fall 2018. The College expects to be able to cover operating costs and debt payments with rental payments from students and summer rentals both to students and other renters.

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

Bellevue College
Statement of Net Position
June 30,2017

Assets		
Current assets		
Cash and cash equivalents		67,547,010
Restricted Cash		601,718
Short-term investments		16,118,000
Accounts Receivable		7,313,537
Due From Other Agencies for C.O.P. Proceeds		43,801,793
Interest Receivable		78,579
Inventories		494,319
	Total current assets	135,954,956
Non-Current Assets		
Long-term investments		37,703,179
Student Loans Receivable		-
Non-Depreciable Capital assets		26,850,962
Depreciable Capital assets, net of depreciation		146,716,081
	Total non-current assets	211,270,223
	Total assets	**347,225,179**
Deferred Outflows of Resources		3,662,869
Total Deferred Outflows of Resources-Relating To Pensions		3,662,869
Liabilities		
Current Liabilities		
Accounts Payable		6,193,934
Accrued Liabilities		4,455,829
Compensated Absences Short-Term		2,656,644
Deposits Payable		3,350
Unearned Revenue		8,668,620
Certificates of Participation Payable		815,000
	Total current liabilities	22,793,377
Noncurrent Liabilities		
Compensated Absences Long-Term		3,436,492
Pension liabilty		21,518,997
Long-term liabilities		54,818,936
	Total non-current liabilities	79,774,425
	Total liabilities	**102,567,802**
Deferred Inflows of Resources		2,573,321
Total Deferred Inflows of Resources		2,573,321
Net Position		
Net Investment in Capital Assets		161,734,900
Restricted for:		
Nonexpendable		494,319
Expendable		50,649,725
Unrestricted		32,867,981
Total Net Position		**245,746,925**

(See accompanying note to the financial statements)

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

Operating Revenues		
Student tuition and fees, net		54,407,148
Auxiliary enterprise sales		8,577,125
State and local grants and contracts		19,638,669
Federal grants and contracts		1,440,393
Other operating revenues		1,478,114
	Total operating revenue	85,541,449
Operating Expenses		
Repairs & Maintenance		2,767,555
Printing & Graphics		1,441,956
Software Licensing		1,470,071
Travel		1,197,110
Equipment		1,428,416
Other Operating Expenses		4,257,694
Salaries and wages		63,571,505
Benefits		19,982,541
Scholarships and fellowships		10,730,317
Supplies and materials		5,579,465
Depreciation		5,471,402
Purchased services		3,126,672
Utilities		2,050,004
	Total operating expenses	123,074,708
	Operating income (loss)	(37,533,259)
Non-Operating Revenues (Expenses		
State appropriations		34,404,080
Federal Pell grant revenue		6,598,099
Investment income, gains and losses		394,087
Building fee remittance		(3,043,970)
Innovation fund remittance		(754,517)
Interest on indebtedness		(157,808)
	Net non-operating revenues (expenses)	**37,439,970**
Income or (loss) before capital appropriations		(93,289)
Capital appropriations		2,993,272
	Increase (Decrease) in net position	2,899,983
Net Position		
Net position, beginning of year		251,463,882
Cummulative effect of change in accounting principle		(8,616,940)
Net position, beginning of year, as restated		242,846,942
Net position, end of year		245,746,925

(See accompanying note to the financial statements)

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

Cash flow from operating activities	
Student tuition and fees	53,846,674
Grants and contracts	20,361,415
Payments to vendors	(4,872,394)
Payments for utilities	(2,018,300)
Payments to employees	(63,326,275)
Payments for benefits	(20,054,619)
Auxiliary enterprise sales	8,465,471
Payments for scholarships and fellowships	(10,730,317)
Other receipts	1,550,292
Other payments	(12,545,720)
Net cash used by operating activities	(29,323,773)
Cash flow from noncapital financing activities	
State appropriations	35,432,083
Pell grants	6,598,099
Building fee remittance	(2,914,721)
Innovation fund remittance	(540,734)
Net cash provided by noncapital financing activities	38,574,727
Cash flow from capital and related financing activities	
Capital appropriations	2,425,182
Purchases of capital assets	(19,895,327)
Certificate of participations proceeds	6,815,286
Principal paid on capital debt	(821,179)
Interest paid	(422,257)
Net cash used by capital and related financing activities	(11,898,295)
Cash flow from investing activities	
Proceeds from sales and maturities of investments	9,235,545
Income of investments	394,087
Net cash provided by investing activities	9,629,631
Increase in cash and cash equivalents	6,982,291
Cash and cash equivalents at the beginning of the year	61,166,441
Cash and cash equivalents at the end of the year	68,148,731
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(37,533,259)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	5,471,402
Changes in assets and liabilities	
Receivables , net	(545,323)
Inventories	39,354
Accounts payable	4,319,795
Accrued liabilities	(420,349)
Unearned revenue	(755,192)
Compensated absences	224,675
Pension liability adjustment expense	(124,877)
Net cash used by operating activities	(29,323,773)
Noncash Capital, Financing and Investing Activities	
Amortization Expense	264,449

(See accompanying note to the financial statements)

BELLEVUE COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
30-Jun-17

ASSETS

Cash and cash equivalents	$342,551
Marketable securities - Notes 3 and 5	8,856,582
Contributions held in trust by others - Note 4	2,709,339
Donations receivable	2,076
Pledges receivable, net - Note 2	155,513
Prepaid expenses	15,175
Total assets	$12,081,236

LIABILITIES

Accounts payable	$21,893
Grants payable	145,052
Total liabilities	166,945

NET ASSETS

Unrestricted	1,310,121
Temporarily restricted:	
Student scholarships	1,823,794
Bellevue College programs and activities	2,389,433
Total temporarily restricted	4,213,227
Permanently restricted endowments:	
Student scholarships	4,885,567
Faculty excellence	403,543
Bellevue College programs and activities	830,873
Where needed most	270,960
Total permanently restricted	6,390,943
Subtotal - gifts with donor restrictions	10,604,170
Total net assets	11,914,291
Total liabilities and net assets	$12,081,236

The accompanying notes are an integral part of these financial statements

BELLEVUE COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions:				
Current gifts	$491,520	$999,843		$1,491,363
Endowments			$426,927	426,927
Contribution - bequests				-
In-kind contributions - Note 6	329,880	151,524	535,000	1,016,404
Earned income:				
Investment earnings - Note 3	384,651	474,201		858,852
External trust earnings (loss) - Notes 4 and 5		286,725		286,725
Joint College activities - Note 6		122,855		122,855
Custodial management fee	54,129			54,129
Earned event revenue	16,537	1,833		18,370
Total support and revenue	1,276,717	2,036,981	961,927	4,275,625
Net assets released from restrictions - Note 7	1,537,043	(1,537,043)		
Total	2,813,760	499,938	961,927	4,275,625
Expenses:				
Program:				
Bellevue College programs and activities	997,885			997,885
Student scholarships	317,990			317,990
Total program	1,315,875	-	-	1,315,875
General and administrative:				
Payroll, taxes and benefits	289,713			289,713
Professional fees	38,332			38,332
Office goods and services	5,553			5,553
Bank and investment fees	58,018			58,018
Insurance	2,218			2,218
Professional development	10,793			10,793
In-kind facilities	12,778			12,778
Custodial management fee	54,129			54,129
Board operations, registrations and other	12,514			12,514
Donated real estate selling expenses	78,438			78,438
Total general and administrative	562,486	-	-	562,486
Fundraising:				
Payroll, taxes and benefits	284,065			284,065
Donor solicitations	179,131			179,131
Donor cultivation & recognition	41,653			41,653
Pledge write-offs - Note 1	6,611			6,611
In-kind facilities	11,344			11,344
Total fundraising	522,804	-	-	522,804
Total expenses	2,401,165	-	-	2,401,165
Increase in net assets	412,595	499,938	961,927	1,874,460
Net assets at beginning of year	897,526	3,713,289	5,429,016	10,039,831
Net assets at end of year	$1,310,121	$4,213,227	$6,390,943	$11,914,291

The accompanying notes are an integral part of these financial statements

BELLEVUE COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Increase in net assets	$1,874,460
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Decrease in allowance on pledges receivable	(1,749)
Increase in discount on pledges receivable	3,778
Gain on sale of marketable securities, net	(19,523)
Unrealized (gain) loss on marketable securities	(610,315)
Permanently restricted contributions	(961,927)
Changes in operating assets and liabilities	
Contributions held in trust by others	(180,473)
Donations receivable	3,646
Pledges receivable	(13,407)
Prepaid expenses	9,998
Payables	117,678
Net cash provided by operating activities	222,166
Cash flows from investing activities:	
Proceeds from sale or maturity of marketable securities	458,694
Purchases of marketable securities	(1,585,328)
Net cash used in investing activities	(1,126,634)
Cash flows from financing activities:	
Permanently restricted contributions	961,927
Net cash provided by financing activities	961,927
Net increase (decrease) in cash and cash equivalents	57,459
Cash and cash equivalents	
Beginning of period	285,092
End of period	$342,551

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

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

1. Summary of Significant Accounting Policies

Financial Reporting Entity
Bellevue College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate and 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 Bellevue College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1978 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to aid and assist in the development, maintenance, promotion, growth and preservation of Community College District VIII, and to provide or grant scholarships and assistance to men and women of promise. KBCS 91.3 is an operating unit of Bellevue College and is supported by memberships and gifts. 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 $1,315,875 to the College for restricted and unrestricted purposes such as program support and scholarships for students. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 425-564-2386.

Basis of Presentation
The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial

reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows. For the financial statements, intra-agency receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalents, and investments at fair value with the exception of the LGIP which is recorded at amortized cost.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash equivalents, certificates of deposit, and U.S. Treasuries and U.S. Agency securities.

Accounts Receivable
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Accounts receivable includes proceeds from Certificates of Participation that have not yet been received from the State Treasurer. Accounts receivable are shown net of estimated uncollectible amounts.

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

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2017, no assets had been written down.

Unearned Revenues
Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer and fall quarter tuition and fees, as unearned revenues.

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net 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 Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted.* These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts that primarily support the operational/educational activities of the colleges. An example is a contract with OSPI to offer Running Start. The college also receives Adult Basic Education grants that support the primary educational mission of the college.

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

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

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

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of Scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are $4,336,311.

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 are recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance
Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35^{th} 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 remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position.

2. Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of $8,616,940 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 employers through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 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.

3. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The LGIP is valued at amortized cost pursuant to GASB No. 79 which addresses reporting for external investment pools and establishes criteria for an external investment pool to qualify for electing to measure its investments at amortized cost for financial reporting purposes. The LGIP is an unrated investment pool.

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

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

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

As of June 30, 2017, the carrying amount of the College's cash, cash equivalents, and investments was $121,969,907 as represented in the table below.

Cash, Cash Equivalents and Investments	**June 30, 2017**
Petty Cash and Undeposited Cash	$15,050
Undeposited Cash	$340,756
Cash and Other Cash Equivalents	$65,432,721
Local Government Investment Pool	$2,360,201
Short-Term Investments	$16,118,000
Long-Term Investments	$37,703,179
Total Cash, Cash Equivalents and Investments	**$121,969,907**

Investments consist of time certificates of deposit, U.S. Treasury and Agency securities, investments in equities and bond funds. Time certificates of deposit have repurchase agreements with the respective financial institutions. Maturity dates at the measurement date ranged from three to 23 months The College reviewed the effects of Statement No.72 on its investments and reported investments at fair market value. Fair market value is defined in the accounting standards as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation methods and take into account the assumptions that market participants use to make valuation decisions. Input may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

Fixed or variable income securities	Total	Level 1	Level 2	Level 3
U.S. Government sponsored enterprises	$58,821,180		$58,821,180	
	========		=========	

The College's investments in fixed-income securities at June 30, 2017, average duration, in years, is 1.1 years.

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years
Time Certificate of Deposits	$ 5,000,000	$ 5,000,000		
U.S. Agency Obligations	$ 58,821,180	$ 21,088,601	$ 37,732,579	
Total Investments	**$ 63,821,180**	**$ 26,088,601**	**$ 37,732,579**	**$ -**

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 U.S. Bank. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Interest Rate Risk—Investments

The College manages its exposure to interest rate changes by limiting the duration of investments' maturities. During FY17, interest rates were again at a historically low level. To minimize the risk that historically low rates would rise, the college kept the average maturity of investments below 2 years. The College will periodically review the level of interest rates to determine whether longer maturities become less risky. The College has not invested in maturities longer than 5 years in recent years, to minimize interest rate risk.

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2017, $25,792,326 of the College's operating fund investments were held by Key Bank in the bank's name as agent for the College, and $33,028,854 of the College's operating fund investments were held by U.S. Bank for the account of the College, are exposed to custodial credit risk as follows.

Investments Exposed to Custodial Risk	Fair Value
FNMA	$ 4,999,085
FICO	$ 4,104,777
FHLMC	$ 4,995,960
FHLMC	$ 3,499,066
FFCB	$ 3,489,714
FHLB	$ 833,832
FHLB	$ 12,981,425
FFCB	$ 1,491,981
FHLB	$ 999,204
FHLMC	$ 997,086
FNMA	$ 2,996,406
FNMA	$ 3,942,665
FHLMC	$ 4,998,680
FAMCA	$ 4,496,868
FHLMC	$ 3,994,432
Total Investments Exposed To Custodial Risk	$ 58,821,180

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2017 were $494.00

4. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty staff and outside parties. 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	$	374,103
Due from the Federal Government	$	132,706
Due from Other State Agencies	$	519,314
Due from Other Agencies for C.O.P. Proceeds	$	43,801,793
Auxiliary Enterprises	$	564,705
Interest Receivable	$	78,579
Other	$	5,753,103
Subtotal	$	51,224,302
Less Allowance for Uncollectible Accounts	$	30,393

5. Inventories

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

Inventories	**Amount**	
Consumable Inventories	$	31,255
Merchandise Inventories	$	463,065
Work in Progress Inventories	$	-
Raw Materials Inventories	$	-
Inventories	**$**	**494,320**

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $5,471,402.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 14,821,746	$ 1,173,500		$ 15,995,246
Construction in progress	1,143,557	9,712,159		10,855,716
Total nondepreciable capital assets	15,965,303	10,885,659		26,850,962
Depreciable capital assets				
Buildings	190,382,894	3,752,251		194,135,145
Other improvements and infrastructure	8,393,481	3,926,561		12,320,042
Equipment	13,798,459	368,656	(78,241)	14,088,874
Library resources	1,293,397	50,602	(124,222)	1,219,777
Subtotal depreciable capital assets	213,868,231	8,098,070	(202,463)	221,763,838
Less accumulated depreciation				
Buildings	53,055,865	4,058,702		57,114,567
Other improvements and infrastructure	5,792,208	249,500		6,041,708
Equipment	10,010,529	1,059,734	(78,241)	10,992,022
Library resources	920,223	103,459	(124,222)	899,460
Total accumulated depreciation	69,778,825	5,471,395	(202,463)	75,047,757
Total depreciable capital assets	144,089,406	2,626,675	0	146,716,081
Total Capital Assets	160,054,709	13,512,334	0	173,567,043

7. Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

8. Accounts Payable and Accrued Liabilities
At June 30, 2017, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 2,547,563
Accounts Payable	$ 6,193,934
Amounts Held for Others and Retainage	$ 1,908,263

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

Unearned Revenue	Amount
Summer & Fall Quarter Tuition & Fees	$ 8,602,647
Housing and Other Deposits	65,973
Total Unearned Revenue	$ 8,668,620

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. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2016 through June 30, 2017, were $167,717. Cash reserves for unemployment compensation for all employees at June 30, 2017, were $165,684.55.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to $10,000,000 for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $2,420,637, and accrued sick leave totaled $3,672,498 at June 30, 2017.

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

12. Notes Payable

In December 2003, the College obtained financing in order to construct the Parking Garage through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $16,120,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2003. The interest rate charged is 3.91%.

In February of 2017, the College obtained financing in order to construct a Student Housing Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $47,500,000. Students who choose to live in the student housing building will be charged a quarterly fee. The interest rate charged is approximately 3.48%.

Student fees related to the COPs are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget.

The College's debt service requirements for these note agreements for the next five years and thereafter are as shown in the following Note 13.

13. Annual Debt Service Requirements

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

Annual Debt Service Requirements			
Certificates of Participation			
Fiscal year	Principal	Interest	Total
2018	$ 815,000	$ 226,150	$ 1,041,150
2019	2,150,000	1,432,421	$ 3,582,421
2020	2,250,000	2,224,200	$ 4,474,200
2021	2,350,000	2,120,600	$ 4,470,600
2022	2,460,000	2,012,350	$ 4,472,350
2023-27	9,685,000	8,509,000	$ 18,194,000
2028-2032	11,080,000	6,070,000	$ 17,150,000
2033-2037	14,150,000	3,007,500	$ 17,157,500
2038-2042	3,265,000	163,250	$ 3,428,250
2043-2047			
Total	**48,205,000**	**25,765,471**	**73,970,471**

14. Schedule of Long Term Liabilities

	Balance outstanding 6/30/16	Additions	Reductions	Balance outstanding 6/30/17	Current portion
Certificates of Participation	6,225,000	42,755,000	775,000	48,205,000	815,000
Compensation Absences	5,868,461	3,093,279	2,868,604	6,093,136	2,656,644
Capital leases	4,165		4,165	0	
Unamortized Premium/Discount on Debt	853,684	6,839,701	264,449	7,428,936	463,940
Net pension obligation	12,749,715	14,009,851	5,240,569	21,518,997	
Total	**$ 25,701,025**	**$ 66,697,831**	**$ 9,152,787**	**$ 83,246,069**	**$ 3,935,584**

15. Pension Liability

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

Pension Liability by Plan		
PERS 1	$	6,077,170
PERS 2/3		7,297,580
TRS 1		933,634
TRS 2/3		289,360
SBRP		6,921,252
Total	**$**	**21,518,997**

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 FY2017, the payroll for the College's employees was $14,352,086 for PERS, $1,344,095 for TRS, and $39,650,714 for SBRP. Total covered payroll was $55,346,896.

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

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

Basis of Accounting

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

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

Aggregate Pension Amounts - All Plans

Pension liabilities	$21,518,997
Deferred outflows of resources related to pensions	$ 3,662,869
Deferred inflows of resources related to pensions	$ 2,573,321
Pension expense	$ 1,578,636

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

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

PERS and TRS

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

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

The college also has 4 faculty members with pre-existing eligibility who continue to participate in TRS 1 or 2.

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

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

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

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

Contribution Rates at June 30

	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.69%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required/Actual Contributions (per college's payroll data)

Required Contributions						
	FY2015		FY2016		FY2017	
Plan	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ -	$ -	$ -	$ -	$ -	$ -
Plan 2	$ 476,750.00	$ 895,899.00	$ 618,278.00	$ 1,023,311.00	$ 664,652.00	$ 1,018,753.00
Plan 3	$ 264,650.00	$ 385,046.00	$ 259,783.00	$ 453,878.00	$ 302,394.00	$ 461,209.00
TRS						
Plan 1	$ 8,956.00	$ 15,508.00	$ 9,626.00	$ 20,707.00	$ 6,463.00	$ 14,142.00
Plan 2	$ 6,534.00	$ 13,687.00	$ 5,822.00	$ 12,730.00	$ 5,006.00	$ 11,046.00
Plan 3	$ 51,907.00	$ 73,366.00	$ 66,726.00	$ 120,980.00	$ 82,929.00	$ 151,692.00

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

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

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

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

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

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

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

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

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense FY16	355,447	995,539	59,952	78,897	1,489,836
FY17 Amortization of change in proportionate liability	-407,770	-106,015	143,227	22,034	-348,524
FY16 Amortization of change in proportionate liability		152,682			152,682
Total Pension Expense	**-52,323**	**1,042,206**	**203,179**	**100,932**	**1,293,994**

Changes in Proportionate Shares of Pension Liabilities

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

	2015	2016
PERS 1	.12055%	.113159%
PER 2/3	.15569%	.144939%
TRS 1	.02314%	.027345%
TRS 2/3	.01753%	.021070%

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

Actuarial Assumptions

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

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

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

Discount Rate

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

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

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

Sensitivity of the net pension liability to changes in the discount rate

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	7,328,457	6,077,171	5,000,363
PERS Plan 2/3	13,436,156	7,297,579	(3,798,811)
TRS Plan 1	1,147,713	933,628	749,225
TRS Plan 2/3	654,875	289,366	(336,156)

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

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

	PERS 1		PERS 2/3	
	Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience			$ 388,591	$ 240,905
Difference between expected and actual earnings of pension plan investments	$ 153,014		$ 893,013	
Changes of Assumptions			$ 75,426	
Changes in College's proportionate share of pension liabilities			$ 272,256	$ 339,247
Contributions to pension plans after measurement date	$ 664,036		$ 867,076	
	$817,050		**$2,496,363**	**$580,152**

	TRS 1		TRS 2/3	
	Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience			$21,890	$12,839
Difference between expected and actual earnings of pension plan investments	$29,613		$46,580	
Changes of Assumptions			$ 2,947	
Changes in College's proportionate share of pension liabilities			$76,027	
Contributions to pension plans after measurement date	$90,735		$81,665	
	$120,348 -	**$** -	**$229,108** -	**$ 12,839** -

The $1,703,513 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

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

Year ended June 30	PERS 1**	PERS 2/3	TRS 1**	TRS 2/3
2018	$ (37,675)	$51,708	$ (7,654)	$21,180
2019	$ (37,675)	$ (614)	$ (7,654)	$21,180
2020	$140,527	$596,010	$27,704	$57,018
2021	$ 87,837	$402,032	$17,217	$33,416
2022				$ 1,809
2023				
Total	**$153,014**	**$1,049,135**	**$29,613**	**$134,604**

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2017 were each $3,485,936.

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 $350,322. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2017, the College paid into this fund at a rate of 0.5% of covered salaries totaling $39,650,714. This amount was not used as a part of GASB73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for $13,280,149.81 of the fund balance.

Actuarial Assumptions

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

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

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

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

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

Discount Rate

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

Pension Expense

For the year ended June 30, 2017, Bellevue College reported $284,641 for pension expense in the Higher Education Supplemental Retirement Plans.

Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 7.28%. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating Colleges, actuarially determined.

Plan Membership

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

Number of Participating Members				
Plan	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
District 8			396	396

Change in Total Pension Liability/(Asset)

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

Change in Total Pension Liability/(Asset)	
Total Pension Liability	Amount
Service Cost	$ 394
Interest	256
Changes of benefit terms	-
Differences between expected and actual experience	(1,844)
Changes of assumptions	(435)
Benefit Payments	(66)
Other	-
Net Change in Total Pension Liability	(1,695)
Total Pension Liability- Beginning	8,616
Total Pension Liability- Ending	6,921

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

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

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% Increase
State Board for Community and Technical Colleges (SBCTC)	7,950	6,920	6,067

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

State Board for Community and Technical Colleges (SBCTC)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,602
Changes of assumptions		$ 378
Transactions subsequest to the measurement date		
Total	$ -	$ 1,980

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

State Board for Community and Technical Colleges (SBCTC)	
2018	(300)
2019	(300)
2020	(300)
2021	(300)
2022	(300)
Thereafter	(480)

D. Defined Contribution Plans

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

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

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

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

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 15.B for TRS Plan descriptions.

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

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

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

Washington State Deferred Compensation Program

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

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 45 actuarially accrued liability (AAL) is $42,326,712, with an annual required contribution (ARC) of $3,813,723. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $818,276. The College's net OPEB obligation at June 30, 2017 was approximately $11,156,537. This amount is not included in the College's financial statements.

The College paid $10,104,222 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

18. Operating Expenses by Program

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

Expenses by Functional Classification		
Instruction	$	58,410,030
Academic Support Services		4,929,138
Student Services		21,139,783
Institutional Support		2,753,485
Operations and Maintenance of Plant		10,994,627
Scholarships and Other Student Financial Aid		7,003,079
Auxiliary enterprises		12,924,157
Public Service		-
Research		-
Depreciation		4,920,409
Total operating expenses	**$**	**123,074,708**

19. Commitments and Contingencies

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

The College has commitments of $41,106,236 for the student housing building construction and pre-design of a student success building.

20. Subsequent Events

The Board of Directors approved the construction of a new Student Success Building in October of 2017. The Building is expected to cost approximately $35,000,000 and will be financed both with new Certificates of Participation and with local reserves. Repayment of the COP will be made from the college operating funds.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Bellevue College's Proportionate Share of the Net Pension Liability

Schedule of Bellevue College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.118325%	$ 5,960,677	$ 12,971,801	45.95%	61.19%
2015	0.120550%	$ 6,305,886	$ 13,873,237	45.45%	59.10%
2016	0.113159%	$ 6,077,171	$ 13,445,510	45.20%	57.03%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Bellevue College's Proportionate Share of the Net Pension Liability

Schedule of Bellevue College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.150600%	$ 3,044,474	$ 12,905,136	23.59%	93.29%
2015	0.155700%	$ 5,562,929	$ 13,873,237	40.10%	89.20%
2016	0.144939%	$ 7,297,581	$ 13,445,510	54.28%	85.82%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Bellevue College's Proportionate Share of the Net Pension Liability

Schedule of Bellevue College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.019440%	$ 573,374	$ 711,902	80.54%	68.77%
2015	0.231400%	$ 732,981	$ 963,352	76.09%	65.70%
2016	0.027345%	$ 933,634	$ 1,200,864	77.75%	62.07%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Bellevue College's Proportionate Share of the Net Pension Liability

Schedule of Bellevue College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.013797%	$ 44,563	$ 583,151	7.64%	96.81%
2015	0.017530%	$ 147,918	$ 818,639	18.07%	92.48%
2016	0.021070%	$ 289,361	$ 1,040,358	27.81%	88.72%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 523,746	$ 523,746	$ -	$12,971,801	4.04%
2015	$ 554,045	$ 554,045	$ -	$13,873,237	3.99%
2016	$ 641,719	$ 641,719	$ -	$13,445,510	4.77%
2017	$ 655,578	$ 655,578	$ -	$13,532,772	4.84%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Emplyees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 636,258	$ 636,258	$ -	$12,905,136	4.93%
2015	$ 693,530	$ 693,530	$ -	$13,873,237	5.00%
2016	$ 836,722	$ 836,722	$ -	$13,445,510	6.22%
2017	$ 851,548	$ 851,548	$ -	$13,532,772	6.29%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 38,444	$ 38,444	$ -	$ 711,902	5.40%
2015	$ 51,773	$ 51,773	$ -	$ 963,352	5.37%
2016	$ 66,911	$ 66,911	$ -	$ 1,200,864	5.57%
2017	$ 90,987	$ 90,987	$ -	$ 1,340,742	6.79%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 33,853	$ 33,853	$ -	$ 583,151	5.81%
2015	$ 46,585	$ 46,585	$ -	$ 818,639	5.69%
2016	$ 84,971	$ 84,971	$ -	$ 1,040,358	8.17%
2017	$ 82,640	$ 82,640	$ -	$ 1,229,760	6.72%
2018					
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information

State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios Bellevue College Fiscal Year Ended June 30 (expressed in thousands)		
Total Pension Liability		
Service Cost	$	394
Interest		256
Changes of benefit terms		-
Differences between expected and actual experien		(1,844)
Changes of assumptions		(435)
Benefit Payments		(66)
Other		-
Net Change in Total Pension Liability		**(1,695)**
Total Pension Liability - Beginning		**8,616**
Total Pension Liability - Ending	**$**	**6,921**

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

Higher Education 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