Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Shoreline Community College

For the period July 1, 2015 through June 30, 2016

Published May 7, 2020

Report No. 1026163

Office of the Washington State Auditor
Pat McCarthy

May 7, 2020

Board of Trustees
Shoreline Community College
Shoreline, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (564) 999-0950 • Pat.McCarthy@sao.wa.gov

TABLE OF CONTENTS

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

Shoreline Community College
July 1, 2015 through June 30, 2016

Board of Trustees
Shoreline Community College
Shoreline, 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 the Shoreline Community College, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 29, 2020.

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

As discussed in Note 1 to the financial statements, in 2016, the College began reporting the Shoreline Community College Foundation as part of its reporting entity.

The financial statements of the Shoreline Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016, 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.

The College has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the College in a separate letter dated April 29, 2020.

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

Pat McCarthy

State Auditor

Olympia, WA

April 29, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Shoreline Community College
July 1, 2015 through June 30, 2016

Board of Trustees
Shoreline Community College
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Shoreline Community College, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Shoreline Community College, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2016, the College began reporting the Shoreline Community College Foundation as part of its reporting entity. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Shoreline Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016, 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 required supplementary information listed on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2020 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

April 29, 2020

FINANCIAL SECTION

Shoreline Community College
July 1, 2015 through June 30, 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016
Statement of Revenues, Expenses and Changes in Net Position – 2016
Statement of Cash Flows – 2016
Shoreline Community College Foundation – Statement of Financial Position – 2016
Shoreline Community College Foundation – Statement of Activities – 2016
Notes to the Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Shoreline Technical College's Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2016
Schedules of Contributions – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2016

Shoreline Community College
Statement of Net Position
June 30, 2016

Assets	
Current assets	
Cash and cash equivalents	$ 30,820,160
Accounts receivable, net	4,637,606
Student loans receivable, net	30,387
Interest Receivable	6,676
Inventories	153,749
Prepaid expenses	4,925
Total current assets	35,653,503
Non-Current Assets	
Student Loans Receivable	145,794
Non depreciable capital assets	532,583
Capital assets, net of depreciation	40,566,651
Total non-current assets	41,245,028
Total Assets	**76,898,531**
Deferred Outflows of Resources - Related to Pensions	1,559,894
Total Deferred Outflows of Resources	1,559,894
Liabilities	
Current Liabilities	
Accounts payable	986,446
Accrued liabilities	2,329,204
Compensated absences	937,662
Unearned revenue	4,926,769
Current portion of long-term liabilities	590,916
Total current liabilities	9,770,997
Noncurrent Liabilities	
Compensated absences	1,829,089
Net pension liability	7,040,298
Long-term liabilities	7,703,956
Total non-current liabilities	16,573,343
Total Liabilities	**26,344,340**
Deferred Inflow of Resources - Related to Pensions	1,035,808
Total Deferred Inflows of Resources	1,035,808
Net Position	
Net investment in capital Assets	32,804,362
Restricted for:	
Nonexpendable	3,009
Expendable	
Student Loans	145,794
Student Aid	212,120
Unrestricted	17,912,992
Total Net Position	**$ 51,078,277**

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

Shoreline Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

Operating Revenues		
Student tuition and fees, net		$ 25,891,874
Auxiliary enterprise sales		1,632,134
State and local grants and contracts		7,928,962
Federal grants and contracts		239,973
Other operating revenues		444,817
Interest on past due receivables		7,344
	Total Operating Revenue	36,145,104
Operating Expenses		
Salaries and wages		30,832,148
Benefits		10,152,748
Scholarships and fellowships		7,835,303
Supplies and materials		2,880,901
Depreciation		1,645,274
Purchased services		1,979,588
Utilities		1,242,978
Repairs and maintenance		-
Miscellaneous expense		5,336,526
	Total Operating Expenses	61,905,466
	Operating Income (Loss)	(25,760,362)
Non-Operating Revenues (Expenses)		
State appropriations		21,849,551
Federal Pell grant revenue		4,524,789
Interest income		-
Loss on disposal of assets		(41,836)
Other non-operating revenue		1,371,501
Building fee remittance		(2,079,715)
Innovation fund remittance		(595,136)
Interest on indebtedness		(481,338)
Other non-operating expense		(41,377)
	Net Non-Operating Revenues (Expenses)	**24,506,439**
Income or (loss) before capital revenues		(1,253,923)
Capital Revenues		
Capital appropriations		593,801
	Total Capital Revenues	593,801
	Increase (Decrease) in Net Position	(660,122)
Net Position		
Net position, beginning of year		51,738,399
Net position, end of year		$ 51,078,277

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

Shoreline Community College

Statement of Cash Flows

For the Year Ended June 30, 2016

Cash flow from operating activities	
Student tuition and fees	$ 28,575,800
Grants and contracts	7,753,882
Payments to vendors	(13,565,438)
Payments for utilities	(931,404)
Payments to employees	(30,586,559)
Payments for benefits	(10,187,775)
Auxiliary enterprise sales	1,466,808
Payments for scholarships and fellowships	(7,835,303)
Other receipts (payments)	462,707
Net cash used by operating activities	(24,847,282)
Cash flow from noncapital financing activities	
State appropriations	24,258,333
Pell grants	4,524,789
Building fee remittance	(2,079,715)
Innovation fund remittance	(595,136)
Other nonoperating	1,330,124
Net cash provided by noncapital financing activities	27,438,395
Cash flow from capital and related financing activities	
Capital appropriations	593,801
Purchases of capital assets	(450,738)
Proceeds from certificate of participation	7,805,000
Principal paid on debt	(9,893,432)
Interest paid	(432,964)
Net cash used by capital and related financing activities	(2,378,333)
Increase (decrease) in cash and cash equivalents	212,780
Cash and cash equivalents at the beginning of the year	30,607,380
Cash and cash equivalents at the end of the year	$ 30,820,160

Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	$ (25,760,362)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	1,645,274
Changes in assets and liabilities	
Receivables , net	(631,563)
Student loans , net	(3,585)
Inventories	98,118
Other assets	(4,925)
Accounts payable	(496,310)
Accrued liabilities	(2,573,904)
Unearned revenue	2,749,241
Compensated absences	185,718
Pension liability adjustment expense	(54,984)
Net cash used by operating activities	$ (24,847,282)

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

Shoreline Community College Foundation

Statement of Financial Position

June 30, 2016

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	496,980
Accounts receivable, net		2,880
Contract receivable, net		261,280
Prepaid expenses		1,730
Total Current Assets		762,870
OTHER ASSETS		
Long-term investments		2,647,535
Total Assets	$	3,410,405
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$	961
Contract payable		290,520
Total Current Liabilities		291,481
NET ASSETS		
Unrestricted:		
Board designated		264,115
Undesignated		151,301
Total Unrestricted		415,416
Temporarily restricted		1,585,884
Permanently restricted		1,117,624
Total Net Assets		3,118,924
Total Liabilities and Net Assets	$	3,410,405

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

Shoreline Community College Foundation

Statement of Activities

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	$ 12,651	$ 100,180	$ 25,548	$ 138,379
In-kind contributions	181,579	5,030	-	186,609
Special events revenue	5,724	21,930	-	27,654
Contract revenue	261,918	91	-	262,009
Investment income	3,889	24,226	-	28,115
Net realized and unrealized gain on investments	3,338	12,860	-	16,198
Net assets released from restrictions	234,957	(234,957)	-	-
Total Revenues, Gains, and Other Support	704,056	(70,640)	25,548	658,964
EXPENSES				
Program services:				
College program support	335,666	-	-	335,666
Scholarships	146,850	-	-	146,850
Total Program Services	482,516	-	-	482,516
Supporting services:				
Administration	216,745			216,745
Fundraising	5,820	-	-	5,820
Total Supporting Services	222,565	-	-	222,565
Total Expenses	705,081	-	-	705,081
Change in Net Assets	(1,025)	(70,640)	25,548	(46,117)
Net assets - Beginning of Year	416,441	1,656,524	1,092,076	3,165,041
Net assets - End of Year	$ 415,416	$1,585,884	$1,117,624	$3,118,924

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

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

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

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

The Shoreline Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1984 and recognized as a tax exempt 501(c)(3) charitable organization. The Foundation's charitable purpose is to build relationships with the community, acquire resources to support academic excellence and educational access at the College. Because the majority of the Foundation's 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 discretely presented 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, 2016, the Foundation provided support totaling $351,616 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 16101 Greenwood Avenue, Shoreline, WA 98133.

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 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 and bank demand deposits. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. The College records all cash and cash equivalents at fair value.

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

Accounts Receivable

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

Inventories

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

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 No. 42, the College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2016, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer quarter tuition and fees as well as rent received for future periods, 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 No. 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 endowments and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues and Expenses

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues*. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts that primarily support the operational/educational activities of the college. Examples include a contract with OSPI to offer Running Start and/or Technical High School. The College also receives Adult Basic Education grants that support the primary educational mission of the College.
- *Operating Expenses.* Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.
- *Non-operating Revenues*. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income and Pell grants received from the federal government.
- *Non-operating Expenses.* Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation Loan.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2016 are $3,253,195.

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

Building and Innovation Fee Remittance
Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The building fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The building fee is remitted on the 35th day of each quarter. The innovation fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College 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.

Accounting and Reporting Changes
In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, which provides guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The College reviewed the standard but it had no effect on FY16 statements.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which identifies the hierarchy of generally accepted accounting principles (GAAP). The Statement reduced the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The College adheres to this hierarchy of GAAP.

In March 2016, the GASB issued Statement No. 82, Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No.73. This Statement addresses issues regarding the presentation of payroll-related measures in the required supplementary information. The College has implemented this standard early in relation to the RSI presented with its financial statements.

Accounting Standard Impacting the Future
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. The College expects the financial impact of implementing this standard will be a reduction to net assets of approximately $4 million dollars.

In June 2014, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB),* which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 18, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determined OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, 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.

2. Cash and Cash Equivalents

Cash and cash equivalents include bank demand deposits and petty cash held at the College.

As of June 30, 2016, the carrying amount of the College's cash and cash equivalents was $30,820,160 as represented in the table below.

Cash and Cash Equivalents		Amount
Petty cash and change funds	$	7,890
Bank demand		30,812,270
Total Cash and Cash Equivalents	**$**	**30,820,160**

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. All 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).

Fair Value Measurement

Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted market prices that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 – Inputs that are unobservable and significant to the fair market value measurement. These are used only if relevant Level 1 and Level 2 inputs are not available.

At June 30, 2016, the College did not hold any investments.

The Foundation held $2,647,535 in investments at June 30, 2016, and all investments are considered Level 1 investments and are held at their estimated fair value.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2016, accounts receivable were as follows.

Accounts Receivable	Amount
Student Tuition and Fees	$ 1,820,575
Due from the Federal Government	160,546
Due from the Office of the State Treasurer (OST)	594,502
Due from Other State Agencies	687,554
Due from Other Governments	377,947
Auxiliary Enterprises	232,472
Unbilled Tuition	875,621
Other	36,768
Subtotal	4,785,985
Less Allowance for Uncollectible Accounts	(148,379)
Accounts Receivable, net	$ 4,637,606

4. Loans Receivable

Loans receivable as of June 30, 2016 consisted primarily of student loans, as follows.

Loans Receivable	Amount
Student Loans Receivable	$ 33,411
Less Allowance for Uncollectible Accounts	(3,024)
Accounts Receivable, net	$ 30,387

5. Inventories

Inventories, stated at cost using the first in, first out method (FIFO), consisted of the following as of June 30, 2016:

Inventories	Amount
Consumable Inventories	$ 2,330
Merchandise Inventories	151,419
Total Inventories	$ 153,749

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2016 is presented as follows.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Nondepreciable capital assets				
Land	$ 532,583	$ -	$ -	$ 532,583
Construction in progress	-	-	-	-
Total nondepreciable capital assets	532,583	-	-	532,583
Depreciable capital assets				
Buildings	61,807,215	-	-	61,807,215
Equipment	7,932,140	411,022	-	8,343,162
Library resources	2,570,213	39,716	(1,044,865)	1,565,064
Subtotal depreciable capital assets	72,309,568	450,738	(1,044,865)	71,715,441
Less accumulated depreciation				
Buildings	22,169,748	1,140,063	-	23,309,811
Equipment	5,869,495	440,777	-	6,310,272
Library resources	2,467,302	64,434	(1,003,029)	1,528,707
Total accumulated depreciation	30,506,545	1,645,274	(1,003,029)	31,148,790
Total depreciable capital assets	41,803,023	(1,194,536)	(41,836)	40,566,651
Capital assets, net of accumulated depreciation	**$ 42,335,606**	**$ (1,194,536)**	**$ (41,836)**	**$ 41,099,234**

The current year depreciation expense was $1,645,274.

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 the 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, 2016, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,228,136
Accounts Payable	986,446
Accrued Interest	48,374
Amounts Held for Others and Retainage	1,052,694
Total Accounts Payable and Accrued Liabilities	**$ 3,315,650**

9. Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 4,926,769
Total Unearned Revenue	$ 4,926,769

10. Risk Management

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2015 through June 30, 2016, were $67,160. Cash reserves for unemployment compensation for all employees at June 30, 2016 were $587,668.

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. Subject to provisions in their collective bargaining agreements, employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $1,343,903, accrued sick leave totaled $1,422,848, and comp time totaled $0 at June 30, 2016.

Compensatory time is categorized as a current liability since it must be used before other leave. A three-year average of vacation and sick leave taken is used to estimate the current portion of that liability. The remaining accrued vacation and sick leave are categorized as non-current liabilities.

12. Notes Payable

In August, 2006, the College obtained financing in order to renovate and remodel the Student Union Building through certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $15,390,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2006. The interest rate charged is 4.5 percent per year. Student fees related to the COP are accounted for in a dedicated fund, which is used to pay principal and interest that does not come out of the general operating budget.

In March, 2016, the COP was refinanced for ten years at 1.97%. The principal balance was $7,805,000 for a net savings in interest of $1,134,020. The College's debt service requirements for this note agreement for the next five years and thereafter are shown in Note 13.

In March, 2014, the College obtained financing for capital projects related to water conservation, external lighting and server room electrical upgrade through certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $560,104. The interest rate charged is 2.18 percent per year and is to be paid over ten years.

13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2016 are as follows:

Annual Debt Service Requirements

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2017	$ 590,916	$ 486,291	$ 1,077,207
2018	731,319	373,548	1,104,867
2019	748,571	343,582	1,092,153
2020	786,266	306,153	1,092,419
2021	820,703	267,452	1,088,155
2022-2026	4,617,097	695,779	5,312,876
Total	**$ 8,294,872**	**$ 2,472,805**	**$ 10,767,677**

14. Schedule of Long Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Certificates of Participation	$ 10,383,304	$ 7,805,000	$ 9,893,432	$ 8,294,872	$ 590,916
Compensated Absences	2,581,033	1,185,440	999,722	2,766,751	937,662
Pension Obligation	5,265,972	1,774,326	-	7,040,298	-
Total	$ 18,230,309	$ 10,764,766	$ 10,893,154	$ 18,101,921	$ 1,528,578

15. Pension Liability

Pension liabilities reported as of June 30, 2016 consists of the following:

Pension Liability by Plan	Total
PERS 1	$ 3,629,847
PERS 2/3	2,882,350
TRS 1	436,760
TRS 2/3	91,341
Total	**$ 7,040,298**

16. Retirement Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY 2016, the payroll for the College's employees was $8,073,538 for PERS, $680,320 for TRS, and $18,287,723 for SBRP. Total covered payroll was $27,041,581.

Shoreline Community College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education 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.

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 Statements No. 68 for Shoreline Community College, for fiscal year 2016:

Aggregate Pension Amounts - All Plans	Total
Pension liabilities	$ (7,040,298)
Deferred outflows of resources related to pensions	$ 1,559,894
Deferred inflows of resources related to pensions	$ (1,035,808)
Pension expense	$ 917,284

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 July 1, 1996 and employees on or after July 1, 2007 who chose Plan 3. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The College also has one faculty member with pre-existing eligibility who continue to participate in TRS 1.

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2016, 2015, and 2014 are as follows.

Contribution Rates at June 30

	FY 2014		FY 2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	9.21%	6.00%	11.18%
Plan 2	4.92%	9.21%	4.92%	9.21%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	9.21%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	10.39%	6.00%	13.13%
Plan 2	4.69%	10.39%	4.69%	10.39%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	10.39%	5-15%	13.13%

Required Contributions

	FY 2014		FY 2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 20,676	$ 31,727	$ 21,097	$ 32,384	$ 15,287	$ 28,435
Plan 2	$ 267,766	$ 501,034	$ 285,272	$ 534,018	$ 398,800	$ 728,528
Plan 3	$ 67,678	$ 103,799	$ 80,726	$ 127,407	$ 78,180	$ 145,590
TRS						
Plan 1	$ 7,472	$ 12,447	$ 4,698	$ 8,136	$ 4,792	$ 10,249
Plan 2	$ -	$ -	$ -	$ -	$ -	$ -
Plan 3	$ 16,768	$ 27,250	$ 32,129	$ 53,298	$ 38,497	$ 76,907

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, 2015, 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	4.45%
PERS Plan 2/3	4.63%
TRS Plan 1	4.41%
TRS Plan 2/3	4.65%

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, 2015 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
FY15 Pension Expense	$ 216,333	$ 341,572	$ 22,040	$ 25,950	$ 605,895
FY16 Amortization of change in proportionate liability	168,777	61,878	62,920	17,814	311,389
Total Pension Expense	**$ 385,110**	**$ 403,450**	**$ 84,960**	**$ 43,764**	**$ 917,284**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2014 to 2015 for each retirement plan are listed below:

Pension Plan	2014	2015	Change
PERS 1	0.066414%	0.069392%	0.002978%
PERS 2/3	0.076560%	0.080669%	0.004109%
TRS 1	0.011971%	0.013786%	0.001815%
TRS 2/3	0.006100%	0.010825%	0.004725%

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, 2014 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

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

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	$ 4,419,348	$ 3,629,847	$ 2,950,948
PERS Plan 2/3	$ 8,452,340	$ 2,882,350	$ (1,363,854)
TRS Plan 1	$ 549,037	$ 436,760	$ 340,211
TRS Plan 2/3	$ 386,477	$ 91,341	$ (128,067)

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, 2016:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ -	$ -	$ 306,395	$ -
Difference between expected and actual earnings of pension plan investments	-	198,592	-	769,451
Changes of Assumptions	-	-	4,644	-
Changes in College's proportionate share of pension liabilities	-	-	189,693	-
Contributions to pension plans after measurement date	417,468	-	469,145	-
	$ 417,468	**$ 198,592**	**$ 969,877**	**$ 769,451**

	TRS 1		TRS 2/3	
	Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience	$ -	$ -	$ 14,459	$ -
Difference between expected and actual earnings of pension plan investments	-	32,327	-	35,438
Changes of Assumptions	-	-	79	-
Changes in College's proportionate share of pension liabilities	-	-	72,357	-
Contributions to pension plans after measurement date	47,548	-	38,106	-
	$ 47,548	**$ 32,327**	**$ 125,001**	**$ 35,438**

The $972,267 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
2017	$ (76,968)	$ (167,823)	$ (12,538)	$ 6,583
2018	(76,968)	(167,823)	(12,538)	6,583
2019	(76,968)	(179,319)	(12,538)	6,583
2020	32,312	217,969	5,287	23,173
2021	-	28,277	-	7,214
2022	-	-	-	1,321
Total	**$(198,592)**	**$ (268,719)**	**$ (32,327)**	**$ 51,457**

State Board Retirement Plan

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-

CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

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, 2016 were each $1,595,771.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2016, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $766,692. 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 2016, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $91,529. As of June 30, 2016, the Community and Technical College system accounted for $10,439,441 of the fund balance.

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 $19,922,809, with an annual required contribution (ARC) of $1,982,560. The ARC represents the amortization of the liability for FY 2016 plus the current expense for active employees, which is reduced by the current contributions of approximately $288,327. The College's net OPEB obligation at June 30, 2016 was approximately $4,594,634. This amount is not included in the College's financial statements.

The College paid $5,035,957 for healthcare expenses in 2016, 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 Assets, 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, 2016.

Expenses by Functional Classification	Amount
Instruction	$ 23,594,295
Academic Support Services	5,187,131
Student Services	8,154,109
Institutional Support	7,071,763
Operations and Maintenance	4,524,456
Auxiliary Operations	3,893,135
Scholarships and Other student Financial Aid	7,835,303
Depreciation	1,645,274
Total Operation Expenses	**$ 61,905,466**

19. Commitments and Contingencies

There is a class action lawsuit, *Moore v. HCA*, filed against the State of Washington on behalf of former part-time and non-permanent employees alleging improper denial of healthcare benefits. As of the end of fiscal year 2016, the parties had reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits.

On March 29th 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $32 million of which $19 million is funded by the legislature and the remaining $13 million allocated among 34 colleges in the system. In July 2016, the College was assessed and accrued a total liability in the amount of $236,620.

Additionally, 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.

20. Subsequent Events

In May 2018, the College obtained financing in order to construct student housing through a COP issued by the Washington Office of State Treasurer (OST) in the amount of $29,165,000. The interest rate to be charged is 3.705%.

In May 2018, the College entered into a contract for construction of the student housing for a total cost of $24,501,711.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

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

Schedule of Shoreline Technical 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's proportionate share of the net pension liability	College's covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.066414%	$ 3,345,636	$ 6,914,574	48.39%	61.19%
2015	0.069392%	$ 3,629,847	$ 7,533,204	48.18%	59.10%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of Shoreline Technical 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's proportionate share of the net pension liability	College's covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.076560%	$ 1,547,554	$ 6,569,967	23.55%	93.29%
2015	0.080669%	$ 2,882,350	$ 7,181,592	40.14%	89.20%
2016					
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 Shoreline Community College's Proportionate Share of the Net Pension Liability:

Schedule of Shoreline Technical 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's proportionate share of the net pension liability	College's covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.011971%	$ 353,079	$ 389,474	90.66%	68.77%
2015	0.013786%	$ 436,760	$ 591,281	73.87%	65.70%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of Shoreline Technical 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's proportionate share of the net pension liability	College's covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.006100%	$ 19,702	$ 264,942	7.44%	96.81%
2015	0.010825%	$ 91,341	$ 512,971	17.81%	92.48%
2016					
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 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)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 297,888	$ 297,888	$ -	$ 6,914,574	4.31%
2015	$ 320,322	$ 320,322	$ -	$ 7,533,204	4.25%
2016	$ 401,433	$ 401,433	$ -	$ 8,073,538	4.97%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 338,672	$ 338,672	$ -	$ 6,569,967	5.15%
2015	$ 373,487	$ 373,487	$ -	$ 7,181,592	5.20%
2016	$ 501,171	$ 501,171	$ -	$ 7,818,752	6.41%
2017					
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)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 23,898	$ 23,898	$ -	$ 389,474	6.14%
2015	$ 31,309	$ 31,309	$ -	$ 591,281	5.30%
2016	$ 46,423	$ 46,423	$ -	$ 680,320	6.82%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 15,798	$ 15,798	$ -	$ 264,942	5.96%
2015	$ 30,125	$ 30,125	$ -	$ 512,971	5.87%
2016	$ 40,733	$ 40,733	$ -	$ 600,445	6.78%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

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	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov