

Edmonds Community College



Annual Financial Report

July 1, 2015 - June 30, 2016

Edmonds Community College Financial Report for Fiscal Year 2015-2016

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Trustees and Administrative Officers

BOARD OF TRUSTEES

Carl Zapora, Chair
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Dennis Curran, Associate Vice President for Human Resources
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ACADEMIC DEANS

Kimberly Chapman, Dean Humanities/Social Sciences Division
Pat Copeland, Dean Health/Human Services Division
Allison Cohen, Dean Pre-College Education Division
Vacant, Director of Learning Resources
Carey Schroyer, Dean of Science/Technology/Engineering/Math Division
Kristyn Whisman, Dean Corrections Education
Andrew Williams, Dean Business Division

The College would also like to acknowledge the following staff responsible for the content of this report:

- Marian Paananen, Emeritus Director of Finance



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Edmonds Community College

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

Published June 6, 2017

Report No. 1019311





**Office of the Washington State Auditor
Pat McCarthy**

June 6, 2017

Board of Trustees
Edmonds Community College
Lynnwood, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**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**

**Edmonds Community College
July 1, 2015 through June 30, 2016**

Board of Trustees
Edmonds Community College
Lynnwood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Edmonds Community College, Snohomish County, Washington, 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 June 6, 2017. Our report includes a reference to other auditors who audited the financial statements of the Edmonds Community College Foundation as described in our report on the College's financial statements. This report does not include the results of the other auditor's testing of internal controls over financial reporting or compliance and other matters that are reported separately by those other auditors. The financial statements of the Edmonds Community College Foundation were not audited in accordance with *Governmental Auditing Standards*.

As discussed in Note 1 to the financial statements, during the year ended June 30, 2016, the College implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

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

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

June 6, 2017

**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS**

**Edmonds Community College
July 1, 2015 through June 30, 2016**

Board of Trustees
Edmonds Community College
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Edmonds Community College, Snohomish County, Washington, 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.

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 Edmonds Community College Foundation, which represents 100 percent of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Edmonds Community College Foundation, is based solely on the report of the other auditors.

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

Community College Foundation were not audited in accordance with *Governmental 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 opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the Edmonds Community College, as of June 30, 2016, and the 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 1 to the financial statements, in 2016, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Edmonds Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. 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 management's discussion and analysis and pension plan information 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 June 6, 2017 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

June 6, 2017

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
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Management's Discussion and Analysis

Edmonds Community College

The following discussion and analysis provides an overview of the financial position and activities of Edmonds Community College (the College) for the fiscal year ended June 30, 2016 (FY 2016). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

Edmonds Community College is one of thirty four public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 13,000 students annually. The College confers associate degrees, certificates and high school diplomas. The College was established in 1967 and its mission is to strengthen our diverse community by helping students access educational and career opportunities in a supportive environment that encourages success, innovation, service, and lifelong learning.

The College's main campus is located in Lynnwood, Washington, a community of about 36,485 residents. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. In accordance with Washington State law governing technical colleges, the College's board includes one member from business and one member from labor. In addition, the college has a Governor-appointed student trustee who is prohibited from voting on personnel or collective bargaining matters. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, the Edmonds Community College Foundation. The College's financial statements include:

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

The Statement of Net Position provides information about the College at a moment in time, as of June 30, 2016. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health as a whole.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements

are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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 assets 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 2016	FY 2015
Assets		
Current Assets	24,855,152	26,981,229
Capital Assets, net	95,312,976	98,564,536
Other Assets, non-current	14,461,400	12,319,375
Total Assets	134,629,528	137,865,139
Deferred Outflows	2,099,433	1,195,607
Liabilities		
Current Liabilities	9,830,488	10,571,011
Other Liabilities, non-current	23,602,186	23,512,730
Total Liabilities	33,432,674	34,083,741
Deferred Inflows	1,807,952	3,941,134
Net Position	101,488,335	101,035,872

Current assets consist primarily of cash, investments and various accounts receivables. The primary decrease of current assets in FY 2016 can be attributed to an increase of long-term investments reported as Other Assets, non-current. The decrease of net Capital Assets is attributed to depreciation and the sale of the Conference Center.

Non-current assets consist primarily of the long-term portion of investments. The college increased its long-term investments by \$2,142,025 in FY 2016. This was mainly due to the availability to convert liquid asset investments into long-term investments.

Deferred outflows of resources increased by \$903K. These relate to the net pension liability resulting from the implementation of GASB 68 in FY 2015.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and

unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

The decrease in current liabilities from FY 2015 to FY 2016 is mostly due to a decrease of \$748K of unearned revenue. Other minor changes include accrued payables, inter-agency payables, in funds held by the College as a fiscal agent and a decrease of short-term COP debt.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, the long-term portion of Certificates of Participation debt and the long-term pension liability. In FY 2016, the pension liability increased by \$2.02M which was offset by a decrease of \$1.9M long-term COP debt. A majority of the non-current liability, (\$11,2M) reflects the College's proportionate share of the net pension liability due to the implementation of GASB No. 68 in FY 2015. The College's non-current liabilities associated with COPs continue to decrease as the College pays down the principal owed on Certificates of Participation for buildings, energy projects and equipment. Plus two of the COPs were refunded (refinanced) by the State Treasurer's office, which resulted in an annual savings of \$74K in principal and interest.

Deferred inflows of resources decreased by \$2.1M. These relate to the College's net pension liability resulting from the implementation of GASB 68 in FY 2015. Deferred inflows or resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

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

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

Restricted Expendable - These restrictions on net position are imposed by either an external source or through enabling legislation. The primary restricted expendable fund for the College is for the Institutional Financial Aid. All non-expendable restricted funds are directed to the Edmonds Community College's Foundation.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees. The College has a board approved \$3.2M reserved for emergencies and other purposes, which is maintained in the Debt Service Reserve account. At June 30th the College also had \$6,981,722 in uncommitted unrestricted funds held as working capital for several locally funded projects. They include the final \$2.6M for alternatives directed to the Science, Engineering and Technology building (SET), \$1M for the Elk building renovation, \$300K for Network infrastructure, \$775K for President's Cabinet approved projects identified by the College's Strategic Councils and the Operational Simple Plan, \$661K for the HCA Settlement, and \$1.6M for debt service reserve.

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 2016. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

A condensed comparison of the Statement of Revenues, Expense and Changes in Net Position for the years ended June 30, 2016 and 2015 is presented below.

Condensed Statement of Revenue, Expenses & Changes in Net Position, as of June 30th	FY 2016	FY 2015
Operating Revenues	74,060,601	78,766,318
Operating Expenses	(108,406,461)	(109,771,255)
Net Operating Loss	(34,345,860)	(31,004,937)
Non-Operating Revenues and Expenses	31,699,159	29,119,225)
Gain (Loss) Before Other	(2,646,700)	(1,885,713)
Special & Extraordinary Changes in Capital	0	0
Capital Appropriations	3,099,163	4,012,734
Increase (Decrease) in Net Position	452,463	2,127,021
Net Position, Beginning of Year	101,035,872	111,557,780
Change in accounting principle due to implementation of GASB 68	0	(12,648,930)
Net Position, End of Year	101,488,335	101,035,872

Revenues

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times up through FY 2013. 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. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. Beginning in FY 2014, the Legislature reinstated a fraction of the previous cuts.

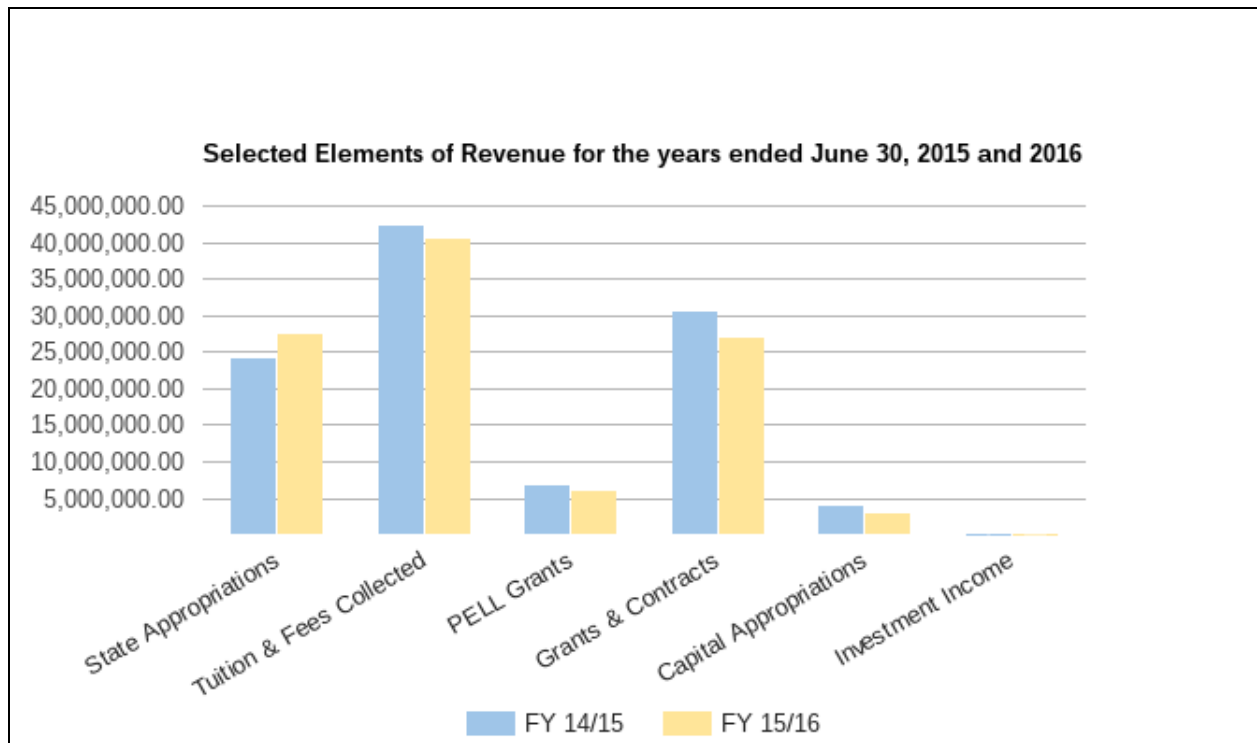
Over this same period of recession, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. However, in FY 2014 and FY 2015 tuition rate increases were held at 0%. In FY 2016, the Legislature enacted the Affordable Education Act, which reduced the Operating Fee portion of 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, but the backfill fell short of its goal.

Tuition revenue also decreased as enrollments decreased in FY 2016, which resulted in the College falling short of its state target of full time equivalent (FTE) students. The President's statewide Council brought some relief by allowing contracted international student FTEs to be reclassified into FTEs which would count toward the college's target FTE. Even with this transfer, the College international program remained stable with an overall decrease of only 4 FTEs. Other contracted, community service, running start and other miscellaneous categories experienced an FTE decrease of 324. In 2016 the total number of FTEs decreased by 469.

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

The overall revenue in grant-funded programs and activities has decreased in FY 2016. State-supported grant and contracts continue to show a decreasing trend of revenues recorded (\$2.3M) when compared with FY 2015, and federal revenues decreased by \$1.4M during these same two years. Although the revenues decreased in 2016, the College continues to manage more grants and contracts than any other single community college in the state. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars as mentioned above.

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



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

Expenses

Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased allocation forced reviews of spending and services and was subjected to various state spending freezes and employee salary reductions. To replace the loss of state dollars, the College pursued local funding resources to supplement its operating budget. With this approach the College was able to maintain a stable, but essentially non-growing budget over that period, and was strategically poised for growth.

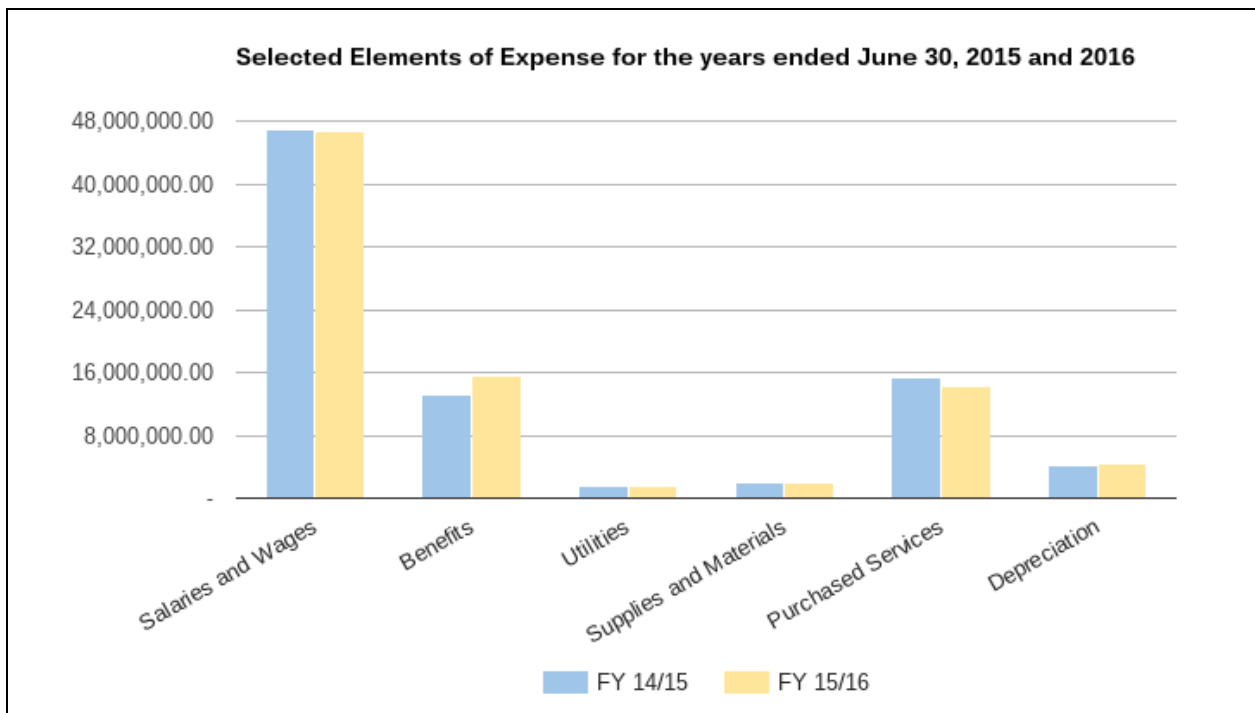
Fiscal Year	State Allocation	Tuition	Other Support	Total	All FTEs
FY 09/10	27,183,952	9,069,947	8,933,157	45,187,056	9,298
FY 10/11	25,920,612	10,215,740	9,628,336	45,764,688	9,720
FY 11/12	22,551,641	11,675,403	10,761,324	44,988,368	9,171
FY 12/13	21,565,383	12,954,549	10,153,858	44,673,790	8,997
FY 13/14	23,907,003	13,533,796	8,859,853	46,300,652	8,562
FY 14/15	24,424,979	13,108,735	10,074,733	47,608,447	8,660
FY 15/16	27,688,821	12,299,936	11,514,977	51,503,737	8,190

More recently, in FY 2016, salary and wage costs decreased as result of declining enrollments, but that decrease was offset with state supported salary and wage increases.

Utility costs decreased for electricity, heating fuel, container hauling and water/sewage, due to the College's efforts to manage utility usage with the help of several energy projects supported by grants, local funds and state capital allocation. Despite these efforts, the utility rates continue to increased. Supplies, materials remained stable over the last two year. Purchased services showed a decrease of over \$1M, due primarily to a decrease in capital spending. Certain capital project costs do not meet accounting criteria for capitalization, such as part of the cost of the building, repair or maintenance, 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.

Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2016 and FY 2015.



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 capital leases. The primary funding source for college capital projects are state general obligation bonds. In recent years the declining state revenues

significantly reduced the state's debt capacity, which in turn negatively impacts the number of new projects that can be financed.

At June 30, 2016, the College had invested \$95,312,976 in capital assets, net of accumulated depreciation. This represents a decrease of \$3,251,560 from last year, as shown in the table below.

Asset Type	June 30, 2016	June 30, 2015	Change
Land	5,344,267	5,844,267	(500,000)
Construction in Progress	2,449,059	5,127,886	(2,678,827)
Buildings, net	79,360,740	78,878,457	482,283
Other Improvements/Infrastructure, net	4,888,655	5,344,563	(455,908)
Equipment, net	3,165,996	3,240,776	(74,780)
Library Resources, net	107,259	128,587	(24,328)
Total Capital Assets, Net	95,312,976	98,564,536	(3,251,560)

The decrease in net capital assets can be attributed to the selling of the Conference Center (land and building) for \$1.7M, depreciation of \$4.3M, offset by two projects in construction coming to completion. Both the Gateway and Snohomish Hall renovations were finalized. The ongoing acquisition of equipment and library resources were offset by the depreciation. The two projects in construction include the Science/Engineering/Technology (SET) building at \$2,216,856 and Infrastructure lighting upgrade at \$232,203. Land and Construction in Progress are never depreciated.

At June 30, 2016, the College had \$8,395,962 in outstanding debt. The decrease in FY 2016 is due to the short-term debt service payment of \$1,041,435, and the State Treasurer's office refinancing of two (Black Box Theatre and the Student Union/Bookstore) Certificate of Participations (COP) for a net debt savings of \$990,000. The College has no other capital leases at this time.

Debt	June 30, 2016	June 30, 2015
Certificates of Participation	8,395,962	10,427,397
Capital Leases	0	0
Total	8,395,962	10,427,397

See the Notes to the Financial Statements for additional information concerning capital assets and long-term debt, sections 11, 12 and 13.

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriation continued to decrease through FY 2013. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced the Operating Fee of tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill the majority of this loss.

Beginning in fiscal year 2017, the State Board for Community and Technical Colleges 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. This new method attempts to undo years of historical technical adjustments and in doing so should rebalance the distribution of the allocation among the 34 colleges. This rebalancing will take place over a four year period to minimize the impact to the colleges. Edmonds Community College will see a reduction in their portion of the system allocation.

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.

Edmonds Community College
Statement of Net Position
June 30, 2016

Assets		
Current assets		
Cash and cash equivalents		15,052,440
Cash and cash equivalents, restricted		366,522
Short-term investments		4,098,156
Accounts Receivable, net		5,318,077
Interest Receivable		19,956
	Total current assets	<u>24,855,152</u>
Non-Current Assets		
Long-term investments		14,461,400
Capital assets, nondepreciable		7,793,326
Capital assets, net of depreciation		87,519,650
	Total non-current assets	<u>109,774,376</u>
	Total assets	<u>134,629,528</u>
Deferred Outflows of Resources		
Deferred Outflows of resources related to pensions		2,099,433
	Total Deferred Outflows of Resources	<u>2,099,433</u>
Liabilities		
Current Liabilities		
Accounts Payable		747,307
Accrued Liabilities		4,501,596
Compensated absences		1,486
Unearned Revenue		3,667,410
Leases and Certificates of Participation Payable		912,689
	Total current liabilities	<u>9,830,488</u>
Noncurrent Liabilities		
Compensated Absences		4,876,299
Pension liability		11,242,614
Long-term liabilities		7,483,273
	Total non-current liabilities	<u>23,602,186</u>
	Total liabilities	<u>33,432,674</u>
Deferred Inflows of Resources		
Deferred Inflows of resources related to pensions		1,807,952
	Total Deferred Inflows of Resources	<u>1,807,952</u>
Net Position		
Net Investment in Capital Assets		86,917,014
Restricted for:		
Institutional Financial Aid		354,858
Unrestricted		14,216,462
	Total Net Position	<u>101,488,335</u>

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

Edmonds Community College Foundation
Statement of Financial Position
June 30, 2016

Assets

Current Assets

Cash and cash equivalents	297,822
Short-term investments	20,000
Accounts Receivable, net	188,475
Total Current Assets	506,297

Other Assets

Other Assets	48,234
Receivables, net of current portion	4,396
Long-term investments	4,512,647
Property and equipment, net	1,944
Title III assets held by Edmonds Community College	672,739
Split-interest agreements	701,953
Total Other Assets	5,941,913

Total Assets	6,448,210
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Liabilities

Current Liabilities

Accounts payable and accrued expenses	32,130
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Net Assets

Unrestricted

Designated for endowment	579,378
Undesignated	427,927
Total Unrestricted	1,007,305

Temporarily restricted	1,738,213
Permanently restricted	3,670,562
	6,416,080

Total Net Assets	6,416,080
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Total Liabilities and Net Assets	6,448,210
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The footnote disclosures are an integral part of the financial statements.

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

Operating Revenues		
Student tuition and fees, net		40,549,805
Auxiliary enterprise sales, net		4,046,377
State and local grants and contracts		15,770,236
Federal grants and contracts		11,222,287
Other operating revenues		2,471,896
	Total operating revenue	<u>74,060,601</u>
Operating Expenses		
Operating Expenses		12,931,158
Salaries and wages		46,811,067
Benefits		15,517,738
Scholarships and fellowships		11,149,251
Supplies and materials		1,883,712
Depreciation		4,324,804
Purchased services		14,292,644
Utilities		1,496,086
	Total operating expenses	<u>108,406,461</u>
	Operating income (loss)	<u>(34,345,860)</u>
Non-Operating Revenues (Expenses)		
State appropriations		27,688,821
Federal Pell grant revenue		6,047,725
Investment income, gains and losses		149,454
Building fee remittance		(1,546,933)
Innovation fund remittance		(394,586)
Interest on indebtedness		(245,322)
	Net non-operating revenues (expenses)	<u>31,699,159</u>
		(2,646,700)
		3,099,163
	Increase (Decrease) in net position	<u>452,463</u>
Net Position		
	Net position, beginning of year	<u>101,035,872</u>
	Net position, end of year	<u><u>101,488,335</u></u>

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

Edmonds 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	92,822	155,038	202	248,062
In-kind contributions	266,434	0	0	266,434
Special events revenue	163,896	0	0	163,896
Investment income	66,502	204,239	0	270,741
Net realized and unrealized gain on investments	(54,872)	(254,549)	0	(309,421)
Change in value of split-interest agreements	0	0	(27,867)	(27,867)
Net assets released from restrictions	252,688	(252,688)	0	0
Total revenues, gains, and other support	787,470	(147,960)	(27,665)	611,845
Expenses				
College program support	249,374	0	0	249,374
Scholarships	128,766	0	0	128,766
Total Program support	378,140	0	0	378,140
Administration	181,141	0	0	181,141
Fundraising	369,052	0	0	369,052
Total support services	550,193	0	0	550,193
Total expenses	928,333	0	0	928,333
Change in Net Assets	(140,863)	(147,960)	(27,665)	(316,488)
Net Assets at Beginning of Year	1,148,168	1,886,173	3,698,227	6,732,568
Net Assets at End of Year	1,007,305	1,738,213	3,670,562	6,416,080

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

Edmonds Community College
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flow from operating activities	
Student tuition and fees	40,352,092
Grants and contracts	25,175,843
Payments to vendors	(28,526,390)
Payments for utilities	(1,828,321)
Payments to employees	(46,823,809)
Payments for benefits	(16,530,829)
Auxiliary enterprise sales	4,002,613
Payments for scholarships and fellowships	(11,149,251)
Other receipts (payments)	2,902,013
Net cash used by operating activities	<u>(32,426,038)</u>
Cash flow from noncapital financing activities	
State appropriations	27,174,434
Pell grants	6,047,725
Innovation and Building Fees	0
Net cash provided by noncapital financing activities	<u>33,222,159</u>
Cash flow from capital and related financing activities	
Capital appropriations	2,032,885
Purchases of capital assets	(2,490,001)
Principal paid on capital debt	(611,435)
Interest paid	(245,322)
Net cash used by capital and related financing activities	<u>(1,313,874)</u>
Cash flow from investing activities	
Purchase of investments	(4,497,411)
Income of investments	149,454
Net cash provided by investing activities	<u>(4,347,957)</u>
Increase in cash and cash equivalents	(4,865,710)
Cash and cash equivalents at the beginning of the year	<u>20,284,671</u>
Cash and cash equivalents at the end of the year	<u><u>15,418,962</u></u>
Reconciliation of Operating Loss to Net Cash used by Operating Activities:	
Operating Loss	(34,345,860)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	4,324,804
Changes in assets and liabilities	
Receivables , net	(879,811)
Accounts payable	(393,470)
Accrued liabilities	632,419
Unearned revenue	(748,230)
Compensated absences	(4,072)
Pension liability adjustment expense	(1,011,819)
Net cash used by operating activities	<u><u>(32,426,038)</u></u>

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

Edmonds Community College Foundation
Statement of Cash Flows
June 30, 2016

Cash Flows Provided (Used) By Operating Activities:	
Change in net assets	(316,488)
Adjustments to reconcile change in net assets to net cash:	
Change in allowance for uncollectible pledges receivable	7,396
Contributions restricted for endowment	(202)
Net realized and unrealized loss (gain) on investments	309,421
Depreciation and amortization	2,637
Change in value of split interest agreements	27,867
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Receivables	40,913
Other assets	11,118
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(228,625)
Total adjustments and changes	170,525
Total Cash Flows Provided (Used) By Operating Activities:	(145,963)
Cash Flows Provided (Used) By Investing Activities:	
Investment of assets restricted for endowment	(202)
Proceeds from sale of investments	570,844
Payments for purchases of investments	(335,895)
Proceeds from sale of investments in Title III assets held by College	45,923
Total Cash Flows Provided (Used) By Investing Activities:	280,670
Cash Flows Provided By Financing Activities:	
Contributions restricted for endowment	202
Increase (Decrease) In Cash and Cash Equivalents	134,909
Beginning Cash and Cash Equivalents	162,913
Ending Cash and Cash Equivalents	297,822

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

Notes to the Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

The Edmonds Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's mission supports access, success, and excellence for students, faculty, and staff at the College. Visit the Foundation's home page at <http://www.edcc.edu/foundation/>. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's Statement of Financial Position and Statement of Activities are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2016 the Foundation distributed approximately \$378,140 to the College for restricted and unrestricted purposes. The Foundation statements used in this report have been audited by an independent accounting firm. A copy of the Foundation's audited financial report may be obtained from the Foundation's Administrative Offices, 425-640-1274, or by emailing at foundation@edcc.edu.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred inflows,

liabilities, deferred outflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

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.

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund 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.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits and liquid asset funds. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets. The College records all investments at amortized cost, which approximates fair value. The College acts as a fiscal agent for a twenty year federal endowment matching grant, called Title III Challenge grant, which contains investments that are classified as noncurrent assets, and is recorded at market value. Cash in the Title III investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is distributed annually to contributing funds with the remainder allocated for general operating needs of the College. The internal investment pool is comprised of cash, cash equivalents, certificates of deposit and U.S. Agency securities. The internal investment pool does not include the federal endowment grant, called Title III Challenge grant.

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. When applicable, accounts receivable includes proceeds from Certificates of Participation that have not yet been received

from the State Treasurer. Accounts receivable are shown net of estimated uncollectible amounts.

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 to the reader.

Land, buildings, infrastructure and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 15 to 50 years for buildings and building improvements, 15 to 50 years for improvements other than buildings, 7 years for library resources and 3 to 10 years for most equipment.

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, 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, and advanced grant proceeds as unearned revenues.

Tax Exemption

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

Net Pension Liability

For purposes of measuring the net pension liability, 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 property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets.
- *Restricted.* These restrictions on net position are imposed by either an external source or through enabling legislation. The primary restricted expendable funds for the College are for the Institutional Financial Aid fund. All non-expendable restricted funds are directed to the Edmonds Community College's Foundation.
- *Unrestricted.* This includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. These resources are derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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. These are grants that primarily support the operational/educational activities of the colleges. 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.

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, federal PELL grants and investment income.

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 (COP) loans.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated 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 \$4,568,845.

State Appropriations

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

Building and Innovation Fee Remittance

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

2. Accounting and Reporting Changes

In 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. See Note 3, Cash and Investments.

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 is currently working with SBCTC to determine the financial impact.

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 essentially 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.

3. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College, inter-agency deposits-in-transit and liquid asset investments.

As of June 30, 2016, the carrying amount of the College’s cash and equivalents was \$15,418,962 as represented in the table below, which shows a slight decrease in FY 2015, mostly as a result of converting liquid investments into long-term investments.

Cash and Cash Equivalents	June 30, 2016	June 30, 2015
Petty Cash and Change Funds	14,875	14,875
Inter-agency Deposits in Transit	42,846	1,168
Bank Demand and Time Deposits	(56,380)	(375,717)
Liquid Asset Accounts - Restricted	366,522	188,396
Liquid Asset Accounts	15,051,099	20,455,949
Total	15,418,962	20,284,671

General college investments consist of time certificates of deposit, U.S. Treasury and Agency securities safeguarded by registered financial institutions. Time certificates of deposit have repurchase agreements with the respective financial institutions. The Title III Challenge grant follows federal authority to invest in a wider range of securities, which are subject to investment and inflation risk.

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

As of June 30, 2016, the College had the following investments and maturities:

Investment Maturities	Total	One Year or Less	1-5 Years	6-10 Years	10 or More Years
Time Certificate of Deposits	500,000		500,000		
Investments at Fair Value (Level 1):					
U.S. Agency Obligations	17,426,616	4,098,157	13,288,660		
Equity Funds *	395,773				395,773
Fixed Income/Bond Funds *	218,316				218,316
Real Estate Investment Trust *	38,206				38,206
Tangible Asset Funds *	16,038				16,038
Interest-bearing cash *	4,406				4,406
Total Investments at Fair Value	18,099,356	4,098,157	13,288,660		672,739
Total Investments	18,599,356	4,098,157	13,788,660	0	672,739

* Title III investment

The time certificate of deposit is recorded at cost. US agency obligations are reported at amortized cost, which approximates fair market value listed by the financial institution. Other investments reported at fair market value using Level 1 inputs are valued using prices quoted in active markets for those securities.

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College's Cash and Investment Management Policy states that investments will be handled in a manner which provides maximum security with the highest investment return, while meeting the daily cash flow demands of the college and conforming to all state laws governing the investment of public funds. The majority of the College's demand deposits are with the U.S. Bank of Washington. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (WPDPC).

Interest Rate Risk—Investments

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

The federal Department of Education, the Title III Matching Endowment grant was established with the College as the fiscal agent for the Edmonds Community College Foundation. The college Foundation acts in an advisory role for these investments. The investment follows the Department of Education guidelines. Pursuant to Title III rules, disbursement of earnings cannot exceed 50% of the total aggregate earnings for a twenty-year period after the Title III grant is awarded.

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. The exception to this is the Title III grant, which follows federal guidelines for investment. College policy does not limit the amount the College may invest in any one issuer.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The College's operating fund investments are held by U.S. Bank of Washington as the agent for the College and by Bank of America as agent for the College. At June 30, 2016, investments were exposed to custodial credit risk as follows.

Investments Exposed to Custodial Risk	Fair Value
U.S Bank of Washington	17,926,617
Bank of America	672,739
Total Investments	18,599,356

Foreign Currency Risk

The College has no foreign currency risk.

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2016 were \$4,448.

4. Accounts Receivable

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

Accounts Receivable	Amount
Student Tuition and Fees	372,834
Due from the Federal Government	1,884,982
Due from other State Agencies	1,487,449
Auxiliary Enterprises	116,137
Other	1,696,524
Subtotal	5,557,926
Less Allowance for Uncollectable Accounts	(239,849)
Accounts Receivable, net	5,318,077

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2016 is presented as follows. The current year depreciation expense was \$4,324,804.

Capital Assets	Beginning Balance	Additions / Transfers	Retirements	Ending Balance
Nondepreciable Capital Assets				
Land	5,844,267	0	(500,000)	5,344,267
Construction in Progress	5,127,886	610,564	(3,289,391)	2,449,059
Total Nondepreciable Capital Assets	10,972,153	610,564	(3,789,391)	7,793,326
Depreciable Capital Assets				
Buildings	119,616,358	4,287,621	(1,210,000)	122,693,979
Other Improvements & Infrastructure	23,162,675	0	0	23,162,675
Equipment	7,581,701	670,100	(185,440)	8,066,034
Library Resources	1,111,178	12,732	(796,362)	327,548
Subtotal Depreciable Capital Assets	151,471,911	4,970,453	(2,192,128)	154,250,236
Less Accumulated Depreciation				
Buildings	40,737,900	3,087,283	(491,944)	43,333,239
Other Improvements & Infrastructure	17,818,112	455,908	0	18,274,021
Equipment	4,340,925	744,553	(185,440)	4,900,038
Library Resources	982,591	37,060	(796,362)	223,289
Total Accumulated Depreciation	63,879,529	4,324,804	(1,473,746)	66,730,587
Total Depreciable Capital Assets	87,592,383	645,649	(718,382)	87,519,649
Capital Assets, net of Accumulated Depreciation	98,564,536	1,256,213	(4,507,773)	95,312,976

6. 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.

7. Accounts Payable and Accrued Liabilities

At June 30, 2016, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	1,224,474
Accounts Payable	747,307
Amounts Held for Others	3,277,122
Total Accounts Payable and Accrued Liabilities	5,248,903

8. Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	1,514,336
Advance Grant Fees & Other Deposits	2,153,074
Total Unearned Revenue	3,667,410

9. Risk Management

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees; except student employees. Liabilities for claims from July 1, 2015 through June 30, 2016, were \$235,816. Cash reserves for unemployment compensation for all employees at June 30, 2016, were \$132,454.

Schedule of Unemployment Compensation

Cash Reserves	Beginning Balance 7/01/2015	Additions	Reductions	Ending Balance 6/30/2016
Unemployment Compensation	82,588	273,216	(223,350)	132,454

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

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

no claims in excess of the coverage amount within the past three years.

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. Exempt employees also get their accumulated vacation time credited to their VEBA account. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled \$1,970,446, accrued sick leave totaled \$2,905,853 and accrued compensatory leave totaled \$1,486 at June 30, 2016.

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

11. Leases Payable

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

Nearly all COP debt service payments are funded by the College's Debt Service Reserve (DRS). The exception to this is Brier Hall COP, which is funded by a dedicated fee assessed by the students to pay principal and interest costs. With Board approval, the College initiated a Debt Service Reserve for COP debt service payments in fiscal year 2009/10. The following year, the board approved transferring the Reserve Fund Balance (\$3.2M) to the DSR. The initial Board approval also included the availability of inter-fund borrowing. The ending balance at June 30th, 2015 was \$6,032,367. Debt payments from this reserve totaled \$921,462 for FY 2016. Additions to the DRS in FY 2016 included \$375,000 in inter-fund loan repayments and \$26,046 in investment interest income. Currently the only debt service funded by the general operating budget is the COP for an industrial compactor added in FY 15.

In FY 16, the COP for grounds equipment was paid off, and two COP's were refunded (refinanced) by the State Treasurer's office. The refunded COP's were the Black Box Theatre and Brier Hall. This action resulted in a long-term debt service savings of \$990,000.

As of June 30, 2016, the current COPs included:

Certificates of Participation	Interest Rate	Lease End Date	Original or Refunded Amount	2015/2016 Payment
Energy Improvements	2.89066 %	6/1/2020	1,600,000	159,443
Grounds Equipment	2.15802 %	6/1/2016	17,883	3,761
Mill Creek Hall	2.90000 %	12/1/2018	4,265,000	305,000
Compactor	2.19828 %	6/1/2025	40,888	3,231
Black Box Theatre	2.11666%	6/1/2027	1,700,000	140,000
Brier Hall	2.12005 %	6/1/2027	5,320,000	430,000

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

The College's operating leases and debt service requirements for capital leases, as of June 30, 2016, are listed in item #12 below.

12. Annual Debt Service and Operating Lease Requirements

Future debt service and operating lease requirements at June 30, 2016 are as follows.

Annual Debt Service and Operating Lease Requirements				
Certificates of Participation				Operating Leases
Fiscal Year	Principal	Interest	Total	Total
2017	912,689	468,870	1,381,559	3,117,110
2018	1,035,427	353,189	1,388,616	3,099,110
2019	729,254	313,576	1,042,830	2,820,855
2020	760,605	280,802	1,041,407	2,764,700
2021	614,149	247,899	862,049	0
2022-2026	3,533,837	748,664	4,282,501	0
2027-2031	810,000	40,500	850,500	0
2032-2036	0	0	0	0
Total	8,395,962	2,453,499	10,849,461	11,801,775

13. Schedule of Long Term Liabilities

	Beginning Balance 6/30/2015	Additions	Restrictions	Ending Balance 6/30/2016	Current Portion
Certificates of Participation	10,427,397	7,020,000	9,051,435	8,395,962	912,689
Pension Plans	9,217,425	5,384,154	3,358,965	11,242,614	N/A
Compensated Absences*	4,879,847	1,904,422	1,907,970	4,876,299	N/A
Total	24,524,669	14,308,576	14,318,371	24,514,875	912,689

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

14. Pension Liability

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

Pension Plan	Pension Liability by Plan
PERS 1	5,802,566
PERS 2/3	4,885,335
TRS 1	471,641
TRS 2/3	82,072
Total	11,242,614

15. Pension 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 \$13,082,487 for PERS, \$898,083 for TRS, and \$27,151,926 for SBRP. Total covered payroll was \$40,864,293.

Edmonds Community College implemented Governmental 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 Statement No. 68 for Edmonds Community College, for fiscal year 2016:

Aggregate Pension Amounts - All Plans	Amount
Pension liabilities	11,242,614
Deferred outflows of resources related to pensions	2,099,433
Deferred inflows of resources related to pensions	1,807,952
Pension expense/expenditures	536,712

PERS and TRS

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

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

The college also has two faculty members with pre-existing eligibility who continue to participate in TRS Plan 1.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or 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 30th						
	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 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	27,490	42,108	14,611	22,428	8,924	16,628
Plan 2	445,726	834,781	446,696	836,194	578,629	1,057,044
Plan 3	189,287	256,772	208,554	279,351	235,427	378,306
TRS						
Plan 1	8,135	13,652	7,394	12,804	7,298	15,779
Plan 3	38,006	44,857	39,566	46,942	63,513	96,604

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
Pension expense FY 15	\$345,823	\$578,935	\$23,800	\$23,601	\$972,159
Amortization of change in proportionate liability for FY 15 and FY 16	\$(346,679)	\$(39,147)	\$(51,653)	\$2,032	\$(435,447)
Total Pension Expense	\$(856)	\$539,788	\$(27,853)	\$25,633	\$536,712

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 Plans	FY 2014	FY 2015
PERS 1	0.117045%	0.110928%
PERS 2/3	0.138764%	0.136727%
TRS 1	0.016377%	0.014887%
TRS 2/3	0.010302%	0.009845%

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 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent, the same as the prior measurement date. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements.

Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

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

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS I	\$7,064,639	\$5,802,566	\$ 4,717,517
PERS 2/3	\$14,284,969	\$4,885,334	\$(2,311,615)
TRS 1	\$ 592,885	\$ 471,641	\$ 367,381
TRS 2/3	\$ 351,489	\$ 83,072	\$ (116,473)

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

The following represent the components of the College deferred outflows and inflows of resources as reflected on the Statement of Net Position for the year ended June 30, 2016:

Deferred Outflows and Inflows By Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 1		
Difference between expected and actual experience	0	0
Difference between expected and actual earnings of pension plan investments	0	317,464
Changes of Assumption	0	0
Changes in College's proportionate share of pension liabilities	0	0
Contributions to pension plans after measurement date	656,970	0
Total PERS Plan 1	656,970	317,464
PERS Plan 2/3		
Difference between expected and actual experience	519,312	0
Difference between expected and actual earnings of pension plan investments	0	1,304,152
Changes of Assumption	7,872	0
Changes in College's proportionate share of pension liabilities	0	115,217
Contributions to pension plans after measurement date	774,391	0
Total PERS Plan 2/3	1,301,575	1,419,369
TRS Plan 1		
Difference between expected and actual experience	0	0
Difference between expected and actual earnings of pension plan investments	0	34,909
Changes of Assumption	0	0
Changes in College's proportionate share of pension liabilities	0	0
Contributions to pension plans after measurement date	66,256	0
Total TRS Plan 1	66,256	34,909
TRS Plan 2/3		
Difference between expected and actual experience	13,150	0
Difference between expected and actual earnings of pension plan investments	0	32,230
Changes of Assumption	72	0
Changes in College's proportionate share of pension liabilities	10,497	3,979
Contributions to pension plans after measurement date	50,913	0
Total TRS Plan 3	74,632	36,209
Grant Total of Deferred Outflows and Inflow of Resources	2,099,433	1,807,951

The \$1,548,530 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	(123,038)	(428,470)	(13,540)	(8,182)
2018	(123,038)	(428,470)	(13,540)	(8,182)
2019	(123,038)	(418,536)	(13,539)	(8,182)
2020	51,650	335,364	5,709	8,894
2021	0	47,926	0	1,962
2022	0	0	0	1,202
Total	(317,464)	(892,186)	(34,910)	(12,489)

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 \$258,070 for 5%, \$1,444,596 for 7.5% and \$2,960,437 for 10%.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2016, \$766,692 of supplemental benefits were paid by the SBCTC on behalf of the system. 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. 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.

16. Other Post-Employment Benefits

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is \$26,717,910, with an annual required contribution (ARC) of \$2,658,754. The ARC represents the amortization of the liability for fiscal year 2016 plus the current expense for active employees, which is reduced by the current contributions of approximately \$(386,667). The College's net OPEB obligation (NOO) at June 30, 2016 was approximately \$6,161,732. This amount is not included in the College's financial statements.

The College paid \$7,816,509 for healthcare expenses in 2016, which included its pay-as-you-go portion of the OPEB liability.

17. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2016.

Expenses by Functional Classification	
Instruction	40,148,240
Academic Support Services	7,439,198
Student Services	14,393,297
Instructional Support	11,236,163
Operations & Maintenance of Plant	10,775,300
Auxiliary Services	8,835,463
Student Financial Aid	11,253,996
Public Service	0
Research	0
Depreciation	4,324,804
Total Operating Expenses	108,406,461

18. 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 \$661,223 and is recorded in the financial statements under Current Liabilities.

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.

The College has commitments of \$47.93M for various capital improvement projects that include (currently scheduled to receive) \$37.1M in construction funding for the Science, Technology, Engineering and Math (STEM) building and renovations of existing buildings, infrastructure and energy projects (\$8.1M).

19. Subsequent Events

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

Required Supplementary Information
Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Proportionate Share of the Net Pension Liability
Measurement Date as of June 30, 2015

Pension Plan	College's proportion of the net pension liability	College's proportionate share of the net pension liability	College's covered employee payroll	College's proportionate share of the net pension liability as a percentage of its covered employee payroll	Plan's fiduciary net position as a percentage of the total pension liability
PERS Plan 1					
2014	0.117045%	\$ 5,896,196	\$ 12,338,181	47.79%	61.19%
2015	0.110928%	\$ 5,802,566	\$ 12,390,671	46.83%	59.10%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
PERS Plan 2/3					
2014	0.138764%	\$ 2,804,922	\$ 11,877,166	23.62%	93.29%
2015	0.136727%	\$ 4,885,335	\$ 12,130,874	40.27%	89.20%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

**Required Supplementary Information
Pension Plan Information**

Cost Sharing Employer Plans for Edmonds Community College
Proportionate Share of the Net Pension Liability
Measurement Date as of June 30, 2015

Pension Plan	College's proportion of the net pension liability	College's proportionate share of the net pension liability	College's covered employee payroll	College's proportionate share of the net pension liability as a percentage of its covered employee payroll	Plan's fiduciary net position as a percentage of the total pension liability
TRS Plan 1					
2014	0.016377%	\$ 483,032	\$ 574,573	84.07%	68.77%
2015	0.014887%	\$ 471,641	\$ 582,543	80.96%	65.70%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
TRS Plan 2/3					
2014	0.010302%	\$ 33,274	\$ 438,998	7.58%	96.81%
2015	0.009845%	\$ 83,072	\$ 459,312	18.09%	92.48%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Required Supplementary Information
Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
 Schedule of Contributions
 Measurement Date as of June 30, 2016

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

Required Supplementary Information
Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
 Schedule of Contributions
 Measurement Date as of June 30, 2016

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