Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Skagit Valley College

For the period July 1, 2017 through June 30, 2018

Published March 7, 2019

Report No. 1023260

Office of the Washington State Auditor
Pat McCarthy

March 7, 2019

Board of Trustees
Skagit Valley College
Mount Vernon, Washington

Report on Financial Statements

Please find attached our report on the Skagit Valley 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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Skagit Valley College
July 1, 2017 through June 30, 2018

Board of Trustees
Skagit Valley College
Mount Vernon, 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 Skagit Valley College, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 27, 2019. As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, the College implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Our report includes a reference to other auditors who audited the financial statements of the Skagit Valley College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation. The Foundation's prior year comparative information has been derived from the Foundation's 2017 basic financial statements, on which other auditors issued their report dated October 10, 2017.

The financial statements of the Skagit Valley 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, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

February 27, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Skagit Valley College
July 1, 2017 through June 30, 2018

Board of Trustees
Skagit Valley College
Mount Vernon, 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 Skagit Valley College, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Skagit Valley College, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2018, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Skagit Valley 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, 2018, 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

Report on Summarized Comparative Information

The Foundation financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2017, from which such summarized information was derived. Other auditors have previously audited the Foundation's 2017 basic financial statements and they expressed an unmodified opinion in their report dated October 10, 2017.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2019 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 27, 2019

FINANCIAL SECTION

Skagit Valley College
July 1, 2017 through June 30, 2018

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Management's Discussion and Analysis – 2018

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Management's Discussion and Analysis

Skagit Valley College

The following discussion and analysis provides an overview of the financial position and activities of Skagit Valley College (the College) for the fiscal year ended June 30, 2018 (FY 2018). 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

Skagit Valley College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 9,000 students. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. The College was established in 1926 and its primary purpose is to provide opportunities for students in pursuit of their educational and employment goals, while contributing to the economic and cultural enrichment of it communities.

The College's main campus is located in Mount Vernon, Washington, a community of about 35,000 residents. The College operates a second, smaller campus located in Oak Harbor, a city of about 23,000 residents on Whidbey Island. In addition, the College operates three educational centers – one in Friday Harbor on San Juan Island, another in Clinton at the south end of Whidbey Island, and a Marine Technology Center in Anacortes. The College also operates a Craft Brewing program in Burlington. 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, its Foundation. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2018. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

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

During 2018, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB).* This Statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one year lag measurement date similar to GASB Statement No. 68. The change in accounting principle resulted in an adjustment to beginning net position in the amount of $22,452,268.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position and presents the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College as of the end of the fiscal year. A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position
As of June 30th

	2018	2017
Assets		
Current Assets	$ 20,540,709	$ 21,379,494
Capital Assets, net	80,416,444	81,313,123
Other Assets, non-current	658,139	651,836
Total Assets	**101,615,292**	**103,344,453**
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	1,685,225	1,866,421
Deferred Outflows Related to OPEB	446,875	-
Total Deferred Outflows	**2,132,100**	**1,866,421**
Liabilities		
Current Liabilities	13,372,986	10,617,111
Other Liabilities, non-current	52,001,453	36,173,179
Total Liabilities	**65,374,439**	**46,790,290**
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	2,169,198	912,422
Deferred Inflows Related to OPEB	2,945,223	-
Total Deferred Inflows	**5,114,421**	**912,422**
Net Position		
Net Investment in Capital Assets	59,000,963	58,666,559
Restricted	231,750	273,153
Unrestricted	(25,974,179)	(1,431,550)
Total Net Position, as restated	**$ 33,258,534**	**$ 57,508,162**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The modest decrease of current assets in FY 2018 can be attributed to a decrease in short-term investments. The decrease in short-term investments is from the closing of our money market account and an investment maturity that was not renewed. Instead, the investments were deposited in our Local Government Investment Pool, which is included in cash equivalents.

Net capital assets decreased by $896,679 from FY 2017 to FY 2018. After taking into consideration current depreciation expense of $2,559,699, and the sale of a building, the decrease was offset as a result of construction in progress on our athletic field, which is expected to be completed in FY 2019.

Non-current assets are the long-term portion of certain investments. The increase in long-term investments is due to interest received.

Deferred outflows of resources and deferred inflows of resources represent deferrals in pension and postemployment benefits associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY 2018. The decrease in deferred outflows for pensions reflect the College's proportionate share of a decrease in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $1,866,421 in FY 2017 and $1,685,225 in FY2018 of pension deferred outflows. The overall increase reflects the addition of deferred outflow for postemployment benefits.

Similarly, the increase in deferred inflows in 2018 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and also the implementation of GASB Statement No. 75.

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

The increase in current liabilities from FY 2017 to FY 2018 is the result of adding a short-term liability for GASB 73 and GASB 75 postemployment benefits.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt. The College's non-current liabilities increased due to the implementation of GASB Statement 75, reflecting the College's proportionate share of the postemployment benefit liability for state's OPEB.

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

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

Restricted:

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

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

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

As stated earlier in this section, the College's beginning net position was adjusted by $22,452,268 due to the implementation of GASB 75. The 2017 balances were not restated and therefore, do not reflect the implementation of that standard in the 2017 comparative column.

Net Position As of June 30th	**FY 2018**	**FY 2017**
Net investment in capital assets	$59,000,963	$58,666,559
Restricted		
Expendable - 3.5% Institutional Loan Fund	$227,194	$268,602
Student Loans	$4,556	$4,551
Unrestricted	-$25,974,179	-$1,431,550
Total Net Position	**$33,258,534**	**$57,508,162**

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 2018. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2018 and 2017 is presented below.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Student tuition and fees, net	13,088,166	13,065,065
Auxiliary enterprise sales	1,770,632	1,754,598
State and local grants and contracts	12,200,898	10,733,608
Federal grants and contracts	6,572,163	5,821,902
Other operating revenues	2,344,801	2,112,773
Total operating revenues	**35,976,660**	**33,487,946**
Operating Expenses		
Salaries and wages	29,664,171	27,736,501
Benefits	11,100,720	9,220,467
Scholarships, net of discounts	8,238,675	7,516,899
Depreciation	2,559,699	2,625,219
Other operating expenses	11,883,131	13,472,027
Total operating expenses	**63,446,396**	**60,571,113**
Operating Income (Loss)	**(27,469,737)**	**(27,083,167)**
Non-Operating Revenues (Expenses)		
State appropriations	20,044,214	19,883,352
Federal Pell grant revenue	5,545,777	5,417,283
Investment income, gains and losses	176,326	90,187
Other non-operating revenues (expenses)	(2,461,521)	(2,582,062)
Net non-operating revenues (expense	**23,304,796**	**22,808,760**
Income or (loss) before capital contributi	**(4,164,941)**	**(4,274,407)**
Capital appropriations and contributions	**2,367,580**	**3,575,240**
Change in Net position	**(1,797,361)**	**(699,167)**
Net Position		
Net position, beginning of year	57,508,162	61,509,822
Cumulative effect of change in accounting principle (GASB 75)	(22,452,268)	(3,302,493)
Net position, beginning of year, as restated	35,055,894	58,207,329
Net position, end of year	**33,258,534**	**57,508,162**

Revenues

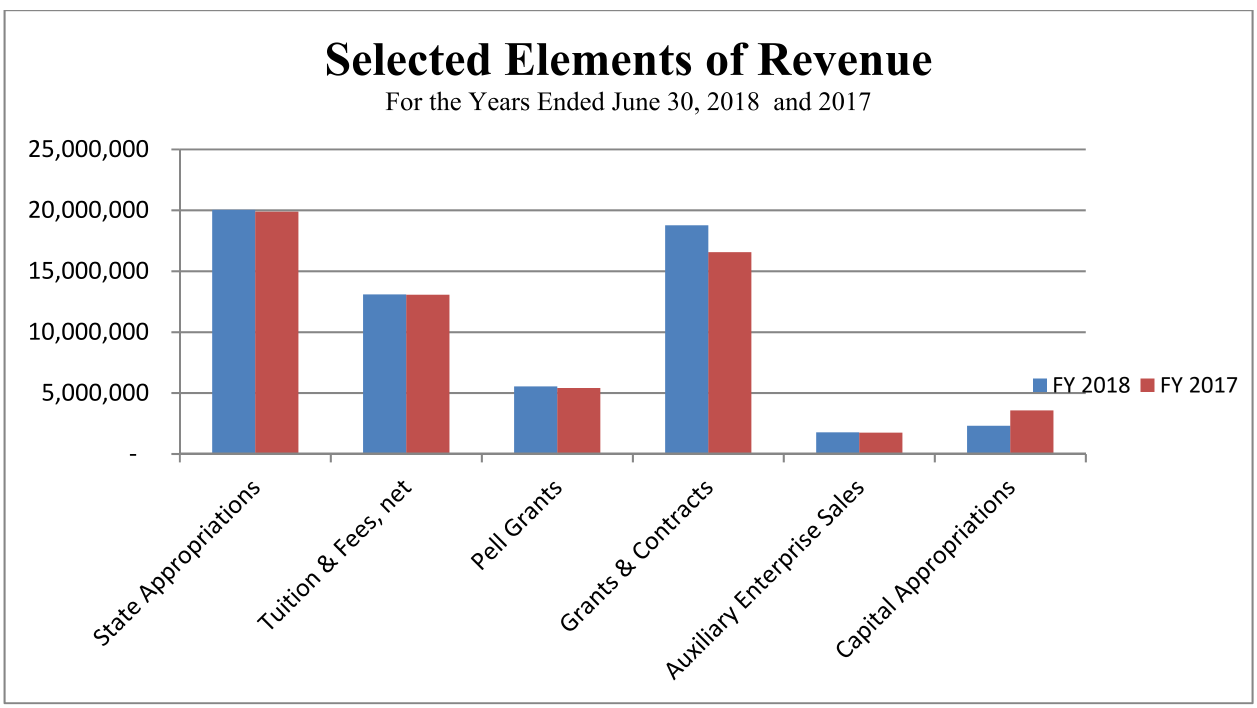
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2018, the SBCTC allocated funds to each of the 34 college's based on 3 year average FTE actuals. Additionally, the Supplemental Budget also reduces the general fund by the amount set aside specifically for Pension Stabilization. This method of allocation will continue in FY2019.

Since enrollments decreased in FY 2018, the College's very slight increase in tuition and fee revenue is primarily attributable to the increased tuition rates. The state increased resident tuition by 2.2% beginning Fall 2017. In addition, the College attempted to keep hold other fees as stable as possible, resulting in only small changes in these revenues.

In FY 2018, grant and contract revenues increased by $2,217,551 when compared with FY 2017. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. In FY 2018, capital appropriation revenue decreased due to the timing of when the Legislature appropriated the capital funding. The 2017-19 capital appropriation was not enacted by July 1, 2017 and was not allocated to the colleges until January 2018.

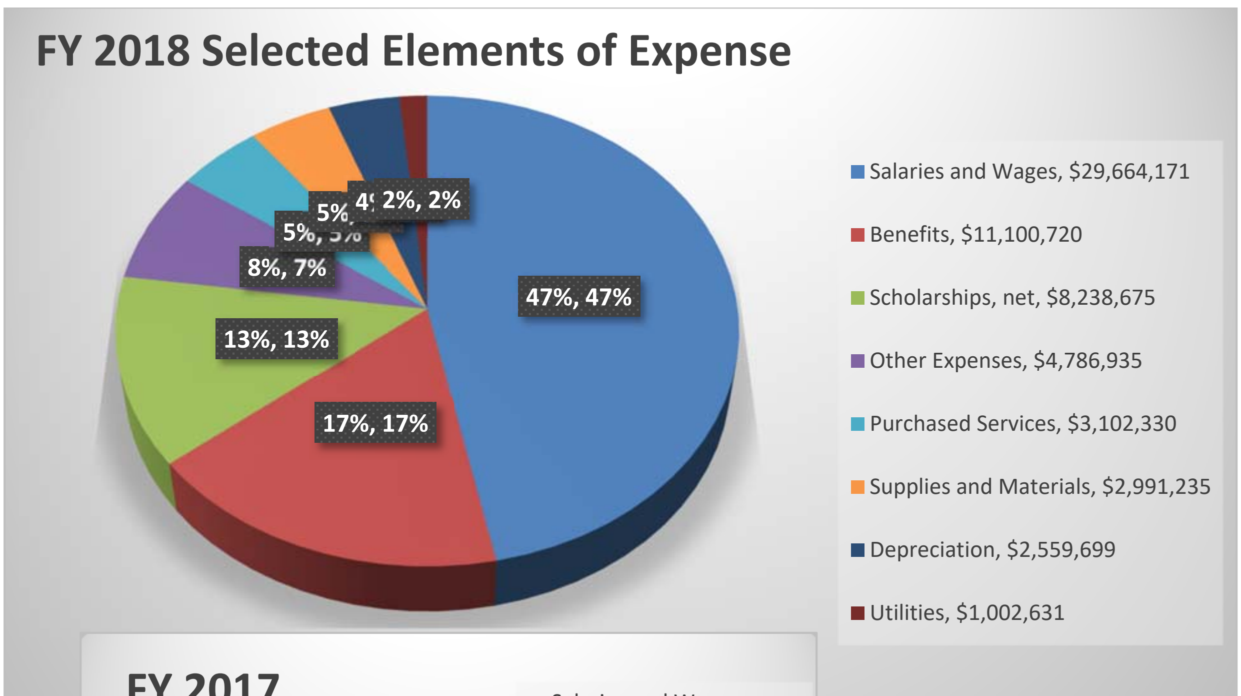
Expenses from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenses that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

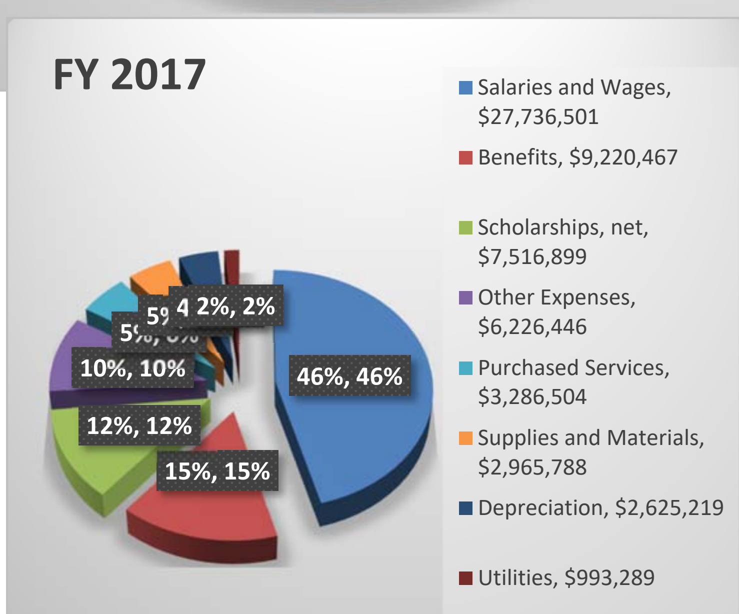


Expenses
Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

More recently, in FY 2018, salary and benefit costs increased as result of the 2.0% salary increase by the Legislature and health benefit increases. Other operating expenses are comparable to FY 2017.

Comparison of Selected Operating Expenses by Function
The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2018 and FY 2017.





Capital Assets and Long-Term Debt Activities
The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. In addition, the College has one of four community college projects that were funded through a Certificate of Participation (COP) against which system–wide building fee monies were pledged.

At June 30, 2018, the College had invested $80,416,444 in capital assets, net of accumulated depreciation. This represents a decrease of $896,678 from last year, as shown in the table below.

Asset Type	June 30, 2018	June 30, 2017	Change
Land	$1,868,450	$1,868,450	$0
Construction in Progress	$1,461,439	$105,716	$1,355,723
Buildings, net	$75,435,806	$77,549,492	-$2,113,686
Other Improvements and Infrastructure, net	$584,619	$649,667	-$65,048
Equipment, net	$986,250	$1,050,699	-$64,449
Library Resources, net	$79,879	$89,098	-$9,219
Total Capital Assets, Net	**$80,416,444**	**$81,313,122**	**-$896,678**

The *decrease* in net capital assets can be attributed to current year depreciation expense, and the sale of a building, offset by an increase in construction in progress. Additional information on capital assets can be found in Note #7 of the Notes to the Financial Statements.

At June 30, 2018, the College had $21,415,480 in outstanding debt. This represents a decrease of $1,230,084 from last year, as shown in the table below.

	June 30, 2018	June 20, 2017	Change
Certificates of Participation	21,415,480	22,645,564	(1,230,084)
Total	**$ 21,415,480**	**$ 22,645,564**	**$ (1,230,084)**

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

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. Beginning FY 2017, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill this loss. In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Due to decreases in enrollment, it is estimated that the College will likely see a decrease in state operating appropriations in future year.

Skagit Valley College
Statement of Net Position
June 30, 2018

Assets	
Current assets	
Cash and cash equivalents	$ 18,195,486
Accounts receivable	1,634,586
Student loans receivable	92,347
Inventories	470,276
Prepaid expenses	148,015
Total current assets	20,540,709
Non-Current Assets	
Long-term investments	658,139
Non-depreciable capital assets	3,329,889
Capital assets, net of depreciation	77,086,555
Total non-current assets	81,074,583
Total assets	**101,615,292**
Deferred Outflows of Resources	
Deferred outflows related to pensions	1,685,225
Deferred outflows related to OPEB	446,875
Total deferred outflows of resources	2,132,101
Liabilities	
Current Liabilities	
Accounts payable	554,612
Accrued liabilities	7,873,107
Compensated absences, short term	355,133
Deposits payable	5,981
Unearned revenue	1,149,713
Certificates of participation payable	1,287,110
Pension liability, short term	47,600
OPEB liability, short term	2,099,729
Total current liabilities	13,372,986
Non-Current Liabilities	
Compensated absences	3,906,030
Long-term liabilities	20,128,370
Net pension liability	6,125,388
Total pension liability	2,551,226
OPEB liability	19,290,439
Total non-current liabilities	52,001,453
Total liabilities	**65,374,438**
Deferred Inflows of Resources	
Deferred inflows related to pensions	2,169,198
Deferred inflows related to OPEB	2,945,223
Total deferred inflows of resources	5,114,421
Net Position	
Net Investment in Capital Assets	59,000,963
Restricted for:	
Nonexpendable	-
Expendable	227,194
Student Loans	4,556
Unrestricted deficit	(25,974,179)
Total Net Position	**$ 33,258,534**

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

Skagit Valley College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

Operating Revenues	
Student tuition and fees, net	$ 13,088,166
Auxiliary enterprise sales	1,770,632
State and local grants and contracts	12,200,898
Federal grants and contracts	6,572,163
Other operating revenues	2,344,801
Total operating revenue	35,976,659
Operating Expenses	
Other operating expenses	4,786,935
Salaries and wages	29,664,171
Benefits	11,100,720
Scholarships and fellowships	8,238,675
Supplies and materials	2,991,235
Depreciation	2,559,699
Purchased services	3,102,330
Utilities	1,002,631
Total operating expenses	63,446,396
Operating income (loss)	(27,469,737)
Non-Operating Revenues (Expenses)	
State appropriations	20,044,214
Federal Pell grant revenue	5,545,777
Investment income, gains and losses	176,326
Building fee remittance	(1,143,294)
Innovation fund remittance	(281,926)
Capital asset adjustments	697
Interest on indebtedness	(1,036,998)
Net non-operating revenue (expenses)	**23,304,796**
Income or (loss) before other revenues, expenses, gains, or losses	(4,164,941)
Capital Contributions	
Capital appropriations	2,317,580
Noncash Capital Contribution - equipment	50,000
Increase (Decrease) in net position	(1,797,361)
Net Position	
Net position, beginning of year	57,508,162
Cumulative effect of change in accounting principle	(22,452,268)
Net position, beginning of year, as restated	35,055,894
Net position, end of year	$ 33,258,534

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

Skagit Valley College
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Student tuition and fees	$ 12,969,404
Grants and contracts	19,379,296
Payments to vendors	(5,389,431)
Payments for utilities	(1,013,041)
Payments to employees	(29,550,741)
Payments for benefits	(10,453,400)
Auxiliary enterprise sales	1,727,490
Payments for scholarships and fellowships	(8,238,675)
Loans issued to students and employees	35,808
Other payments	(2,332,212)
Net cash used by operating activities	(22,865,501)
Cash flows from noncapital financing activities	
State appropriations	20,044,214
Pell grants	5,545,777
Building fee remittance	(1,143,294)
Innovation fund remittance	(281,926)
Net cash provided by noncapital financing activities	24,164,771
Cash flows from capital and related financing activities	
Proceeds of capital debt	0
Capital appropriations	2,317,580
Purchases of capital assets	(1,612,322)
Certificate of participations proceeds	0
Principal paid on capital debt	(1,231,083)
Interest paid	(1,036,998)
Net cash used by capital and related financing activities	(1,562,824)
Cash flows from investing activities	
Purchase of investments	618,709
Proceeds from sales and maturities of investments	0
Income of investments	176,326
Net cash provided by investing activities	795,035
Increase in cash and cash equivalents	531,481
Cash and cash equivalents at the beginning of the year	17,664,005
Cash and cash equivalents at the end of the year	18,195,486

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(27,469,737)

Continued on next page

Adjustments to reconcile net loss to net cash used by operating activities

Depreciation expense		2,559,699
Changes in assets and liabilities		
Receivables, net		682,505
Inventories		38,304
Other assets		(11,364)
Accounts payable		(22,075)
Accrued liabilities		724,206
Deferred revenue		(117,387)
Compensated absences		90,053
Pension & OPEB Liability adjustment		623,986
Deposits payable		500
Loans to students and employees		35,808
Net cash used by operating activities	$	(22,865,501)

Significant Noncash Transactions

Donated capital asset, equipment	50,000

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

Skagit Valley College Foundation

Statements of Financial Position

June 30, 2018 and 2017

Assets

Assets	2018	2017
Cash and cash equivalents	$ 914,737	$ 834,129
Pledges receivable	167,421	296,791
Advances due from Skagit Valley College	51,547	219,124
Investments	14,605,817	12,015,800
Property and equipment, net	1,637,519	1,660,968
Other assets	40,072	38,431
Total assets	$ 17,417,113	$ 15,065,243

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued liabilities	$ 18,048	$ 35,496
Advances due to Skagit Valley College	348,328	236,988
Life income annuities payable	55,500	77,700
Tenant security deposits and prepaid rent	28,657	43,500
Long-term debt, net	962,092	1,099,941
Total liabilities	1,412,625	1,493,625
Net assets		
Unrestricted		
Board designated - endowment	1,827,572	1,453,117
Board designated - Campus View Village	994,330	885,914
Board designated - Booster Club	90,148	73,704
Undesignated	160,062	330,043
Total unrestricted	3,072,112	2,742,778
Temporarily restricted	2,951,722	2,980,580
Permanently restricted	9,980,654	7,848,260
Total net assets	16,004,488	13,571,618
Total liabilities and net assets	$ 17,417,113	$ 15,065,243

The accompanying notes are an integral part of these financial statements.

Skagit Valley College Foundation

Statements of Activities

Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue								
Contributions	$ 400,361	$ 488,922	$ 2,132,394	$ 3,021,677	$ 235,294	$ 551,462	$ 177,915	$ 964,671
Investment return (loss)	269,938	595,981	-	865,919	342,158	746,278	-	1,088,436
Campus housing and related income	665,632	-	-	665,632	666,841	-	-	666,841
Fundraising activities	158,405	-	-	158,405	155,937	-	-	155,937
Other income	146,913	-	-	146,913	118,431	-	-	118,431
Satisfaction of restrictions	1,113,761	(1,113,761)	-	-	990,419	(990,419)	-	-
Total support and revenue	2,755,010	(28,858)	2,132,394	4,858,546	2,509,080	307,321	177,915	2,994,316
Expenses								
Program services	2,078,975	-		2,078,975	1,670,193	-	-	1,670,193
Management and general	171,112	-	-	171,112	238,542	-	-	238,542
Fundraising activities	175,589	-	-	175,589	148,168	-	-	148,168
Total expenses	2,425,676	-	-	2,425,676	2,056,903	-	-	2,056,903
Change in net assets	329,334	(28,858)	2,132,394	2,432,870	452,177	307,321	177,915	937,413
Net assets - beginning of year	2,742,778	2,980,580	7,848,260	13,571,618	2,290,601	2,673,259	7,670,345	12,634,205
Net assets - end of year	$ 3,072,112	$ 2,951,722	$ 9,980,654	$ 16,004,488	$ 2,742,778	$ 2,980,580	$ 7,848,260	$ 13,571,618

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

June 30, 2018
These notes form an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity
Skagit Valley College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate. The College is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report. These notes form an integral part of the financial statements.

The Skagit Valley College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1978 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to solicit and receive contributions to provide enhancements at Skagit Valley College and support for its students. Activities include support of academic programs and scholarship assistance to students, and operation of student housing. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2018, the Foundation distributed approximately $1,060,643 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 360-416-7821

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

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

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

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

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

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

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, 2018, no assets had been written down.

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

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

Pension Liability
For purposes of measuring the net pension liability in accordance with GASB Statement No 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Beginning fiscal year 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions). The reporting requirements are similar to GASB68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

OPEB Liability
In fiscal year 2018, the College implemented GASB Statement No. 75, Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB). This Statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one year lag measurement date similar to GASB Statement No. 68.

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.

Deferred outflows related to 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 period of time. Deferred inflows related to pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized in the same manner as deferred outflows.

Deferred outflows and 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 college's proportionate share of pension liabilities. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. Employer transactions to pension plans made subsequent to the measurement date are also deferred and reduce pension liabilities in the subsequent year.

The portion of differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, and changes in the college's proportionate share of OPEB liability that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Differences between projected and actual earning on OPEB plan investments that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective OPEB liability should be recorded as deferred outflows of resources related to OPEB.

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

- Net Investment in Capital Assets. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

- Restricted for Loans. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- Restricted for Expendable. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- Unrestricted. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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

Operating Revenues. This includes activities that are directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) federal, state and local grants and contracts that primarily support the operational/educational activities of the colleges. Examples include a contract with OSPI to offer Running Start and/or Technical High School. The college also receives Adult Basic Education grants that support the primary educational mission of the college.

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

Non-operating Revenues. This includes activities that are not directly related to the ongoing operations of the College, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government.

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

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2018 are $3,538,343.

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

Building and Innovation Fee Remittance

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

Note 2 - Accounting and Reporting Changes

Reporting Changes

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* The scope of this Statement addresses accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The College has implemented this pronouncement during the 2018 fiscal year.

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB),* the College has a deficit unrestricted net position of $25,974,179. This new accounting standard requires the College to recognize its portion of the State's total OPEB liability, reducing net position by a substantial amount. Additional information regarding GASB Statement No. 75 can be found in Note 17.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The College took into consideration this guidance as it implemented GASB Statement No. 75 for OPEB.

Prior Period Adjustment
Beginning net position was restated by $22,452,268 in fiscal year 2018 as a result of implementing GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).*

Accounting Standard Impacting the Future
In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations,* to addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The effective date of this Statement is fiscal year 2019. The College is in the process of reviewing its assets to ensure compliance with this reporting requirement.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be in effect beginning fiscal year 2021. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The College is following the State's Office of Financial Management directives to prepare for the implementation of this Statement.

Note 3 - Cash and Investments

Cash and Cash Equivalents
Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets, and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates. For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

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

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, or online at: https://tre.wa.gov/partners/for-local-governments/local-government-investment-pool-lgip/lgip-comprehensive-annual-financial-report/. In addition, more information is available regarding the LGIP in the Washington State Consolidated Annual Financial report, which can be found online at https://www.ofm.wa.gov/accounting/financial-audit-reports/comprehensive-annual-financial-report.

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

As of June 30, 2018, the carrying amount of the College's cash and equivalents was $18,195,486 as represented in the table below.

Cash and Cash Equivalents		**June 30, 2018**
Petty Cash and Change Funds	$	9,090
Bank Demand and Time Deposits		4,038,552
Local Government Investment Pool		14,147,844
Total Cash and Cash Equivalents	**$**	**18,195,486**

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

Investments
Long-term investments consist of a fixed annuity. The College measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1 inputs (quoted market prices) - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access at the measurement date (for example prices derived from NYSE, NASDAQ and the Chicago Board of Trade). Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. If a level 1 input is available for a particular investment, it must be used to value that investment.

Level 2 inputs (observable inputs) - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed on market data obtained from sources independent of the College (e.g. matrix pricing, yield curves and indices).

Level 3 inputs - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Unobservable inputs are those that reflect the College's own assumptions about the assumptions that market participants would use in pricing the asset developed, based on the best information available in the circumstances (e.g. investment manager pricing for private placements, private equities and hedge funds).

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All of the College's investments fall within the hierarchy of Level 1.

Investment Maturities	**Fair Value**	**One Year or Less**	**1 - 5 Years**	**6 - 10 Years**	**10 or More Years**
Fixed Annuity	658,139	-	658,139	-	-
Total Investments	**658,139**	**-**	**658,139**	**-**	**-**

Interest Rate Risk—Investments
The College manages its exposure to fair value losses resulting from changes in interest rates by structuring the entire portfolio time horizon. Unless matched to a specific cash flow, the college generally will not directly invest in securities maturing more than five years form the state of purchase.

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

Custodial Credit Risk—Investments
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2018, all of the College's investments were held by the College's custodian banks in the College's name.

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, 2018 were $966.

Note 4 - Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2018, accounts receivable were as follows:

Accounts Receivable		Amount
Student Tuition and Fees	$	442,403
Due from the Federal Government		198,375
Due from Other State Agencies		584,296
Auxiliary Enterprises		75,904
Other		338,105
Subtotal		1,639,082
Less Allowance for Uncollectible Accounts		(4,497)
Accounts Receivable, net	**$**	**1,634,586**

Note 5 - Loans Receivable

Loans receivable as of June 30, 2018 consisted primarily of student loans, as follows:

Loans Receivable		Amount
Student Loans Receivable	$	95,686
Subtotal		95,686
Less Allowance for Uncollectible Accounts		(3,339)
Loans Receivable, net	**$**	**92,347**

Note 6 – Inventories

Inventories, stated at cost, consisted of the following as of June 30, 2018:

Inventories	Method		Amount
Merchandise Inventories	FIFO		470,276
Inventories		**$**	**470,276**

Note 7 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2018 is presented as follows. The current year depreciation expense was $2,559,699.

Capital Assets	**Beginning Balance**	**Additions/ Transfers**	**Retirements**	**Ending Balance**
Capital assets, non-depreciable				
Land	$ 1,868,450	$ -	$ -	$ 1,868,450
Construction in progress	105,716	1,355,723	-	1,461,439
Total capital assets, non-depreciable	1,974,166	1,355,723	-	3,329,889
Capital assets, depreciable				
Buildings	103,021,075	-	(419,303)	102,601,772
Other improvements and infrastructure	1,302,923	-	-	1,302,923
Equipment	6,122,455	298,160	(95,389)	6,325,226
Library resources	3,268,112	15,254	(1)	3,283,365
Total capital assets, depreciable	113,714,565	313,414	(514,693)	113,513,286
Less accumulated depreciation				
Buildings	25,471,583	2,107,514	(413,131)	27,165,966
Other improvements and infrastructure	653,256	64,984	64	718,304
Equipment	5,071,755	362,718	(95,497)	5,338,976
Library resources	3,179,014	24,484	(12)	3,203,486
Total accumulated depreciation	34,375,608	2,559,699	(508,575)	36,426,731
Total capital assets, depreciable, net	79,338,957	(2,246,285)	(6,118)	77,086,555
Capital assets, net	**$ 81,313,123**	**$ (890,562)**	**$ (6,118)**	**$ 80,416,444**

Note 8 - Accounts Payable and Accrued Liabilities

Accrued liabilities as of June 30, 2018, were as follows:

Accounts Payable and Accrued Liabilities	**Amount**
Amounts Owed to Employees	$ 1,970,810
Accounts Payable	554,612
Amounts Held for Others and Retainage	5,902,297
Total	**$ 8,427,719**

Note 9 - Unearned Revenue

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

Unearned Revenue		Amount
Summer Quarter Tuition & Fees	$	1,067,777
Housing and Other Deposits		81,925
Total Unearned Revenue	$	1,149,703

Note 10 - Risk Management

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

The College 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.

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2017 through June 30, 2018, were $74,631.

Note 11 - Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. Accrued annual and sick leave are categorized as non-current liabilities. The accrued vacation leave totaled $1,469,505 and accrued sick leave totaled $1,945,713 at June 30, 2018.

In addition to vacation and sick leave accrued, compensated absences also includes faculty tenure purchase retirement options. These faculty retirement buyouts may be spread out over a period of years. The amount due to faculty in fiscal year 2019 is categorized as a current liability in the amount of $355,133, and the amount spread over longer periods is categorized as non-current liabilities in the amount of $490,812.

Note 12 - Notes Payable

In February 2007, the College obtained financing in order to renovate the Student Campus Center Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $3,250,000. The interest rate charged was 4.29%. In April 2016, OST refinanced this debt in the amount of $1,380,000 at a new interest rate of 1.38%. Students assess themselves, on a quarterly basis, a mandatory fee that services a portion of this debt. The remaining portion of the debt is covered by the general operating budget of the college. Student fees related to these COP(s) are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget.

In August 2012, the College obtained financing in order to install energy efficient upgrades through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $209,900. The interest rate charged is 1.89%.

In August 2012, the College obtained financing in order to renovate the Lewis Hall Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $25,745,000. The interest rate charged is 3.10%.

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

Note 13 - Annual Debt Service Requirements

Future debt service requirements at June 30, 2018 are as follows:

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2019	$ 1,287,110	$ 982,674	$ 2,269,784
2020	1,353,244	918,319	2,271,563
2021	1,424,436	850,656	2,275,093
2022	1,495,689	779,434	2,275,124
2023	1,270,000	704,650	1,974,650
2024-2028	7,400,000	2,502,250	9,902,250
2029-2033	7,185,000	732,800	7,917,800
Total	**$21,415,481**	**$7,470,783**	**$28,886,264**

Note 14 - Schedule of Long Term Liabilities

	Balance outstanding 6/30/17	Additions	Reductions	Balance outstanding 6/30/18	Current portion
Certificates of Participation	$ 22,646,564	$ -	$ 1,231,083	**$ 21,415,481**	$ 1,287,110
Compensation absences	4,171,110	1,547,364	1,457,311	**4,261,163**	355,133
Net pension liability	8,321,836	1,096,582	3,293,031	**6,125,388**	-
Total pension liability	2,652,611	1,036,033	1,089,818	**2,598,826**	47,600
OPEB liability	-	21,390,168	-	**21,390,168**	2,099,729
Total	**$ 37,792,121**	**$25,070,148**	**$ 7,071,243**	**$ 55,791,026**	**$3,789,572**

Note 15 - Pension Liability

Pension liabilities reported as of June 30, 2018 consists of the following:

Pension Liability by Plan

PERS 1	$	3,121,831
PERS 2/3		2,753,662
TRS 1		210,661
TRS 2/3		39,234
SBRP		2,598,826
Total	**$**	**8,724,214**

Note 16 - Retirement Plans

A. General

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

For fiscal year 2018, the covered payroll for the College's retirement plans was as follows:

Covered Payroll by Plan

PERS	$	8,605,825
TRS		285,823
SBRP		16,788,900
Total Covered Payroll	**$**	**25,680,547**

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.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for Skagit Valley College, for fiscal year 2018:

Aggregate Pension Amounts - All Plans

Pension Liabilities	$	8,724,214
Deferred outflows of resources related to pensions	$	1,685,225
Deferred inflows of resources related to pensions	$	2,169,198
Pension Expense	$	311,778

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

PERS and TRS

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

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.
The college also has one faculty member with pre-existing eligibility who continues to participate in TRS 1 or 2.

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

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

The required contribution rates, expressed as a percentage of current year covered payroll, are shown in the table below. The College and the employees made 100% of required contributions.
Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2018, 2017, and 2016 are as follows.

Contribution Rates at June 30

	FY 2016		FY 2017		FY 2018	
PERS	Employee	College	Employee	College	Employee	College
Plan 1	6.00%	11.18%	6.00%	11.18%	6.00%	12.70%
Plan 2	6.12%	11.18%	6.12%	11.18%	7.38%	12.70%
Plan 3	5 - 15%	11.18%	5 - 15%	11.18%	5 - 15%	12.70%
TRS						
Plan 1	6.00%	13.13%	6.00%	13.13%	6.00%	15.20%
Plan 2	5.95%	13.13%	5.95%	13.13%	7.06%	15.20%
Plan 3	5-15%	13.13%	5-15%	13.13%	5-15%	15.20%

Required Contributions

	FY 2016		FY 2017		FY 2018	
PERS	Employee	College	Employee	College	Employee	College
Plan 1	$ 22,483	$ 45,445	$ 13,133	$ 24,470	$ 9,770	$ 20,681
Plan 2	316,566	578,334	307,985	570,244	387,418	666,668
Plan 3	165,616	287,930	169,396	303,757	201,085	405,810
TRS						
Plan 1	6,228	12,903	4,542	9,939	4,508	11,420
Plan 2	-	-	-	-	-	-
Plan 3	$ 9,376	$ 15,893	$ 16,179	$ 30,509	$ 14,665	$ 31,622

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, 2017, the annual money-weighted rate of return on the pension investments, net of pension plan investment expenses, are as follows:

Pension Plan	Rate of Return
PERS Plan 1	13.84%
PERS Plan 2/3	14.11%
TRS Plan 1	14.45%
TRS Plan 2/3	14.10%

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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Public Equity	37%	6.30%
Private Equity	23%	9.30%
Total	**100%**	

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

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	$ 194,865	$382,893	$ 13,544	$ 14,106	$ 605,408
Amortization of change in proportionate share of liability	(337,831)	(5,487)	11,306	3,819	(328,192)
Total Pension Expense	**$(142,966)**	**$377,407**	**$ 24,850**	**$ 17,925**	**$277,216**

Changes in Proportionate Shares of Pension Liabilities. The changes to the College's proportionate share of pension liabilities from 2016 to 2017 for each retirement plan are listed below:

	2016	2017	Change
PERS 1	0.07224%	0.06579%	-0.00645%
PERS 2/3	0.08312%	0.07925%	-0.00386%
TRS 1	0.00663%	0.00697%	0.00034%
TRS 2/3	0.00226%	0.00425%	0.00199%

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 for each of the plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the

Actuarial Section of DRS' Comprehensive Annual Financial Report (CAFR). The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov. These assumptions reflect the results of OSA's 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

- Inflation: 3.0% total economic inflation; 3.75% salary inflation
- Salary Increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.50%

Mortality rates were based on the RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table." The Society of Actuaries published the document. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout the member's lifetime.

Changes in methods and assumptions since the last valuation include:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 and TRS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

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

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

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

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

Pension Plan	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	$ 3,802,991	$ 3,121,834	$ 2,531,807
PERS 2/3	$ 7,418,656	$ 2,753,663	$ (1,068,607)
TRS 1	$ 261,953	$ 210,661	$ 166,265
TRS 2/3	$ 133,254	$ 39,234	$ (37,127)

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions
The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2018:

	PERS 1	
	Deferred Outflows	**Deferred Inflows**
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	116,498
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	449,049	-
Totals	**$ 449,049**	**$ 116,498**

	PERS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	279,011	90,563
Difference between expected and actual earnings of pension plan investments	-	734,060
Changes of assumptions	29,249	-
Changes in College's proportionate share of pension liabilities	15,430	150,368
Contributions subsequent to the measurement date	633,953	-
Totals	**$ 957,643**	**$ 974,991**

	TRS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	8,925
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	2	-
Contributions subsequent to the measurement date	25,611	-
Totals	**$ 25,613**	**$ 8,925**

	TRS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	9,784	2,002
Difference between expected and actual earnings of pension plan investments	-	14,199
Changes of assumptions	462	-
Changes in College's proportionate share of pension liabilities	23,506	1,522
Contributions subsequent to the measurement date	15,428	-
Totals	**$ 49,180**	**$ 17,723**

The $1,124,041 of the 1,481,483 reported as total 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, 2019.

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
2019	(78,745)	(305,586)	(6,555)	(1,744)
2020	24,861	54,053	2,454	5,600
2021	(5,773)	(87,127)	(218)	1,385
2022	(56,841)	(317,804)	(4,605)	(3,525)
2023		2,246		2,982
Thereafter		2,920		11,333
Total	**$ (116,498)**	**$ (651,298)**	**$ (8,924)**	**$ 16,031**

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2018 were each $1,453,215.

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

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

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

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

The SRP pension benefits are unfunded. For the year ended June 30, 2018, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of $1,300,000. The College's share of this amount was $38,756. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During fiscal year 2018, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $83,945. This amount was not used as a part of GASB 73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2018, the Community and Technical College system accounted for $16,351,270 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll forward the total pension liability to the June 30, 2018 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. Most actuarial assumptions used in the June 30, 2016 valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate increase from 3.58 percent to 3.87 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate. The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018, measurement date.

Pension Expense. For the year ended June 30, 2018, the components that make up pension expense for the College are as follows:

Proportionate Share (%)		**2.98%**
Service Cost	$	114,092
Interest Cost		104,850
Amortization of Differences Between Expected and Actual Experience		(138,150)
Amortization of Changes of Assumptions		(36,580)
Changes of Benefit Terms		-
Administrative Expenses		-
Other Changes in Fiduciary Net Position		-
Proportionate Share of Collective Pension Expense		**44,212**
Current Year Benefit Payments		(38,756)
Amortization of the Change in Proportionate Share of TPL		29,106
Total Pension Expense	**$**	**34,562**

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2018 was 2.98%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

Proportionate Share (%) 2017	**2.79%**
Proportionate Share (%) 2018	**2.98%**
Total Pension Liability - Ending 2017	$ 2,652,611
Total Pension Liability - Beginning 2018	2,833,657
Total Pension Liability - Change in Proportion	181,046
Total Deferred Inflow/Outflows - 2017	758,973
Total Deferred Inflow/Outflows - 2018	810,775
Total Deferred Inflows/Outflows - Change in Proportion	51,802
Total Change in Proportion	**$ 232,848**

Plan Membership. Membership in the State Board Supplemental Retirement Plan consisted of the following for Skagit Valley College as of June 30, 2016, the most recent actuarial valuation date:

	Number of Participating Members			
Plan	Inactive Members or Beneficiaries Currently Receiving Benefits	Inactive Members Entitled to But Not Yet Receiving Benefits	Active Members	Total Members
SRP	19	4	162	185

Change in Total Pension Liability. The following table presents the change in total pension liability of the State Board Supplemental Retirement Plan at June 30, 2018, the latest measurement date for the plan:

Schedule of Changes in Total Pension Liability	
	Amount
Service Cost	$ 114,092
Interest	104,850
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	(310,107)
Changes in Assumptions	(104,909)
Benefit Payments	(38,756)
Change in Proportionate Share of TPL	181,046
Other	-
Net Change in Total Pension Liability	(53,784)
Total Pension Liability - Beginning	2,652,611
Total Pension Liability - Ending	**$ 2,598,827**

Sensitivity of the Total Pension Liability to Changes in the Discount Rate. The following table presents the total pension liability, calculated using the discount rate of 3.87 percent, as well as what the employers' total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
State Board for Community & Technical Colleges	$ 99,428,000	$ 87,173,000	$ 76,980,000
Skagit Valley College	$ 2,962,954	$ 2,597,755	$ 2,294,004

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the State Board Supplemental Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -	$ 827,917
Changes of Assumptions	-	223,145
Changes in College's proportionate share of pension liability	203,742	-
Transactions Subsequent to the Measurement Date	-	-
Total	**$ 203,742**	**$ 1,051,062**

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

	State Board Supplemental Retirement Plan
2019	(174,730)
2020	(174,730)
2021	(174,730)
2022	(174,730)
2023	(174,730)
Thereafter	(177,413)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

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

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

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

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

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 11.B for TRS Plan descriptions.

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

TRS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.
Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

Washington State Deferred Compensation Program

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

Note 17 - Other Post-Employment Benefits

The College implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting. In addition to pension benefits as described in Note 16, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan.

Plan Description. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB OPEB plan is administered by the state and is funded on a pay-as-you-go basis. In the state CAFR the plan is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. It has no assets. The PEBB OPEB plan does not issue a publicly available financial report.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units. Additionally, there are 76 of the state's K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments not included in the state's financial reporting who participate in the PEBB plan. The plan is also available to the retirees of the remaining 227 K-12 schools, charter schools, and ESDs, Membership in the PEBB plan for the state consisted of the following:

Summary of Plan Participants
As of June 30, 2017

Active Employees	123,379
Retirees Receiving Benefits*	46,180
Retirees Not Receiving Benefits**	6,000
Total Active Employees and Retirees	175,559

*Enrollment data for June, 2017 from Report 1: PEBB Total Member Enrollment for June 2017 Coverage report. PEBB Retirees only.

**This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, Higher Education, Judicial, and LEOFF 2. However, not all employers who participate in these plans offer PEBB to retirees.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2016, the average weighted implicit subsidy was valued at $304 per member per month, and in calendar year 2017, the average weighted implicit subsidy is projected to be $328 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2016, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar years 2017 and 2018. This will increase in calendar year 2019 to up to $168 per member per month.

Contribution Information. Administrative costs as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

For calendar year 2017, the estimated monthly cost for PEBB benefits for each active employees (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium*		
Medical	$	1,024
Dental		79
Life		4
Long-term Disability		2
Total		1,109
Employer contribution		959
Employee contribution		151
Total	$	1,110

*Per 2017 PEBB Financial Projection Model 8.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2017 which includes projected claims cost at the time of this reporting.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:
http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

Total OPEB Liability
As of June 30, 2018, the state reported a total OPEB liability of $5.83 billion. The College's proportionate share of the total OPEB liability is $21,390,168. This liability was determined based on a measurement date of June 30, 2017.

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	3%
Projected Salary Changes	3.75% Plus Service-Based Salary Increases
Health Care Trend Rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 7%, reaching an ultimate rate of approximately 5% in 2080
Post-Retirement Participation Percentag	65%
Percentage with Spouse Coverage	45%

*For additional detail on the health care trend rates, please see Office of the State Actuary's 2017 OPEB Actuarial Valuation Report.

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The Legislature determines the value of cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap are assumed.

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

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2015 Economic Experience Study

Actuarial Methodology. The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	1/1/2017
Actuarial Measurement Date	6/30/2017
Actuarial Cost Method	Entry Age
Amortization Method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset Valuation Method	N/A - No Assets

In order to calculate the beginning total OPEB liability balance under GASB 75, the January 1, 2017 actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017 valuation forward to June 30, 2017. Both the forward and backward projections reflect the plan's assumed service cost, assumed interest, and expected benefit payments.

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.85 percent for the June 30, 2016 measurement date and 3.58 percent for the June 30, 2017 measurement date.

Additional detail on assumptions and methods can be found on OSA's website:
http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

Changes in Total OPEB Liability
As of June 30, 2018, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

Skagit Valley College		
Proportionate Share (%)		**0.3671613484%**
Service Cost	$	1,450,123
Interest Cost		679,246
Differences Between Expected and Actual Experienc		-
Changes in Assumptions*		(3,313,376)
Changes of Benefit Terms		-
Benefit Payments		(346,155)
Changes in Proportionate Share		123,777
Other		-
Net Change in Total OPEB Liability		(1,406,385)
Total OPEB Liability - Beginning		22,796,553
Total OPEB Liability - Ending	**$**	**21,390,168**

*The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.

Changes in assumptions resulted from an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate resulting in an overall decrease in total OPEB liability for the measurement date of June 30, 2017.

Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the College, calculated using the discount rate of 3.58 percent as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

Discount Rate Sensitivity

1% Decrease	**Current Discount Rate**	**1% Increase**
$ 26,098,646	$ 21,390,168	$ 17,746,562

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the College, calculated using the health care trend rates of 7.00 percent decreasing to 5.00 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.0 percent decreasing to 6.00 percent that the current rate:

Health Care Cost Trend Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 17,280,312	$ 21,390,168	$ 26,905,962

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ending June 30, 2018, the College will recognize OPEB expense of $1,774,761. OPEB expense consists of the following elements:

Skagit Valley College

Proportionate Share (%)	0.3671613484%
Service Cost	$ 1,450,123
Interest Cost	679,246
Amortization of Differences Between Expected and Actual Experience	-
Amortization of Changes in Assumptions	(368,153)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	13,545
Administrative Expenses	-
Total OPEB Expense	**$ 1,774,761**

As of June 30, 2018, the deferred inflows and deferred outflows of resources for the College are as follows:

Skagit Valley College

Proportionate Share (%)	0.3671613484%	
Deferred Inflows/Outflows of Resources	**Deferred Inflows**	**Deferred Outflows**
Difference between expected and actual experience	$ -	$ -
Changes in assumptions	2,945,223	-
Transactions subsequent to the measurement date	-	338,513
Changes in proportion	-	108,362
Total Deferred Inflows/Outflows	**$ 2,945,223**	**$ 446,875**

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

Proportionate Share (%)		**0.3671613484%**
2019	$	(354,608)
2020	$	(354,608)
2021	$	(354,608)
2022	$	(354,608)
2023	$	(354,608)
Thereafter	$	(1,063,821)

The change in the College's proportionate share of OPEB liability and deferred inflows and deferred outflows of resources based on measurement date are representing in the following table:

Proportionate Share (%) 2016		**0.3651785640%**
Proportionate Share (%) 2017		**0.3671613484%**
Total OPEB Liability - Ending 2016	$	22,796,553
Total OPEB Liability - Beginning 2017		22,920,330
Total OPEB Liability Change in Proportion		123,777
Total Deferred Inflows/Outflows - 2016		344,285
Total Deferred Inflows/Outflows - 2017		346,155
Total Deferred Inflows/Outflows Change in Proportion		1,870
Total Change in Proportion	**$**	**121,907**

Note 18 - Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2018:

Expenses by Functional Classification		
Instruction	$	21,068,189
Academic Support Services		4,585,396
Student Services		12,902,142
Institutional Support		6,839,390
Operations and Maintenance of Plant		4,130,902
Scholarships and Other Student Financial Aid		8,289,164
Auxiliary enterprises		3,071,514
Depreciation		2,559,699
Total operating expenses	**$**	**63,446,396**

Note 19 - Commitments and Contingencies

The College has commitments of $821,000 for various capital improvement projects that include athletic field improvements, and other minor renovations of existing buildings.

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.

Note 20 - Subsequent Events

The College does not have any subsequent events as of June 30, 2018 to report.

Required Supplemental Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Skagit Valley College's Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.073192%	$ 3,687,081	$ 7,524,995	49.00%	61.19%
2015	0.073200%	$ 3,829,041	$ 7,844,434	48.81%	59.10%
2016	0.072244%	$ 3,879,839	$ 8,143,706	47.64%	57.03%
2017	0.065791%	$ 3,121,834	$ 8,018,878	38.93%	61.24%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Skagit Valley College’s Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability Public Employees’ Retirement System (PERS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College’s proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College’s proportionate share of the net pension liability as a percentage of its covered payroll	Plan’s fiduciary net position as a percentage of the total pension liability
2014	0.082904%	$ 1,675,789	$ 7,086,491	23.65%	93.29%
2015	0.083494%	$ 2,983,289	$ 7,408,500	40.27%	89.20%
2016	0.083115%	$ 4,184,775	$ 7,754,061	53.97%	85.82%
2017	0.079253%	$ 2,753,663	$ 7,783,921	35.38%	90.97%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Skagit Valley College’s Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability Teachers’ Retirement System (TRS) Plan 1 Measurement Date of June 30					
Fiscal Year	College’s proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College’s proportionate share of the net pension liability as a percentage of its covered payroll	Plan’s fiduciary net position as a percentage of the total pension liability
2014	0.013816%	$ 407,497	$ 334,008	122.00%	68.77%
2015	0.013044%	$ 413,252	$ 350,737	117.82%	65.70%
2016	0.006626%	$ 226,227	$ 223,193	101.36%	62.07%
2017	0.006968%	$ 210,661	$ 309,244	68.12%	65.58%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Skagit Valley College's Proportionate Share of the Net Pension Liability

Schedule of Skagit Valley College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.002125%	$ 6,864	$ 94,927	7.23%	96.81%
2015	0.002490%	$ 21,011	$ 116,554	18.03%	92.48%
2016	0.002257%	$ 30,995	$ 111,474	27.80%	88.72%
2017	0.004251%	$ 39,234	$ 233,057	16.83%	93.14%
2018					
2019					
2020					
2021					
2022					
2023					

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

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions

Public Employees' Retirement System (PERS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 323,968	$ 323,968	$ -	$ 7,524,995	4.31%
2015	$ 336,426	$ 336,426	$ -	$ 7,844,434	4.29%
2016	$ 409,693	$ 409,693	$ -	$ 8,143,706	5.03%
2017	$ 395,749	$ 395,749	$ -	$ 8,018,878	4.94%
2018	$ 445,204	$ 445,204	$ -	$ 8,608,434	5.17%
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Emplyees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 350,221	$ 350,221	$ -	$ 7,086,491	4.94%
2015	$ 371,927	$ 371,927	$ -	$ 7,408,500	5.02%
2016	$ 479,817	$ 479,817	$ -	$ 7,754,061	6.19%
2017	$ 484,067	$ 484,067	$ -	$ 7,783,921	6.22%
2018	$ 632,585	$ 632,585	$ -	$ 8,445,594	7.49%
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 27,321	$ 27,321	$ -	$ 334,008	8.18%
2015	$ 29,189	$ 29,189	$ -	$ 350,737	8.32%
2016	$ 20,137	$ 20,137	$ -	$ 223,193	9.02%
2017	$ 24,386	$ 24,386	$ -	$ 309,244	7.89%
2018	$ 26,246	$ 26,246	$ -	$ 286,003	9.18%
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 5,215	$ 5,215	$ -	$ 94,927	5.49%
2015	$ 6,618	$ 6,618	$ -	$ 116,554	5.68%
2016	$ 7,367	$ 7,367	$ -	$ 111,474	6.61%
2017	$ 15,662	$ 15,662	$ -	$ 233,057	6.72%
2018	$ 16,281	$ 16,281	$ -	$ 210,693	7.73%
2019					
2020					
2021					
2022					
2023					

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

State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios Skagit Valley College Fiscal Year Ended June 30, 2018 *(expressed in thousands)*		
	2017	2018
Total Pension Liability		
Service Cost	$ 151	$ 114
Interest	98	105
Changes of benefit terms	-	-
Differences between expected and actual experience	(707)	(310)
Changes of assumptions	(167)	(105)
Benefit Payments	(25)	(39)
Change in proportionate share of TPL		181
Other	-	-
Net Change in Total Pension Liability	**(650)**	**(54)**
Total Pension Liability - Beginning	**3,302**	**2,653**
Total Pension Liability - Ending	**$ 2,653**	**$ 2,599**
College's Proportion of the Pension Liability	2.790750%	2.981228%
Covered-employee payroll	$ 15,679	$ 16,789
Total Pension Liability as a percentage of covered-employee payroll	16.92%	15.48%

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

State Board Supplemental Defined Benefit Plans
Notes to Required Supplementary Information

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

Other Postemployment Benefits Information

Schedule of Changes in Total OPEB Liability and Related Ratios Fiscal Year Ended June 30		
Total OPEB Liability		**2018**
Service cost	$	1,450,123
Interest cost		679,246
Difference between expected and actual experience		-
Changes in assumptions		(3,313,376)
Changes in benefit terms		-
Benefit payments		(346,155)
Changes in proportionate share		123,777
Other		-
Net Changes in Total OPEB Liability	$	(1,406,385)
Total OPEB Liability - Beginning	$	22,796,553
Total OPEB Liability - Ending	$	21,390,168
College's proportion of the Total OPEB Liability (%)		0.367161%
Covered-employee payroll	$	25,347,337
Total OPEB Liability as a percentage of covered-employee payroll		84.388227%

This schedule is to be built prospectively until it contains ten years of data.

Notes to Required Supplementary Information
The Public Employee's Benefits Board (PEBB) OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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