



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Highline College

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

Published March 15, 2018

Report No. 1020930





Office of the Washington State Auditor

Pat McCarthy

March 15, 2018

Board of Trustees
Highline College
Des Moines, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor’s Report on Financial Statements	7
Financial Section.....	11
About the State Auditor’s Office	61

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

**Highline College
July 1, 2016 through June 30, 2017**

Board of Trustees
Highline College
Des Moines, 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 Highline College, King County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 6, 2018. As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*.

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

The financial statements of the Highline College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we communicated to the management of the College in a separate letter dated March 6, 2018.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

March 6, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Highline College July 1, 2016 through June 30, 2017

Board of Trustees
Highline College
Des Moines, 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 Highline College, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Highline College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Highline College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The financial statements of the Highline College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Highline College, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2017, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Highline College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where

applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

March 6, 2018

FINANCIAL SECTION

Highline College July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Highline College Foundation Statements of Financial Position – 2017 and 2016

Highline College Foundation Statements of Activities – 2017 and 2016

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Highline College's Share of the Net Pension Liability – PERS 1 – 2017

Schedules of Highline College's Share of the Net Pension Liability – PERS 2/3 – 2017

Schedule of Highline College's Share of the Net Pension Liability – TRS 1 – 2017

Schedules of Highline College's Share of the Net Pension Liability – TRS 2/3 – 2017

Schedules of Contributions – PERS 1 – 2017

Schedules of Contributions – PERS 2/3 – 2017

Schedules of Contributions – TRS 1 – 2017

Schedules of Contributions – TRS 2/3 – 2017

Schedule of Changes in the Total Pension Liability and Related Ratios – 2017

Notes to the Required Supplementary Information

Management's Discussion and Analysis

Highline College

This section of Highline College's Annual Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2017, with limited comparisons with the fiscal year ended June 30, 2016.

This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This management discussion and analysis has been prepared by management, along with the financial statements and accompanying note disclosures and should be read in conjunction with them. College management assumes full responsibility for the completeness and fairness of the information presented.

Reporting Entity

Highline College is one of thirty-four public community and technical college districts within the state of Washington. Highline provides comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 16,000 students annually. The college's mission statement, adopted by board resolution in August, 2013 states:

As a public institution of higher education serving a diverse community in a multicultural world and global economy, Highline College promotes student engagement, learning, and achievement, integrates diversity and globalism throughout the college, sustains relationships within its communities, and practices sustainability in human resources, operations, and teaching and learning.

Highline's main campus is located in Des Moines, Washington on an 80-acre wooded site, 20 minutes south of downtown Seattle. Classes are also offered at the Marine Science and Technology (MaST) Center at Redondo Beach and additional locations in the community. The college is governed by a five-member Board of Trustees appointed by the governor with the consent of the state senate. By statute, the Board of Trustees has full control of the college, except as otherwise provided by law.

Overview of Financial Statements

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

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

During 2017, the College adopted GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 as amended by GASB Statement No. 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in an additional amount of \$4,544,632 in pension liability.

Statement of Net Position

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

Condensed Statement of Net Position As of June 30th	FY 2017	FY 2016 (Restated)
Assets		
Current Assets	34,218,346	34,167,508
Capital Assets, net	54,718,923	55,170,640
Other Assets, non-current	13,431,624	12,045,887
Total Assets	\$ 102,368,893	\$ 101,384,035
Deferred Outflows	\$ 2,168,573	\$ 1,525,006
Liabilities		
Current Liabilities	8,088,713	7,685,540
Other Liabilities, non-current	20,507,768	15,990,945
Total Liabilities	\$ 28,596,481	\$ 23,676,485
Deferred Inflows	\$ 1,209,849	\$ 982,524
Net Position as restated	\$ 74,731,136	\$ 78,250,032

Current assets consist primarily of cash and cash equivalents, accounts receivables and inventories. The slight increase in current assets in FY 2017 is the result of an increase in the receivable related to state appropriations that was offset by transferring cash balances to an investment in bonds.

Net capital assets decreased by approximately \$451,717 from FY 16 to 17. Construction in process increased by \$1,406,068 as the planning stage of a major remodel to building 26 nears completion. The increase was offset by the annual depreciation recorded in the amount of \$2,199,140.

Deferred outflows of resources and deferred inflows of resources represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in FY 2015 and Statement No. 73 in FY 2017. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to the actuarial assumptions. The College recorded \$1,525,006 in FY 2016 and \$2,168,573 in FY2017 of pension-related deferred outflows. The increase reflects the change in proportionate share.

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

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

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 GASB 73, reflecting the College's proportionate share of the pension liability for the State Board Supplemental Retirement Plan. Changes in non-current liabilities also include increases to employee vacation and sick leave balances.

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:

Non Expendable – 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. The college has a balance of \$757,377 in funds restricted for qualified financial aid expenditures.

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.

Net Position		
As of June 30th	FY 2017	FY 2016 (Restated)
Net investment in capital assets	\$ 49,030,230	\$ 48,742,968
Restricted		
Expendable	\$ 757,377	\$ 850,721
Unrestricted	\$ 24,943,529	\$ 28,656,343
Total Net position	\$ 74,731,136	\$ 78,250,032

Statement of Revenues, Expenses and Changes in Net Position

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

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition and 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 expense, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

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

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th	FY 2017	FY 2016 Restated
Operating Revenues		
Student tuition and fees, net	\$ 13,258,213	\$ 12,801,915
Auxiliary enterprise sales	3,602,911	3,749,953
State and local grants and contracts	23,260,131	22,106,744
Federal grants and contracts	1,542,678	1,204,667
Other Operating revenues	863,451	728,069
Total operating revenues	\$ 42,527,384	\$ 40,591,348
Operating Expenses	76,906,813	71,206,254
Operating Loss	(34,379,429)	(30,614,906)
Non-Operating Revenues		
State appropriations	26,763,922	24,805,479
Federal Pell grant revenue	6,455,297	7,959,661
Investment income, net	208,030	201,449
Non-Operating Expenses	2,394,649	2,326,017
Net non-operating revenues (expense)	31,032,600	30,640,572
Income (loss) before capital contributions	(3,346,829)	25,666
Capital Appropriations and Contributions	4,372,565	1,190,689
Change in Net Position	1,025,736	1,216,355
Net Position, Beginning of the Year	78,250,032	77,033,677
Cummulative effect of change in accounting principle	(4,544,632)	0
Adjusted Net Position, Beginning of Year	73,705,400	77,033,677
Net Position, End of the Year	\$ 74,731,136	\$ 78,250,032

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 based on a long-standing funding formula. In FY 2017, the SBCTC moved forward with a new allocation model, allocating funds to each of the 34 college's based on 3-year average FTE actuals. In FY 2017, the College saw an increase in its state allocation due to the implementation of this new model. In addition, the College received a one-time allocation of \$865,234 for a portion of its share of Moore vs HCA settlement cost. This allocation does not carry forward to future years.

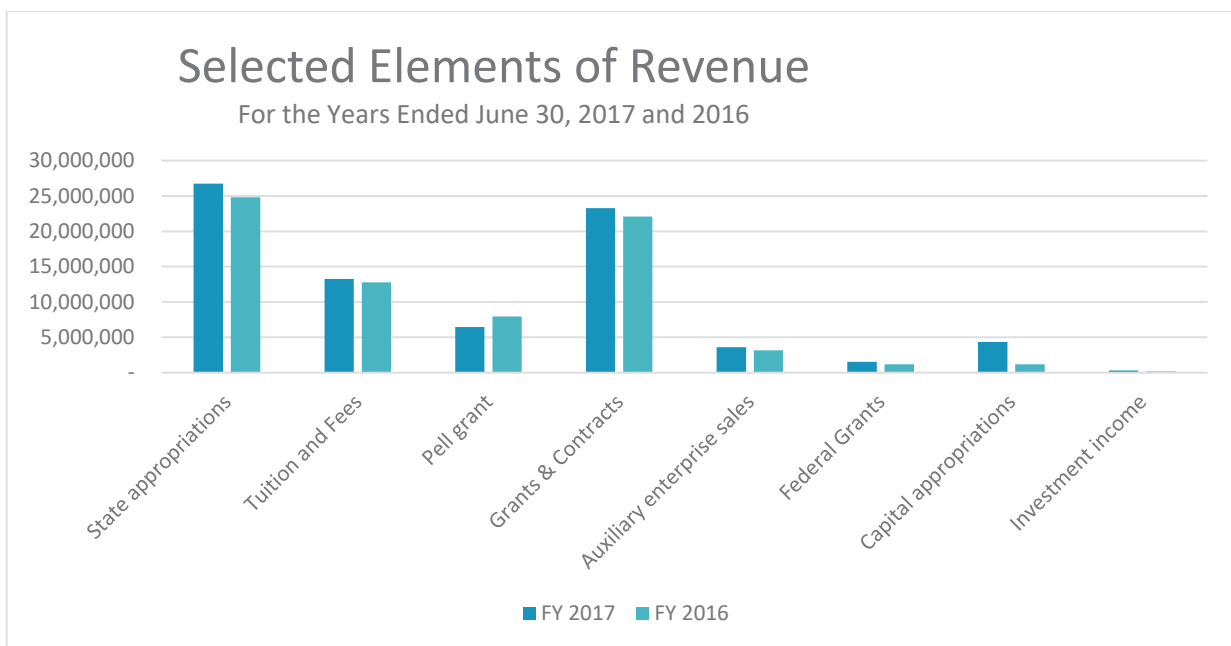
While some enrollments declined slightly in FY 2017, the college elected to exercise the option of converting international student program FTE from contract state supported which resulted in a slight increase in tuition revenue in 2016-17. As the College's enrollment went down, so did the College's Pell Grant revenue. Also for fiscal year 2017, the College continued to keep other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2017, state grant and contract revenues increased by approximately \$1,153,000 when compared with FY 2016. The College continued to serve students under the terms of several large 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 state's Running Start

program offers students the opportunity to attend college and earn credits while at the same time completing high school. Because of the college's proximity to several high schools, Highline has one of the highest Running Start populations of any college in the state. 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. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

The chart below shows the revenue categories for FY 17 and FY 16 for comparison.



Expenses

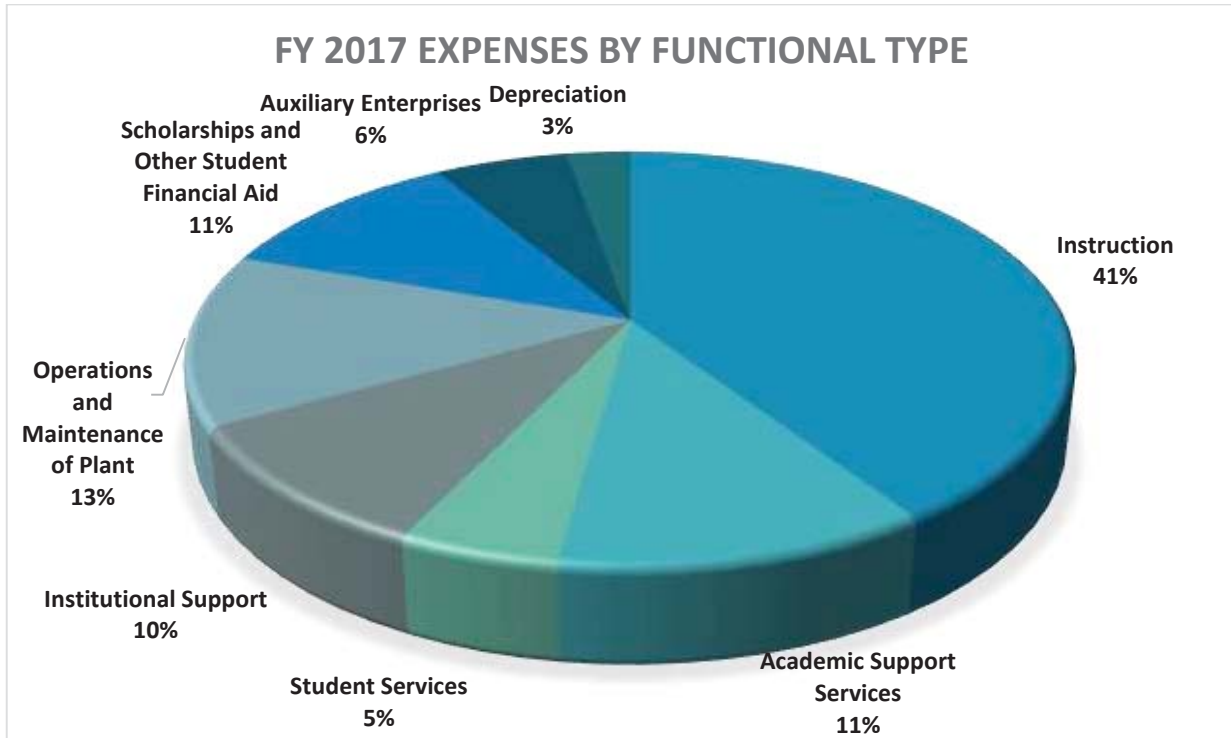
Faced with severe allocation cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

More recently, in FY 2017, salary costs increased as a result of negotiated increases for classified staff and modest retention raises given to exempt employees. Benefits costs increased between fiscal years 2016 and 2017 primarily due to an increase in health benefits costs and the benefits related to the negotiated increases for classified staff.

Utility costs decreased slightly between 2016 and 2017. While supplies and materials were lower in FY 2017, purchased services and operating expenses increase significantly, primarily as a result of increased spending related to capital projects. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service. All other costs are reported as operating expenses.

Operating Expenses by Function

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



Capital Assets and Long-Term Debt Activities

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

At June 30, 2017, the College had invested \$54,718,923 in capital assets, net of accumulated depreciation. This represents a decrease of \$451,717 from last year, as shown in the following table.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	\$48,289	\$48,289	\$0
Construction in Progress	\$1,729,100	\$323,032	\$1,406,068
Buildings, net	\$51,508,679	\$53,238,084	-\$1,729,405
Equipment, net	\$1,150,215	\$1,285,088	-\$134,873
Library Resources, net	\$282,640	\$276,147	\$6,493
Total Capital Assets, Net	\$54,718,923	\$55,170,640	-\$451,717

The increase in construction in progress is related to culmination of the planning stage for the major renovation of building 26. The decreases in net capital assets for the buildings, equipment and library resources can be attributed to normal depreciation activities. Additional information on capital assets can be found in note 6 of the notes to the financial statements.

At June 30, 2017, the College had \$5,688,693 in outstanding debt. The College has a Certificate of Participation (COP) for the Student Union Building and a COP that reimbursed the college for costs related to the renovation of building 24A.

	June 30, 2017	June 30, 2016	Change
Certificates of Participation	\$5,688,693	\$6,427,672	-\$738,979
Compensated absences	\$4,127,352	\$3,975,754	\$151,598
Total	\$9,816,045	\$10,403,426	-\$587,381

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

Historically, the economic status of Highline College has been closely aligned with the overall economic health of the State of Washington. Following a trend that began in 2009, the college's state operating appropriations continued to decrease through FY 2013. While state support remains the college's largest funding source, the percentage of state support has decreased significantly over the last four biennia. In fiscal year 2006, the college realized 67% of its total operating budget revenue from state appropriations. By 2012, that amount was down to 61%, a decrease of almost \$9,000,000. Beginning with the economic recovery in late 2013, the college has seen some funding restored through the legislative process, however significant challenges remain.

Beginning FY 2016, 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 partially backfill this loss. In FY 2017, the State Board for Community and Technical Colleges has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. The new funding model initially appears to provide additional resources to Highline College.

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

Recognizing that state appropriations will likely never reach pre-recession levels, the college has developed strategic, deliberate actions that have led to a "new normal". Rather than simply

maintaining the status quo or implementing across-the-board cuts in response to state allocation decreases, the college actively developed and implemented a plan to protect the fiscal stability of the college through the economic downturn and beyond.

Beginning in 2008-09, college leadership implemented what has become known as the “glide path” approach. Although the college experienced significant enrollment increases beginning in 2008-09, rather than increase the college’s budget (spending) to reflect the increased tuition revenue, the college continued to budget at pre-2009 FTE levels, recognizing that the current enrollment level was not sustainable. The college then used the additional tuition revenue, along with excess enrollment funds, to partially off-set the impacts of the state allocation cuts. At the same time, the college pursued initiatives designed to enhance its ability to remain relevant and meet changing student needs, along with improving the college’s future fiscal outlook. While several low enrollment programs were reduced or eliminated, applied baccalaureate programs in Youth Development, Global Trade and Logistics, Cybersecurity and Forensics, Respiratory Care and Teaching and Early Learning were developed and approved by the State Board for Community and Technical Colleges. In developing these programs, Highline both responded to increased demand by employers for graduates with baccalaureate degrees and increased its ability to maintain fiscal stability in an uncertain environment.

Through conservative, strategic fiscal management, the college has been able to minimize the impacts of the recent economic recession while continuing to offer quality education and enrichment opportunities to our diverse economy.

Highline College
Statement of Net Position
June 30,2017

Assets

Current assets

Cash and cash equivalents	26,879,220
Restricted cash	704,755
Accounts Receivable	6,197,398
Inventories	370,898
Prepaid Expenses	66,075
Total current assets	34,218,346

Non-Current Assets

Long-term investments	13,431,624
Non-depreciable capital assets	1,777,389
Capital assets, net of depreciation	52,941,534
Total non-current assets	68,150,547

Total assets

102,368,893

Deferred Outflows of Resources Related to Pensions

2,168,573

Total Deferred Outflows of Resources

2,168,573

Liabilities

Current Liabilities

Accounts Payable	2,087,339
Accrued Liabilities	1,608,942
Compensated absences-Comp Time	100
Deposits Payable	11,480
Unearned Revenue	3,615,852
Certificates of Participation Payable	765,000
Total current liabilities	8,088,713

Noncurrent Liabilities

Compensated Absences	4,127,352
Pension Liability	11,456,723
Long-term liabilities	4,923,693

Total non-current liabilities

20,507,768

Total liabilities

28,596,481

Deferred Inflows of Resources Related to Pensions

1,209,849

Total Deferred Inflows of Resources

1,209,849

Net Position

Net Investment in Capital Assets	49,030,230
Restricted for:	

Nonexpendable	
Expendable	757,377
Unrestricted	24,943,529
Total Net Position	74,731,136

The accompanying notes are an integral part of this statement

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

Operating Revenues	
Student tuition and fees, net	13,258,213
Auxiliary enterprise sales	3,602,911
State and local grants and contracts	23,260,131
Federal grants and contracts	1,542,678
Other operating revenues	861,900
Interest on loans to students	1,551
Total operating revenue	<u>42,527,384</u>
Operating Expenses	
Operating Expenses	12,532,239
Salaries and wages	35,276,205
Benefits	11,736,242
Scholarships and fellowships	8,535,426
Supplies and materials	2,653,885
Depreciation	2,199,140
Purchased services	2,540,721
Utilities	1,432,955
Total operating expenses	<u>76,906,813</u>
Operating income (loss)	<u>(34,379,429)</u>
Non-Operating Revenues (Expenses)	
State appropriations	26,763,922
Federal Pell grant revenue	6,455,297
Investment income, gains and losses	208,030
Building fee remittance	(1,746,684)
Innovation fund remittance	(406,332)
Interest on indebtedness	(241,633)
Net non-operating revenues (expenses)	<u>31,032,600</u>
Income or (loss) before other revenues, expenses, gains, or losses	<u>(3,346,829)</u>
Capital appropriations	4,372,565
Increase (Decrease) in net position	<u>1,025,736</u>
Net Position	
Net position, beginning of year	78,250,032
Net position change due to GASB 73	<u>(4,544,632)</u>
Adjusted Net position, beginning of year	<u>73,705,400</u>
Net position, end of year	<u>74,731,136</u>

The accompanying notes are an integral part of this statement

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

Cash flow from operating activities

Student tuition and fees	13,091,690
Grants and contracts	24,241,970
Payments to vendors	(4,395,557)
Payments for utilities	(1,778,526)
Payments to employees	(35,140,009)
Payments for benefits	(11,681,257)
Auxiliary enterprise sales	3,556,312
Payments for scholarships and fellowships	(8,535,426)
Loans issued to students and employees	1,551
Other receipts (payments)	(11,294,523)
Net cash used by operating activities	<u>(31,933,775)</u>

Cash flow from noncapital financing activities

State appropriations	25,747,474
Pell grants	6,455,297
Building fee remittance	(1,710,697)
Innovation fund remittance	(394,448)
Net cash provided by noncapital financing activities	<u>30,097,626</u>

Cash flow from capital and related financing activities

Capital appropriations	3,953,936
Purchases of capital assets	(1,490,818)
Principal paid on capital debt	(710,000)
Interest paid	(270,612)
Net cash used by capital and related financing activities	<u>1,482,506</u>

Cash flow from investing activities

Purchase of investments	(4,300,502)
Proceeds from sales and maturities of investments	3,000,000
Income from investments	163,348
Net cash provided by investing activities	<u>(1,137,154)</u>

Increase in cash and cash equivalents (1,490,797)

Cash and cash equivalents at the beginning of the year 29,074,772

Cash and cash equivalents at the end of the year 27,583,975

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss (34,379,429)

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

Depreciation expense	2,199,140
Changes in assets and liabilities	
Receivables , net	(332,118)
Inventories	32,235
Other assets	(1,752)
Accounts payable	869,547
Accrued liabilities	(456,928)
Deferred revenue	(68,189)
Compensated absences	151,597
Pension liability adjustment expense	48,208
Deposits payable	3,914
Net cash used by operating activities	<u><u>(31,933,775)</u></u>

The accompanying notes are an integral part of this statement

HIGHLINE COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 13,077	\$ 49,252
Investments	874,954	913,698
Promises to give	191,959	78,390
Prepaid expenses		
Total current assets	1,079,990	1,041,340
Endowment Investments	4,458,226	3,689,574
Fixed Assets, net	45,000	45,000
Total Assets	<u>\$ 5,583,216</u>	<u>\$ 4,775,914</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 28,302	\$ 52,373
Net Assets		
Unrestricted	986,088	610,801
Temporarily restricted	3,322,445	2,883,180
Permanently restricted	1,246,381	1,229,560
Total net assets	5,554,914	4,723,541
Total liabilities and net assets	<u>\$ 5,583,216</u>	<u>\$ 4,775,914</u>

See Notes to Financial Statements

HIGHLINE COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues								
Contributions	\$ 12,529	\$ 872,002	\$ 4,632	\$ 889,163	\$ 154,799	\$ 914,880	\$ 340	\$ 1,070,019
In-kind contributions	185,165			185,165	184,379			184,379
Special events, net of direct expense of \$40,209 and \$46,433	82,958			82,958	53,748	5,513		59,261
Interest and dividends	76,097	17,140	2,238	95,475	69,346	8,010	488	77,844
Net realized/unrealized gains (losses)	338,370	76,212	9,951	424,533	(87,467)			(87,467)
Total revenue	695,119	965,354	16,821	1,677,294	374,805	928,403	828	1,304,036
Net Assets Released due to Satisfaction of Restrictions	526,089	(526,089)			668,728	(668,728)		
	1,221,208	439,265	16,821	1,677,294	1,043,533	259,675	828	1,304,036
Expenses								
Scholarships and other program expenses	558,520			558,520	762,305			762,305
Management and general Fundraising Expenses	247,517			247,517	215,922			215,922
	39,884			39,884	39,969			39,969
Total expenses	845,921			845,921	1,018,196			1,018,196
Increase in net assets	375,287	439,265	16,821	831,373	25,337	259,675	828	285,840
Net Assets, beginning of year, as restated	610,801	2,883,180	1,229,560	4,723,541	585,464	2,623,505	1,228,732	4,437,701
Net Assets, end of year	\$ 986,088	\$ 3,322,445	\$ 1,246,381	\$ 5,554,914	\$ 610,801	\$ 2,883,180	\$ 1,229,560	\$ 4,723,541

See Notes to Financial Statements

Notes to the Financial Statements

June 30, 2017

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Highline 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.

The Highline College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1972 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to raise funds that help provide quality education at Highline College. 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 discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2017, the Foundation distributed approximately \$558,520 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 (206) 592-3774.

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 reduction of expense.

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

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

Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments include cash on hand, bank demand deposits, deposits with the Washington State Local Government Investment Pool (LGIP) and publicly traded bonds. 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 combines unrestricted cash operating funds from all departments into an internal pool, the income from which is allocated for general operating needs of the College through the college's annual budget development process.

Investments consist of investments in US government securities. These investments are subject to loss of all 100% of the balance of investments and are reported at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, staff and the general public. 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 of merchandise for resale in the college bookstore are valued at cost using the first-in, first-out method (FIFO).

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized.

Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

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

Unearned Revenues

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

Tax Exemption

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

Net Pension Liability

For purposes of measuring the net pension liability, in accordance with GASB 68 deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY17, the College also reports its share of

the pension liability for the State Board Retirement Plan in accordance with GASB73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions)*. The reporting requirements are similar to GASB68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues and Expenses

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

Operating Revenues. These are revenues that primarily support the operational/educational activities of the colleges. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts that primarily support the operational/educational activities of the college. The college also receives Adult Basic Education grants that support the primary educational mission of the Highline College.

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are \$6,719,068.

State Appropriations

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

Building and Innovation Fee Remittance

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

2. Accounting and Reporting Changes

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

June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of \$4,544,632 as a result of the implementation of GASB Statement No. 73.

Accounting Standard Impacting the Future

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 19, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determined OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. This Statement will have a significant impact on the College's financial statements.

3. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, 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.

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

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

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, or online at:

<http://www.tre.wa.gov/lqip/cafr/LqipCafr.shtml>. In addition, more information is available regarding the LGIP in the Washington State Consolidated Annual Financial report, which can be found online at <http://www.ofm.wa.gov/cafr/>.

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

As of June 30, 2017, the carrying amount of the College's cash and equivalents was \$27,583,975 as represented in the table below.

Cash and Cash Equivalents	June 30, 2017
Petty Cash and Change Funds	\$7,875
Bank Demand and Time Deposits	\$8,732,948
Undeposited Cash	\$10,881
Local Government Investment Pool	\$18,832,271
Total Cash and Cash Equivalents	\$27,583,975

Investments consist of investments in US government securities. These investments are subject to loss of all 100% of the balance of investments. The College reviewed the effects of Statement No. 72 on its investments in US government securities and has reported its investments in US government securities at fair value. Fair value is defined in the accounting standards as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation methods and take into account the assumptions that market participants use to make valuation decisions. Input may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

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

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other publicly traded securities.

Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations, or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments

include fixed or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstances and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements.

The following table summarizes the investment reported at fair value within the fair value hierarchy as of June 30, 2017.

Fixed or variable income securities	Total	Level 1	Level 2	Level 3
Bonds	\$ 13,431,625	\$ 13,431,625	\$ -	\$ -

The maturities of the College's investments in US government securities at June 30, 2017, are as follows:

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years	10 or More Years
Bonds	\$ 13,431,625	\$ -	\$ 13,431,625	\$ -	\$ -
Total Investments	\$ 13,431,625	\$ -	\$ 13,431,625	\$ -	\$ -

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

Interest Rate Risk—Investments

The College manages its exposure to interest rate changes by limiting the duration of investments' maturities and laddering its portfolio. During FY 16, interest rates were historically at a very low level. The College has not invested in maturities longer than 5 years, to minimize interest rate risk.

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral

securities that are in the possession of an outside party. At June 30, 2017, \$13,431,625 of the College's operating fund investments, held by US Bank in the bank's name as agent for the College, are exposed to custodial credit risk.

Investments Exposed to Custodial Risk	Fair Value
FICO STRIP PRN	\$ 3,036,171
FEDERAL NATL MORTGAGE ASSN	\$ 2,967,462
FEDERAL FARM CREDIT BANK	\$ 2,978,904
RFCSP STRIP PRINCIPAL	\$ 1,491,619
FEDERAL FARM CREDIT BANK	\$ 2,957,469
Total Investments Exposed to Custodial Risk	\$ 13,431,625

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2017 were \$449.

4. Accounts Receivable

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

Accounts Receivable	Amount
Student Tuition and Fees	\$ 728,879
Due from the Federal Government	\$ 25,151
Due from Other State Agencies	\$ 908,594
Due from Local Governmental Agencies	\$ 4,568,335
Auxiliary Enterprises	\$ 108,224
Other	\$ 3,644
Subtotal	\$ 6,342,827
Less Allowance for Uncollectible Accounts	\$ (145,429)
Accounts Receivable, net	\$ 6,197,398

5. Inventories

All inventory is merchandise inventory owned by the college Bookstore. The college has no consumable, work in progress or raw materials inventories. Inventories, stated at cost using FIFO, consisted of the following as of June 30, 2017.

Inventories	Amount
Merchandise Inventories	\$ 370,898
Inventories	\$ 370,898

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was \$2,199,140

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	\$ 48,289	\$ -	\$ -	\$ 48,289
Construction in progress	323,032	1,406,068	0	1,729,100
Total nondepreciable capital assets	371,321	1,406,068	0	1,777,389
Depreciable capital assets				
Buildings	86,715,730	0	0	86,715,730
Equipment	7,672,375	258,885	0	7,931,260
Library resources	3,882,763	82,443	0	3,965,206
Subtotal depreciable capital assets	98,270,868	341,328	0	98,612,196
Less accumulated depreciation				
Buildings	33,477,647	1,729,403	0	35,207,050
Equipment	6,387,287	393,788	(28)	6,781,047
Library resources	3,606,616	75,949	0	3,682,565
Total accumulated depreciation	43,471,550	2,199,140	(28)	45,670,662
Total depreciable capital assets	54,799,318	(1,857,812)	28	52,941,534
Capital assets, net of accumulated depreciation	\$ 55,170,639	\$ (451,744)	\$ 28	\$ 54,718,923

7. Deferred Outflows and Deferred Inflows of Resources

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

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

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisitions

of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

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

8. Accounts Payable and Accrued Liabilities

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

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	\$ 860,747
Accounts Payable	\$ 2,087,339
Other Accrued Liabilities	\$ 727,562
Amounts Held for Others and Retainage	\$ 32,113
Total	\$ 3,707,761

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	\$ 3,615,852
Total Unearned Revenue	\$ 3,615,852

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 that such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2016 through June 30, 2017, were \$92,356.

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

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

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued compensatory time totaled \$100, accrued vacation leave totaled \$2,259,983 and accrued sick leave totaled \$1,867,369 at June 30, 2017.

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

12. Leases Payable

The college has no capital leases and one operating lease. The College leases an office building housing classrooms and multiple departments including the President's Office, Financial Services and other administrative offices. This lease is classified as an operating lease and runs through August 2020.

As of June 30, 2017, the minimum lease payments under operating leases consist of the following:

Leases Payable	
Fiscal year	Operating Leases
2018	\$ 811,968
2019	811,968
2020	811,968
Total minimum lease payments	2,435,904

13. Notes Payable

In June 2003, the College obtained financing in order to build the Student Union Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$12,455,000. The bonds were refinanced in March 2013 in the amount of \$6,555,000. The interest rate charged is approximately 1.83%. Starting in 1999, students assess themselves, on a quarterly basis, a mandatory fee to service the debt. Student fees related to the COP are accounted for in a dedicated fund, which is used to pay principal and interest. The college Bookstore also contributes \$100,000 annually to pay debt service on the Student Union Building.

In September 2015, the College obtained financing for the renovations of maintenance building 24A through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$1,487,672. The interest rate charged is approximately 2.35%. The rental income from the childcare center located in building 1 is used to pay the principal and interest for this obligation.

The College's debt service requirements for these note agreements for the next five years and thereafter are listed below.

14. Annual Debt Service Requirements

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

Annual Debt Service Requirements			
	Certificates of Participation		
Fiscal year	Principal	Interest	Total
2018	791,337	208,151	\$ 999,488
2019	818,447	172,665	\$ 991,112
2020	850,514	142,474	\$ 992,988
2021	882,540	110,872	\$ 993,412
2022	909,526	77,862	\$ 987,388
2023-2026	1,436,329	62,690	\$ 1,499,019
Total	\$ 5,688,693	\$ 774,714	\$ 6,463,407

15. Schedule of Long Term Liabilities

	Balance outstanding 6/30/16	Additions	Reductions	Balance outstanding 6/30/17	Current portion
Certificates of Participation	\$ 6,427,672	\$ -	\$ 738,979	\$ 5,688,693	791,337
Compensated Absences	3,975,754	1,531,924	1,380,326	\$ 4,127,352	-
Net Pension Liability	6,297,519	5,159,204	-	\$ 11,456,723	-
Total	\$ 16,700,945	\$ 6,691,128	\$ 2,119,305	\$ 21,272,768	\$ 791,337

16. Pension Liability

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

PERS 1	\$	3,298,595
PERS 2/3		3,760,634
TRS 1		553,380
TRS 2/3		193,799
SBRP		3,650,315
Total	\$	11,456,723

18. Retirement Plans

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 multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY2017, the payroll for the College's employees was \$7,500,895 for PERS, \$1,173,280 for TRS, and \$21,403,055 for SBRP. Total covered payroll was \$30,077,230.

Basis of Accounting

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

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

Aggregate pension Amounts – All Plans

Pension Liabilities	\$7,806,408
Deferred outflows of resources related to pensions	\$2,168,573
Deferred inflows of resources related to pensions	\$ 165,410
Pension expense/expenditures	\$ 48,208

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

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 1 faculty member with pre-existing eligibility who continues to participate in TRS 1.

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

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

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

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

Contribution Rates at June 30						
	FY2015		FY2016		FY2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5-15%	9.21%	5-15%	11.18%	5-15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.96%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5 -15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required Contributions						
	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	\$ 16,112	\$ 24,732	\$ 9,707	\$ 18,087	\$ 9,800	\$ 18,261
Plan 2	\$ 240,785	\$ 449,292	\$ 312,731	\$ 571,301	\$ 295,873	\$ 540,539
Plan 3	\$ 87,873	\$ 131,829	\$ 106,819	\$ 205,780	\$ 141,140	\$ 269,359
TRS						
Plan 1	\$ 3,709	\$ 6,424	\$ 3,404	\$ 7,180	\$ -	\$ -
Plan 2	\$ 1,222	\$ 2,560	\$ 3,561	\$ 7,838	\$ 6,014	\$ 13,271
Plan 3	\$ 27,673	\$ 45,507	\$ 42,423	\$ 87,476	\$ 69,962	\$ 137,734

Investments

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

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

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

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

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

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

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

The inflation component used to create the above table is 2.2 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, expense and changes in net position. The following table shows the components of each pension plans expense as it affected employee benefits:

	<u>PERS 1</u>	<u>PERS 2/3</u>	<u>TRS 1</u>	<u>TRS 2/3</u>	<u>Total</u>
FY 16 Pension Expense	\$ 192,931	\$ 513,027	\$ 35,535	\$ 52,842	\$ 794,335
FY 17 Ammortization of change in proportionate liability	(399,635)	(346,468)	71,251	(49,498)	\$ (724,350)
FY 16 Ammortization of change in proportionate liability	-	(21,777)	-	-	\$ (21,777)
Total Pension Expense	\$ (206,704)	\$ 144,782	\$ 106,786	\$ 3,344	\$ 48,208

Changes in Proportionate Shares of Pension Liabilities

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

	<u>2015</u>	<u>2016</u>
PERS 1	0.0620%	0.0614%
PERS 2/3	0.0724%	0.0747%
TRS 1	0.0121%	0.0162%
TRS 2/3	0.0097%	0.0141%

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

Actuarial Assumptions

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement rate. 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 the current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements.

Consistent with the long term expected rate of return, a 7.5 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 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Pension Plan	(6.50%)	(7.50%)	(8.50%)
PERS Plan 1	\$ 3,977,776	\$ 3,298,595	\$ 2,714,085
PERS Plan 2/3	\$ 6,924,001	\$ 3,760,634	\$ (1,957,626)
TRS Plan 1	\$ 680,272	\$ 553,380	\$ 444,080
TRS Plan 2/3	\$ 438,595	\$ 193,799	\$ (225,137)

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

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

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ -	\$ -	\$ 200,251	\$ 124,145
Difference between expected and actual earnings of pension plan investments	\$ 83,053	\$ -	\$ 460,193	\$ -
Changes of Assumptions	\$ -	\$ -	\$ 38,869	\$ -
Changes in College's proportionate share of pension liabilities	\$ -	\$ -	\$ 286,252	\$ 32,666
Contributions to pension plans after measurement date	\$ 367,085	\$ -	\$ 458,088	\$ -
	\$ 450,138	\$ -	\$ 1,443,653	\$ 156,811

	TRS1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ -	\$ -	\$ 14,661	\$ 8,599
Difference between expected and actual earnings of pension plan investments	\$ 17,552	\$ -	\$ 31,197	\$ -
Changes of Assumptions	\$ -	\$ -	\$ 1,974	\$ -
Changes in College's proportionate share of pension liabilities	\$ -	\$ -	\$ 74,089	\$ -
Contributions to pension plans after measurement date	\$ 65,432	\$ -	\$ 69,877	\$ -
	\$ 82,984	\$ -	\$ 191,798	\$ 8,599

The \$960,482 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

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

Year ended June 20	PERS 1**	PERS 2/3	TRS 1**	TRS 2/3
2017	\$ (20,450)	\$ 92,441	\$ (4,536)	\$ 19,807
2018	\$ (20,450)	\$ 103,329	\$ (4,536)	\$ 19,807
2019	\$ 76,276	\$ 410,290	\$ 16,420	\$ 43,806
2020	\$ 47,677	\$ 222,695	\$ 10,204	\$ 27,132
2021	\$ -	\$ -	\$ -	\$ 2,769
2022	\$ -	\$ -	\$ -	\$ -
Total	\$ 83,053	\$ 828,755	\$ 17,552	\$ 113,321

State Board Retirement Plan

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. Highline College participates in this plan as authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2017 were each \$1,838,506.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of \$902,000. The College's share of this amount was \$34,641. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$106,760. This amount was not used as a part of GASB73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for \$13,280,149.81 of the fund balance.

Actuarial Assumptions

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

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

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

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

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

Discount Rate

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

Pension Expense

For the year ended June 30, 2017, Highline College reported \$150,122 for pension expense in the Higher Education Supplemental Retirement Plans.

Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 3.84%. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's, actuarially determined.

Plan Membership

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

Plan	Number of Participating Members			
	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
Highline College	7	0	287	294

Change in Total Pension Liability/ (Asset)

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

Change in Total Pension Liability/Asset	
Total Pension Liability	
Service Cost	\$ 208
Interest	135
Changes of benefit terms	
Differences between expected and actual experience	(973)
Changes of assumptions	(230)
Benefit Payments	(35)
Other	
Net Change in Total Pension Liability	(895)
Total Pension Liability - Beginning	4,545
Total Pension Liability - Ending (a)	\$ 3,650

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

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

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% Increase
Highline College	\$ 4,193	\$ 3,650	\$ 3,200

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Highline College		
Difference between expected and actual experience	\$ -	\$ 845
Changes of assumptions	\$ -	\$ 199
Transactions subsequent to the measurement date		
Total	\$ -	\$ 1,044

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

Highline College	
2018	(158)
2019	(158)
2020	(158)
2021	(158)
2022	(158)
Thereafter	(253)

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.

17. Other Post-Employment Benefits

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is \$24,047,629, with an annual required contribution (ARC) of \$2,166,741. The ARC represents the amortization of the liability for fiscal year 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately \$464,898. The College's net OPEB obligation (NOO) at June 30, 2017 was approximately \$6,338,510. This amount is not included in the College's financial statements.

The College paid \$5,757,281 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

18. Operating Expenses by Program

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

Expenses by Functional Classification	
Instruction	\$ 31,291,168
Academic Support Services	8,845,330
Student Services	3,815,845
Institutional Support	7,508,526
Operations and Maintenance of Plant	10,294,197
Scholarships and Other Student Financial Aid	8,535,426
Auxiliary enterprises	4,461,314
Depreciation	2,155,007
Total operating expenses	\$ 76,906,813

19. Commitments and Contingencies

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

20. Subsequent events

In July of 2017, the College's president announced his retirement effective August 1, 2017. The Board of Trustees is in the process of selecting an outside firm to assist in hiring a replacement. The Board has appointed Dr. Jeff Wagnitz as the interim president until such time as the position is filled.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

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

Schedule of Highline College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30			
	2014	2015	2016
College's proportion of the net pension liability	0.054450%	0.062011%	0.061421%
College proportionate share of the net pension liability	\$ 2,742,944	\$ 3,243,752	\$ 3,298,595
College covered-employee payroll	\$ 5,668,499	\$ 6,783,466	\$ 7,144,148
College's proportionate share of the net pension liability as a percentage of the total pension liability	48.39%	47.82%	46.17%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%

Schedule of Highline College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30			
	2014	2015	2016
College's proportion of the net pension liability	0.062994%	0.072363%	0.074691%
College proportionate share of the net pension liability	\$ 1,273,336	\$ 2,585,572	\$ 3,760,634
College covered-employee payroll	\$ 5,394,910	\$ 6,514,928	\$ 6,982,367
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.60%	39.69%	53.86%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%

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

Cost Sharing Employer Plans

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

Schedule of Highline College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30			
	2014	2015	2016
College's proportion of the net pension liability	0.009103%	0.012191%	0.016208%
College proportionate share of the net pension liability	\$ 268,489	\$ 386,228	\$ 553,380
College covered-employee payroll	\$ 340,296	\$ 524,241	\$ 749,991
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	78.90%	73.67%	73.78%
Plan's fiduciary net position as a percentage of the total pension liability	68.77%	65.70%	62.07%

Schedule of Highline College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30			
	2014	2015	2016
College's proportion of the net pension liability	0.006325%	0.009714%	0.014112%
College proportionate share of the net pension liability	\$ 20,429	\$ 81,967	\$ 193,799
College covered-employee payroll	\$ 275,769	\$ 462,260	\$ 695,481
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7.41%	17.73%	27.87%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%	92.48%	88.72%

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

Pension Plan Information

Cost Sharing Employer Plans

Schedules of 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-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 243,279	\$ 243,279	\$ -	\$ 5,668,499	4.29%	
2015	\$ 287,031	\$ 287,031	\$ -	\$ 6,783,466	4.23%	
2016	\$ 350,322	\$ 350,322	\$ -	\$ 7,144,148	4.90%	
2017	\$ 367,981	\$ 367,981	\$ -	\$ 7,500,895	4.91%	

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 487,151	\$ 487,151	\$ -	\$ 5,394,910	9.03%	
2015	\$ 588,342	\$ 588,342	\$ -	\$ 6,514,928	9.03%	
2016	\$ 766,698	\$ 766,698	\$ -	\$ 6,982,367	10.98%	
2017	\$ 807,201	\$ 807,201		\$ 7,337,559	11.00%	

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-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 11,731	\$ 11,731	\$ -	\$ 340,296	3.45%	
2015	\$ 27,525	\$ 27,525	\$ -	\$ 524,241	5.25%	
2016	\$ 49,232	\$ 49,232	\$ -	\$ 749,991	6.56%	
2017	\$ 73,095	\$ 73,095	\$ -	\$ 1,173,280	6.23%	

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-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 27,430	\$ 27,430	\$ -	\$ 275,769	9.95%	
2015	\$ 47,197	\$ 47,197	\$ -	\$ 462,260	10.21%	
2016	\$ 88,584	\$ 88,584	\$ -	\$ 695,481	12.74%	
2017	\$ 151,940	\$ 151,940	\$ -	\$ 1,173,280	12.95%	

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 Highline College Fiscal Year Ended June 30 <i>(expressed in thousands)</i>			
			2017
Total Pension Liability			
	Service Cost		\$ 208
	Interest		135
	Changes of benefit terms		-
	Differences between expected and actual experience		(973)
	Changes of assumptions		(230)
	Benefit Payments		(35)
	Other		-
Net Change in Total Pension Liability			(895)
Total Pension Liability - Beginning			4,545
Total Pension Liability - Ending			\$ 3,650
College's Proportion of the Pension Liability			3.84%
Covered-employee payroll			\$ 21,047
Total Pension Liability as a percentage of covered-employee payroll			0.17342139

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 trust 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 returns.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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