2015 Financial Report

Skagit Valley College
Where Learning Comes to Life

Skagit Valley College

2015 Financial Report

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For information about the financial data included in this report, contact:

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360-416-7744

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Institutional Planning and Effectiveness
Skagit Valley College
2405 East College Way
Mount Vernon, WA 98273
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Visit the home page at link at http://www.skagit.edu

Trustees and Executive Officers

BOARD OF TRUSTEES

EXECUTIVE OFFICERS

Trustees and Officer list effective as of December 31, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Skagit Valley College

July 1, 2014 through June 30, 2015

Board of Trustees
Skagit Valley College
Mount Vernon, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Skagit Valley College, Skagit County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Skagit Valley College Foundation, which represents 100 percent, of the assets, net position, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Skagit Valley 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 Skagit Valley 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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Skagit Valley College, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Skagit Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information for the Skagit Valley College Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2014, from which such partial information was derived. Other auditors have previously audited the Skagit Valley College Foundation's 2014 financial statements and they expressed an unmodified opinion on their report dated December 12, 2014.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITINGSTANDARDS

In accordance with *Government Auditing Standards,* we have also issued our report dated June 14, 2016 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.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

June 14, 2016

Management's Discussion and Analysis

Skagit Valley College

The following discussion and analysis provides an overview of the financial position and activities of Skagit Valley College (the College) for the fiscal year ended June 30, 2015 (FY 2015). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

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

Nestled between Puget Sound and the Cascade Mountain foothills, the College's main campus is located in Mount Vernon, Washington, a community of about 32,000 residents. The College operates a second, smaller campus located in Oak Harbor, a city of about 22,000 residents on Whidbey Island. In addition, the College operates three education centers – one in Friday Harbor on San Juan Island, another in Clinton at the south end of Whidbey Island, and a Marine Technology Center in Anacortes. The College is governed by a five member Board of Trustees appointed by the governor of the state 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.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, its Foundation. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2015. 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 2015, the College adopted GASB Statement No. 68, as amended by GASB Statement No. 71. These statements require the College to record its proportionate share of net pension liabilities, deferred outflows and inflows by restating its 2014 net position, pension liabilities and deferral of resources as a change in accounting principle. For the purposes of this analysis, the restatement of the 2014 net position was made to conform to 2015 presentation. The change in accounting principle resulted in a reduction to unrestricted net position in the amount of $7,604,356. This decrease resulted in the restatement of net position to a balance of $68,508,432 for the year ending June 30, 2014.

Statement of Net Position

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

Condensed Statement of Net Position As of June 30th	**FY 2015**	**FY 2014**
Assets		
Current Assets	22,716,195	30,405,860
Capital Assets, net	86,023,424	85,978,932
Other Assets, non-current	638,888	627,060
Total Assets	**$ 109,378,507**	**$ 117,011,852**
Deferred Outflows	**$ 806,029**	**$ 718,352**
Liabilities		
Current Liabilities	9,607,539	12,555,863
Other Liabilities, non-current	33,144,426	36,665,909
Total Liabilities	**$ 42,751,965**	**$ 49,221,772**
Deferred Inflows	**$ 2,324,608**	**$0**
Net Position, as restated	**$ 65,107,963**	**$ 68,508,432**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease of current assets in FY 2015 can be attributed to a decrease in the receivable from the Office of State Treasurer related to the Certificate of Participation (COP) for construction of the Charles Lewis Hall Building. As the project continued and funds were drawn down from the Cop, the receivable from the state decreased. The decrease is also the result of a decrease in cash and cash equivalents.

Net capital assets increased by $44,492 from FY 2014 to FY 2015. After taking into consideration current depreciation expense of $2,336,113, the majority of the increase is the result of the construction of the Lewis Hall Building which is expected to be completed was completed in 2015.

Non-current assets are the long-term portion of certain investments.

Deferred outflows of resources totaling $806,029 are related to the net pension liability that was recorded on the College's financials this year.

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

The decrease in current liabilities from FY 2014 to FY 2015 is due to our liability with the State Treasurer at year-end. This liability to the State Treasurer decreased.

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 No. 68, reflecting the College's proportionate share of the net pension liability.

Deferred inflows of resources related to the College's net pension liability totaled $2,324,308. Deferred inflows of resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in 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:***
>
> > ***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 primary expendable funds for the College are student loans.

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

As stated earlier in this section, the College's net position was adjusted by $7,604,356 to reflect the implementation of GASB Statement No. 68 to report the net pension liability and the offsetting adjustment to net position.

Net Position As of June 30th	**FY 2015**	**FY 2014**
Net investment in capital assets	$60,912,389	$59,753,231
Restricted		
Expendable	$486,817	
Student Loans	$4,258	$6,255
Unrestricted	$3,704,500	$16,353,302
Cumulative effect of change in accounting principle	$0	-$7,604,356
Total Net Position	**$65,107,964**	**$68,508,432**

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 2015. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2015 and 2014 is presented below.

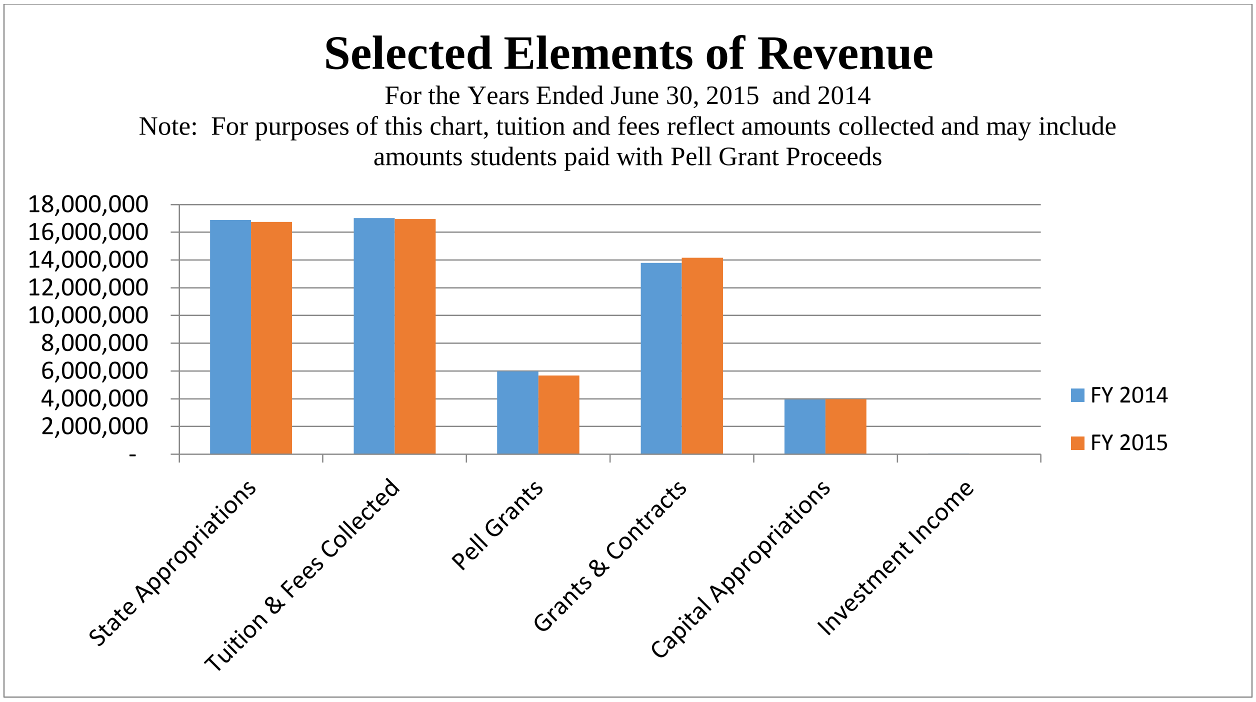
As of June 30th	FY 2015	FY 2014
Operating Revenues	$ 30,299,990	$ 33,527,495
Operating Expenses	57,302,993	58,428,045
Net Operating Loss	**(27,003,004)**	**(24,900,550)**
Non-Operating Revenues and Expenses	19,633,894	19,591,908
Loss Before Other	**(7,369,109)**	**(5,308,642)**
Capital Appropriations and Contributions	3,968,640	3,953,790
Increase in Net Position	**(3,400,469)**	**(1,354,852)**
Net Position, Beginning of the Year	**68,508,432**	**77,467,640**
Cummulative effect of change in accounting principle	**0**	**(7,604,356)**
Net Position, End of the Year	**$ 65,107,963**	**$ 68,508,432**

Revenues

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times through FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 have been reduced by almost 24%. In FY14, the Legislature reinstated a fraction of the previous cuts.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. The legislature did not allow tuition increases for the two-year colleges in FY14 and FY15. Flat tuition rates combined with steady enrollments and increasing waivers have resulted in a slight decrease in overall tuition revenues.

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.



Expenses

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

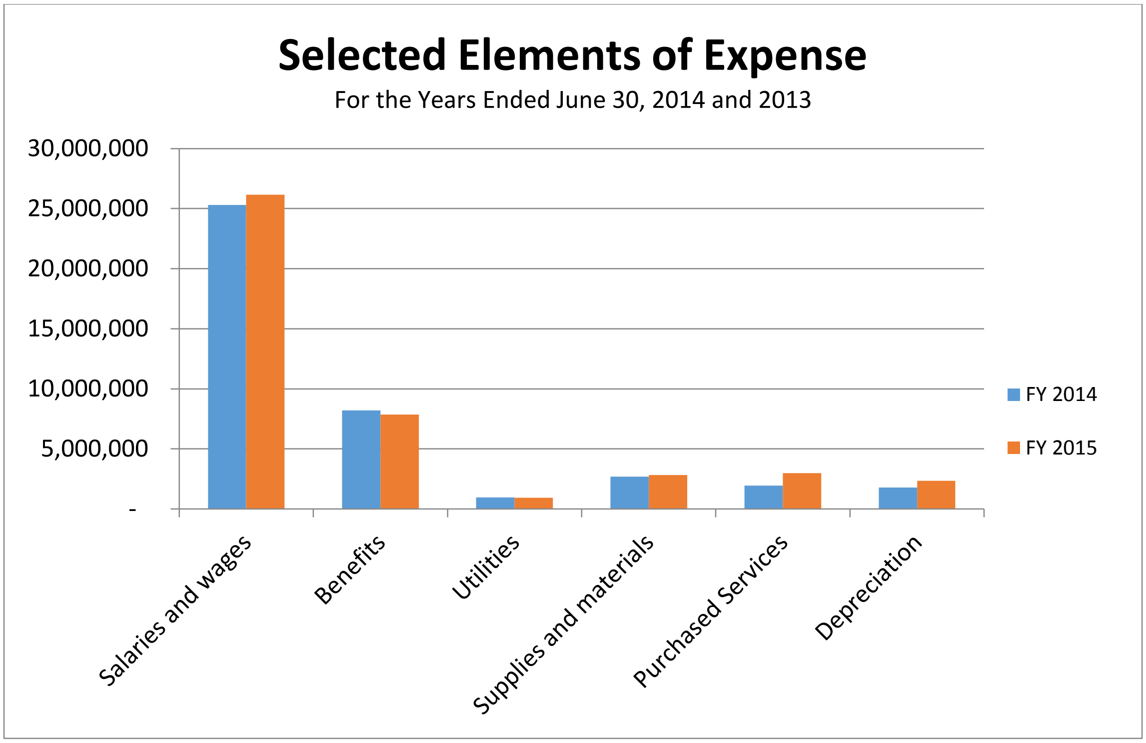
More recently, in FY 2015, salary and benefit costs increased as result of adding faculty positions, and negotiated increases for classified staff and faculty.

Purchased services are significantly higher in FY 2015, 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. Examples include printing and reproduction, employee training, and non-capitalized equipment purchases.

<u>Comparison of Selected Operating Expenses by Function</u>

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2015 and FY 2014.



Capital Assets and Long-Term Debt Activities

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

At June 30, 2015, the College had invested $86,023,424 in capital assets, net of accumulated depreciation. This represents an increase of $44,492 from last year, as shown in the table below.

Asset Type	June 30, 2015	June 30, 2014	Change
Land	$1,660,785	$1,660,785	$0
Construction in Progress	$0	$24,003,707	-$24,003,707
Buildings, net	$82,050,684	$57,886,972	$24,163,712
Other Improvements and Infrastructure, net	$776,613	$841,596	-$64,983
Equipment, net	$1,420,578	$1,452,750	-$32,172
Library Resources, net	$114,764	$133,122	-$18,358
Total Capital Assets, Net	**$86,023,424**	**$85,978,932**	**$44,492**

The increase in net capital assets can be attributed to the completion of the Lewis Hall Building. Additional information on capital assets can be found in Note 6 of the Notes to the Financial Statements.

At June 30, 2015, the College had $25,111,035 in outstanding debt. The College entered into a Certificate of Participation (COP) for the construction of Lewis Hall Building during FY 2013.

	June 30, 2015
Certificates of Participation	$25,111,035
Total	**$25,111,035**

Additional information of notes payable, long term debt and debt service schedules can be found in Notes 12 and 13 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2014 tuition flat for resident, non-resident and baccalaureate students.

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 backfill this loss. In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model will be based on performance in several key indicators from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations, therefore this new allocation model may be the only significant change that could affect the College's state allocation funding.

College's Statement of Net Position

Skagit Valley College					
Statement of Net Position					
June 30,2015					
Assets					
	Current assets				
		Cash and cash equivalents			16,222,465
		Short-term investments			1,469,407
		Accounts Receivable			4,428,704
		Student Loans Receivable			106,020
		Inventories			445,596
		Prepaid Expenses			44,004
			Total current assets		22,716,195
	Non-Current Assets				
		Long-term investments			638,888
		Capital assets, net of depreciation			86,023,424
			Total non-current assets		86,662,312
				Total assets	**109,378,507**
	Deferred Outflows of Resources				806,029
		Total Deferred Outflows of Resources			806,029
Liabilities					
	Current Liabilities				
		Accounts Payable			1,202,686
		Accrued Liabilities			5,958,607
		Deposits Payable			3,581
		Unearned Revenue			1,293,349
		Certificates of Participation Payable			1,149,316
			Total current liabilities		9,607,539
	Noncurrent Liabilities				
		Compensated Absences			3,405,475
		Pension liabilty			5,777,231
		Long-term liabilities			23,961,719
			Total non-current liabilities		33,144,426
				Total liabilities	**42,751,965**
	Deferred Inflows of Resources				2,324,608
		Total Deferred Inflows of Resources			2,324,608
Net Position					
	Net Investment in Capital Assets				60,912,389
	Restricted for:				
		Expendable			486,817
		Student Loans			4,258
	Unrestricted				3,704,500
		Total Net Position			**65,107,963**
The notes to the financial statements are an integral part of this statement					

Foundation Statement of Net Position

Skagit Valley College Foundation

Statement of Financial Position

June 30, 2015

(With Summarized Comparative Totals for June 30, 2014)

Assets

	2015	2014
Assets		
Cash and cash equivalents	$ 628,731	$ 689,206
Investments	11,072,340	9,543,043
Property and equipment, net	1,760,711	1,813,858
Deferred bond issue costs, net	16,806	18,673
Receivables	3,477	6,646
Advances due from Skagit Valley College	33,418	–
Prepaid insurance	5,536	7,511
Collections held for investment	4,584	4,584
Total assets	$ 13,525,603	$ 12,083,521

Liabilities and Net Assets

	2015	2014
Liabilities		
Accounts payable	$ 38,384	$ 42,488
Life income annuities payable	78,900	82,200
Tenant security deposits and prepaid rent	56,577	53,275
Advances due to Skagit Valley College	–	47,101
Accrued interest	9,430	9,755
Long-term debt	1,360,638	1,488,487
Total liabilities	1,543,929	1,723,306
Net assets		
Unrestricted	116,446	180,888
Temporarily restricted	1,212,094	1,006,872
Permanently restricted	10,653,134	9,172,455
Total net assets	11,981,674	10,360,215
Total liabilities and net assets	$ 13,525,603	$ 12,083,521

College's Statement of Revenues, Expenses and Changes in Net Position

Skagit Valley College			
Statement of Revenues, Expenses and Changes in Net Position			
For the Year Ended June 30, 2015			
Operating Revenues			
	Student tuition and fees, net		13,345,166
	Auxiliary enterprise sales		2,194,063
	State and local grants and contracts		9,588,645
	Federal grants and contracts		4,563,690
	Other operating revenues		608,425
	Interest on loans to students		-
		Total operating revenue	30,299,990
Operating Expenses			
	Operating Expenses		6,315,703
	Salaries and wages		26,147,838
	Benefits		7,546,246
	Scholarships and fellowships		8,192,358
	Supplies and materials		2,831,163
	Depreciation		2,336,113
	Purchased services		2,992,778
	Utilities		940,795
		Total operating expenses	57,302,993
		Operating income (loss)	(27,003,004)
Non-Operating Revenues (Expenses)			
	State appropriations		16,755,764
	Federal Pell grant revenue		5,683,968
	Investment income, gains and losses		34,721
	Building fee remittance		(1,315,288)
	Innovation fund remittance		(348,468)
	Capital asset adjustments		(4,071)
	Interest on indebtedness		(1,172,731)
		Net non-operating revenues (expenses)	**19,633,894**
	Income or (loss) before other revenues, expenses, gains, or losses		(7,369,109)
	Capital appropriations		3,968,640
		Increase (Decrease) in net position	(3,400,469)
Net Position			
	Net position, beginning of year		76,112,788
	Net position change due to GASB 68		(7,604,356)
	Adjusted Net position, beginning of year		68,508,432
	Net position, end of year		65,107,963
The notes to the financial statements are an integral part of this statement			

Foundation's Statement of Revenues, Expenses and Changes in Net Position

Skagit Valley College Foundation

Statement of Activities

Year Ended June 30, 2015

(With Summarized Comparative Totals for Year Ended June 30, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Support and revenue					
General contributions and grants	$ 106,444	$ 470,713	$ 1,687,877	$ 2,265,034	$ 721,286
Investment income	632	2,114	167,531	170,277	1,009,843
Campus housing and related income	(13,504)	651,750	–	638,246	600,025
Fundraising activities	145,654	–	–	145,654	111,190
Other income	21,935	1,375	–	23,310	17,903
Interest income	855	–	–	855	814
Reclassifications:					
Satisfaction of restrictions by program expenditures	1,227,449	(889,230)	(338,219)	–	–
Transfers (to) from other funds	68,010	(31,500)	(36,510)	–	–
Total support and revenue	1,557,475	205,222	1,480,679	3,243,376	2,461,061
Expenses					
Program services	1,204,962	–	–	1,204,962	1,401,174
Management and general	255,097	–	–	255,097	161,825
Fundraising activities	161,858	–	–	161,858	135,258
Total expenses	1,621,917	–	–	1,621,917	1,698,257
Change in net assets	(64,442)	205,222	1,480,679	1,621,459	762,804
Net assets, beginning of year	180,888	1,006,872	9,172,455	10,360,215	9,597,411
Net assets, end of year	$ 116,446	$ 1,212,094	$ 10,653,134	$ 11,981,674	$ 10,360,215

College’s Statement of Cash Flows

Skagit Valley College			
Statement of Cash Flows			
For the Year Ended June 30, 2015			
Cash flow from operating activities			
	Student tuition and fees		13,154,084
	Grants and contracts		13,707,041
	Payments to vendors		(6,439,400)
	Payments for utilities		(954,585)
	Payments to employees		(25,856,970)
	Payments for benefits		(7,833,485)
	Auxiliary enterprise sales		2,322,932
	Payments for scholarships and fellowships		(8,192,358)
	Loans issued to students and employees		127,560
	Collection of loans to students and employees		0
	Other receipts (payments)		(1,783,725)
		Net cash used by operating activities	(21,748,906)
Cash flow from noncapital financing activities			
	State appropriations		15,206,558
	Pell grants		5,683,968
	Amounts for other than capital purposes		0
	Building fee remittance		(1,825,217)
	Innovation fund remittance		(350,383)
		Net cash provided by noncapital financing activities	18,714,926
Cash flow from capital and related financing activities			
	Proceeds of capital debt		0
	Capital appropriations		3,468,405
	Purchases of capital assets		(2,350,793)
	Certificate of participations proceeds		0
	Principal paid on capital debt		(1,103,558)
	Interest paid		(1,172,731)
		Net cash used by capital and related financing activities	(1,158,677)

Continued next page

College's Statement of Cash Flows – continued

Cash flow from investing activities	
Purchase of investments	(13,683)
Proceeds from sales and maturities of investments	0
Income of investments	34,721
Net cash provided by investing activities	21,038
Increase in cash and cash equivalents	(4,171,619)
Cash and cash equivalents at the beginning of the year	20,394,084
Cash and cash equivalents at the end of the year	16,222,465
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(27,003,004)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,336,113
Changes in assets and liabilities	
Receivables , net	3,270,925
Inventories	(1,048)
Other assets	122,464
Accounts payable	(827,108)
Accrued liabilities	337,772
Unearned revenue	28,905
Compensated absences	173,310
Pension liability adjustment expense	(308,546)
Deposits payable	(6,250)
Loans to students and employees	127,560
Net cash used by operating activities	(21,748,906)
	(21,748,906)
	0

The notes to the financial statements are an integral part of this statement

Notes to the Financial Statements

June 30, 2015

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Skagit Valley College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

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

The Skagit Valley College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1978 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to solicit and receive contributions to provide enhancements at Skagit Valley College and support for its students. Activities include support of academic programs and scholarship assistance to students, and operation of student housing. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a 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, 2015, the Foundation distributed approximately $541,619 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 360-416-7821.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of

Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred inflows, liabilities, deferred outflows, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as GASB Statement No. 50, Pension Disclosures. GASB 68 is effective for fiscal years beginning after June 15, 2014. The College has implemented this pronouncement during the 2015 fiscal year. Implementation of this pronouncement has required a restatement of the prior year net position to reflect the net pension liability and the impact to net position.

The Governmental Accounting Standards Board (GASB) issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, effective for the year ended June 30, 2015. This statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The effect of Statement No. 71 to the College is to require the deferral (Deferred Outflows) of pension contributions made subsequent to the measurement date and is addressed in Note 7 to the financial statements.

Cumulative effect of change in accounting principle

The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 68. The net position has been restated as follows:

Net Position as previously reported at June 30, 2014		$76,112,788
Prior period adjustment:		
Net Pension Liability		($8,322,708)
Deferred Outflows		$ 718,352
Total prior period adjustment		($7,604,356)
Net Position, as restated, July 1, 2014	$68,508,432	

Basis of Accounting

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

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

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

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, petty cash and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalents, and investments at fair value.

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

Accounts Receivable

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

Inventories

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

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets, and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 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, 2015, 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. The College has recorded summer quarter tuition and fees as unearned revenues.

Tax Exemption

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

Net Pension Liability

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Net Position

The College's net position is classified as follows.

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

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

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

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

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, Federal Pell grant revenue, state appropriations, investment income and Pell Grants received from the federal government. Pell grants are reported as non-operating revenue based on guidance from the Office of Financial Management in collaboration with the State Auditor's Office.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2015 are $3,605,360.

State Appropriations

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

Building and Innovation Fee Remittance

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

2. 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). 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.

As of June 30, 2015, the carrying amount of the College's cash and equivalents was $16,222,465 as represented in the table below.

Cash and Cash Equivalents	June 30, 2015
Petty Cash and Change Funds	$9,575
Bank Demand and Time Deposits	$2,783,929
Local Government Investment Pool	$13,428,961
Total Cash and Cash Equivalents	**$16,222,465**

Investments consist of time certificates of deposit and fixed annuity. Time certificates of deposit have repurchase agreements with the respective financial institutions.

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years	10 or More Years
Time Certificate of Deposits	$ 1,469,407.00	$ 1,469,407.00			
Fixed Annuity	$ 638,888.00			$ 638,888.00	

Custodial Credit Risks—Deposits

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

Interest Rate Risk—Investments

Through its investment policies, the College manages exposure to fair value losses arising from increasing interest rates by segmenting investments into short-term, intermediate-term and long-term pools.

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, 2015, the College did not have any investments subject to custodial credit risk. All investments held are in the name of the College.

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, 2015 were $0.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2015, accounts receivable were as follows.

Accounts Receivable	Amount	
Student Tuition and Fees	$	687,256
Due from the Federal Government	$	389,302
Due from Other State Agencies	$	2,365,000
Auxiliary Enterprises	$	38,014
Other	$	955,316
Subtotal	$	4,434,889
Less Allowance for Uncollectible Accounts	$	(6,185)
Accounts Receivable, net	**$**	**4,428,704**

4. Loans Receivable

Loans receivable as of June 30, 2015 consisted primarily of student loans, as follows.

Loans Receivable	Amount	
Student Loans Receivable	$	110,598
Other Loans Receivable	$	-
Subtotal	$	110,598
Less Allowance for Uncollectible Accounts	$	(4,579)

5. Inventories

Inventories, stated at cost, consisted of the following as of June 30, 2015.

Inventories	Amount	
Merchandise Inventories	$	445,596
Inventories	**$**	**445,596**

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2015 is presented as follows. The current year depreciation expense was $2,336,113.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 1,660,785	$ -	$ -	$ 1,660,785
Construction in progress	24,003,707	0	(24,003,707)	0
Total nondepreciable capital assets	25,664,492	0	(24,003,707)	1,660,785
Depreciable capital assets				
Buildings	76,003,888	25,918,390	(599,300)	101,322,978
Other improvements and infrastructure	1,299,673	0	0	1,299,673
Equipment	5,321,817	442,033	(99,878)	5,663,972
Library resources	3,212,321	19,857	0	3,232,178
Subtotal depreciable capital assets	85,837,699	26,380,280	(699,178)	111,518,801
Less accumulated depreciation				
Buildings	18,116,916	1,754,678	(599,300)	19,272,294
Other improvements and infrastructure	458,077	64,983	0	523,060
Equipment	3,869,067	472,933	(98,606)	4,243,394
Library resources	3,079,199	38,215	0	3,117,414
Total accumulated depreciation	25,523,259	2,330,809	(697,906)	27,156,162
Total depreciable capital assets	60,314,440	24,049,471	(1,272)	84,362,639
Capital assets, net of accumulated depreciation	**$ 85,978,932**	**$ 24,049,471**	**$ (24,004,979)**	**$ 86,023,424**

7. Deferred Outflows and Deferred Inflows of Resources

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

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

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

Deferred inflows on pensions are recorded when 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 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.

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual earnings of pension plan investments		$ 2,324,608
Changes in College's proportionate share of pension liabilities	$ 59,429	
Contributions to pension plans after measurement date	$ 746,599	
	$ 806,029	**$ 2,324,608**

The $746,599 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, 2016.

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

Year ended June 30:	2016	$ 564,591
	2017	$ 564,591
	2018	$ 564,591
	2019	$ 572,205
	2020	$ (799)
	Total	$2,265,179

8. Accounts Payable and Accrued Liabilities

At June 30, 2015, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,769,500
Accounts Payable	$ 1,202,686
Amounts Held for Others and Retainage	$ 4,189,106
Total	**$ 7,161,293**

9. Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 1,152,764
Housing and Other Deposits	140,586
Total Unearned Revenue	$ 1,293,349

10. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2014 through June 30, 2015, were $88,534.77.

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

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

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $1,197,792.10, and accrued sick leave totaled $2,207,683.35 at June 30, 2015.

Accrued annual and sick leave are categorized as non-current liabilities.

12. Notes Payable

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

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

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

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

13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2015 are as follows.

Annual Debt Service Requirements			
	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2016	$ 1,149,316	$ 1,128,222	$ 2,277,538
2017	1,200,155	1,082,050	$ 2,282,205
2018	1,256,083	1,028,993	$ 2,285,076
2019	1,312,110	973,469	$ 2,285,579
2020	1,378,244	909,904	$ 2,288,148
2021-25	6,970,126	3,535,378	$ 10,505,504
2026-2030	8,110,000	1,793,900	$ 9,903,900
2031-2035	3,735,000	225,600	$ 3,960,600
Total	**25,111,035**	**10,677,516**	**35,788,551**

14. Schedule of Long Term Debt

	Balance outstanding 6/30/14	Additions	Reductions	Balance outstanding 6/30/15	Current portion
Certificates of Participation	**26,225,701**	**0**	**(1,114,666)**	**25,111,035**	**1,149,316**
Compensated absences	**3,232,165**	**1,287,407**	**(1,114,097)**	**3,405,457**	**0**
Net Pension Liability	**7,604,356**	**806,029**	**(2,633,154)**	**5,777,231**	**0**
Total	**$ 37,062,222**	**$ 2,093,436**	**$ (4,861,917)**	**$ 34,293,723**	**$1,149,316**

15. Pension Plans

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

For FY2015, the payroll for the College's employees was $7,871,364.40 for PERS, $345,486.35 for TRS, and $14,231,215.37 for SBRP. Total covered payroll was $22,448,066.12.

Skagit Valley College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

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

Basis of Accounting

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Skagit Valley College, for fiscal year 2014:

Aggregate Pension Amounts - All Plans

Pension liabilities	$	(5,777,231)
Deferred outflows of resources related to pensions	$	806,029
Deferred inflows of resources related to pensions	$	(2,324,608)
Pension expense/expenditures	$	(308,546)

PERS and TRS

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

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

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

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2015, 2014, and 2013 are as follows:

Contribution Rates at June 30

	FY 2013		FY 2014		FY 2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.21%	6.00%	9.21%	6.00%	9.21%
Plan 2	4.64%	7.21%	4.92%	9.21%	4.92%	9.21%
Plan 3	5 - 15%	7.21%	5 - 15%	9.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.05%	6.00%	10.39%	6.00%	10.39%
Plan 2	4.69%	8.05%	4.69%	10.39%	4.96%	10.39%
Plan 3	5-15%	8.05%	5-15%	10.39%	5-15%	10.39%

Required Contributions

Required Contributions						
	FY2013		FY2014		FY2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$26,872	$32,291	$26,053	$39,978	$26,973	$41,403
Plan 2	$220,947	$343,325	$246,842	$461,940	$251,204	$470,296
Plan 3	$123,790	$142,176	$128,903	$192,560	$147,728	$213,314
TRS						
Plan 1	$14,409	$18,846	$14,312	$24,030	$14,190	$24,573
Plan 3	$5,557	$4,894	$7,055	$8,956	$8,230	$11,323

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, 2014, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	16.98%
PERS Plan 2/3	17.06%
TRS Plan 1	16.97%
TRS Plan 2/3	17.07%

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, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	**100%**	

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	$199,891	$268,901	$18,664	$4,609	$492,065
Amortization of change in proportionate liability	37,689	15,230	(108,263)	1,332	(54,012)
Total Pension Expense	**237,580**	**284,131**	**(89,599)**	**5,941**	**438,053**
Deferred Outflows (FY 2015 contributions)	(338,257)	(372,489)	(29,204)	(6,649)	(746,599)
Total Adjustment to Benefit Expense	**$(100,677)**	**$ (88,358)**	**$(118,802)**	**$ (708)**	**$(308,546)**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2013 to 2014 for each retirement plan are listed below:

	2013	2014
PERS 1	0.072547%	0.073192%
PER 2/3	0.081299%	0.082904%
TRS 1	0.016881%	0.013816%
TRS 2/3	0.001445%	0.002125%

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

The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based 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.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

Discount Rate

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

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	4,544,689	3,687,081	2,950,910

PERS Plan 2/3	6,990,076	1,675,789	(2,383,336)
TRS Plan 1	524,393	407,496	307,156
TRS Plan 2/3	59,658	6,863	(32,379)

State Board Retirement Plan

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

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

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2015 were each $1,270,020.33.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2015, supplemental benefits were paid by the SBCTC on behalf of the College system as a total in the amount of $583,625. 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 2015, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $71,157.58. As of June 30, 2015, the Community and Technical College system accounted for $7,729,471 of the fund balance.

Washington State Deferred Compensation Program

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

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 $17,325,728, with an annual required contribution (ARC) of $1,692,952. The ARC represents the amortization of the liability for FY 2015 plus the current expense for active employees, which is reduced by the current contributions of approximately $212,843. The College's net OPEB obligation at June 30, 2015 was approximately $2,508,500. This amount is not included in the College's financial statements.

The College paid $3,536,740 for healthcare expenses in 2015, which included its pay-as-you-go portion of the OPEB liability.

16. 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, 2015.

Expenses by Functional Classification	
Instruction	$ 18,357,664
Academic Support Services	3,682,405
Student Services	10,649,398
Institutional Support	5,351,850
Operations and Maintenance of Plant	5,618,467
Scholarships and Other Student Financial Aid	7,452,662
Auxiliary enterprises	3,854,434
Depreciation	2,336,113
Total operating expenses	**$ 57,302,993**

17. Commitments and Contingencies

There is a class action filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

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

Required Supplemental Information

Pension Plan Information

Cost Sharing Employer Plans

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

Schedule of Skagit Valley College's Share of the Net Pension Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.073192%
College proportionate share of the net pension liability	$	3,687,081
College covered-employee payroll	$	449,548
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		820.18%
Plan's fiduciary net position as a percentage of the total pension liability		61.19%

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

Cost Sharing Employer Plans

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

Schedule of Skagit Valley College's Share of the Net Pension Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30	
	2014
College's proportion of the net pension liability	0.082904%
College proportionate share of the net pension liability	$ 1,675,789
College covered-employee payroll	$ 7,421,817
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	22.58%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%

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

Cost Sharing Employer Plans

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

Schedule of Skagit Valley College's Share of the Net Pension Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.013816%
College proportionate share of the net pension liability	$	407,497
College covered-employee payroll	$	236,505
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		172.30%
Plan's fiduciary net position as a percentage of the total pension liability		68.77%

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

Cost Sharing Employer Plans

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

Schedule of Skagit Valley College's Share of the Net Pension Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.002125%
College proportionate share of the net pension liability	$	6,864
College covered-employee payroll	$	108,981
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		6.30%
Plan's fiduciary net position as a percentage of the total pension liability		96.81%

*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	$ 39,978	$ 39,978	$ -	$ 434,213	9.21%
2015	$ 41,403	$ 41,403	$ -	$ 449,548	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions Public Emplyees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 654,499	$ 654,499	$ -	$ 7,108,149	9.21%
2015	$ 683,610	$ 683,610		$ 7,421,817	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 24,030	$ 24,030	$ -	$ 238,527	10.07%
2015	$ 24,573	$ 24,573	$ -	$ 236,505	10.39%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions

Teachers' Retirement System (TRS) Plan 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	$ 9,607	$ 9,607	$ -	$ 93,857	10.24%
2015	$ 11,323	$ 11,323	$ -	$ 108,981	10.39%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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