



# Everett Community College

2018 Financial Report  
Fiscal Year Ended June 30, 2018

# 2018 Financial Report

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*You may view the financial report at  
[www.everettcc.edu/AuditedFinancialStatements](http://www.everettcc.edu/AuditedFinancialStatements)*

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## **Trustees and Administrative Officers**

### **BOARD OF TRUSTEES**

Mike Deller, Chair  
Toraya Miller, Vice Chair  
Bob Bolerjack  
Dr. Betty Cobbs  
Vickie K. Norris

### **EXECUTIVE OFFICERS**

Dr. David N. Beyer, President  
Dr. Tammy Frankland, Executive Vice-President of Instruction and Student  
Services Patrick Sisneros, Vice President of College Services  
Denise Gregory Wyatt, Vice President of Administrative Services  
Dr. John Olson, Vice President of College Advancement and Executive Director of  
EvCC Foundation  
John Bonner, Vice President of Corporate and Workforce Training  
Heather Bennett, Executive Director of Institutional Effectiveness and Resource  
Development  
Visakan Ganeson, Associate Vice President of International Education  
Maria Peña, Chief Diversity and Equity Officer



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

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

February 7, 2019

Board of Trustees  
Everett Community College  
Everett, 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 Everett Community College, Washington, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

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

material misstatement. The financial statements of the Foundation were not audited in accordance with *Governmental Auditing Standards*.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Everett Community College, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

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

The financial statements of the Everett Community College, as an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***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 in the table of contents 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.

### ***Supplementary and Other Information***

Our audit was conducted for the sole purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The Trustees and Administrative Officers are presented for purposes of additional analysis and is not a required part of the basic financial statements of the College. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we will also issue our report dated February 7, 2019, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Sincerely,



Pat McCarthy

State Auditor

Olympia, WA

## **Management's Discussion and Analysis**

### **Everett Community College**

The following discussion and analysis provides an overview of the financial position and activities of Everett Community College (the College) for the fiscal year ended June 30, 2018 (FY 2018). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.



### **Reporting Entity**

Everett Community 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 19,300 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1941 and its primary purpose is to educate, equip, and inspire each student to achieve personal and professional goals, contribute to our diverse communities, and thrive in a global society.

The College's main campus is located in Everett, Washington, a community of about 110,079 residents. The College also has operations in Monroe, Marysville and Arlington. 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, the Everett Community College Foundation. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2018. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

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

During 2018, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB)*. This Statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one-year lag measurement date similar to GASB Statement No. 68. The change in accounting principle resulted in an adjustment to beginning net position in the amount of \$30,769,812.

### **Statement of Net Position**

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



**Condensed Statement of Net Position  
As of June 30th**

|  | <b>2018</b>          | <b>2017</b>           |
|--|----------------------|-----------------------|
| <b>Assets</b>                          |                      |                       |
| Current Assets                         | \$ 17,485,597        | \$ 18,599,765         |
| Capital Assets, net                    | 132,538,261          | 137,661,517           |
| Other Assets, non-current              | 23,935,781           | 23,936,591            |
| <b>Total Assets</b>                    | <b>173,959,639</b>   | <b>180,197,873</b>    |
| <b>Deferred Outflows of Resources</b>  |                      |                       |
| Deferred Outflows Related to Pensions  | 2,407,960            | 2,883,031             |
| Deferred Outflows Related to OPEB      | 936,015              | -                     |
| <b>Total Deferred Outflows</b>         | <b>3,343,975</b>     | <b>2,883,031</b>      |
| <b>Liabilities</b>                     |                      |                       |
| Current Liabilities                    | 15,778,450           | 10,166,709            |
| Other Liabilities, non-current         | 57,623,833           | 34,599,827            |
| <b>Total Liabilities</b>               | <b>73,402,283</b>    | <b>44,766,536</b>     |
| <b>Deferred Inflows of Resources</b>   |                      |                       |
| Deferred Inflows Related to Pensions   | 3,034,260            | 1,382,080             |
| Deferred Inflows Related to OPEB       | 4,083,003            | -                     |
| <b>Total Deferred Inflows</b>          | <b>7,117,263</b>     | <b>1,382,080</b>      |
| <b>Net Position</b>                    |                      |                       |
| Net Investment in Capital Assets       | 125,069,050          | 128,755,376           |
| Restricted                             | 1,097,532            | 1,403,591             |
| Unrestricted                           | (29,382,514)         | 6,773,321             |
| <b>Total Net Position, as restated</b> | <b>\$ 96,784,068</b> | <b>\$ 136,932,288</b> |

Current assets consist primarily of cash, investments, various accounts receivables and inventories. FY 2018 experienced a timing issue reconciling expenses to the state allocation. Typically, we would reconcile expenses budgeted from the state allocation to the actual expenses incurred in advance of the fiscal year close. The transfer of expenses to match the state allocation was not completed until the end of FY 2018 so we were not able to reimburse the state before the fiscal year end close. That caused our account receivables with the state allocation to decrease by \$600,000. Cash and equivalents also decreased by \$400,000 this can be attributed to the college's strategic use of its reserves to fund large equipment purchases, Guided Pathways, and Strategic Enrollment Management. This resulted in revenues less than expenditures.

Net capital assets decreased by just over five million dollars from FY 2017 to FY 2018. Consistent with last year, our depreciation expense is \$5.4 million. This continuing decrease is primarily the result of a high existing depreciation expense without a commensurate offset of new assets. The college constructed five new buildings in the last 10 years, which created new

annual depreciation costs in the past five years but in the current year the depreciation expense was consistent.

Non-current other assets consist primarily of the long term portion of the college's investments in bonds (maturity beyond one year), and non-depreciable capital assets. There was a minute decrease from FY 2017 to FY 2018.

Deferred outflows of resources and deferred inflows of resources represent deferrals in pension and postemployment benefits associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY 2018.

The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded \$2,883,031 in FY 2017 and \$3,343,975 in FY 2018 of pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the increase in deferred inflows in 2018 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and also the implementation of GASB Statement No. 75. The College recorded \$1,382,080 in FY 2017 and \$7,117,263 in FY 2018 of pension and postemployment-related deferred inflows.

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

The increase in current liabilities from FY 2017 to FY 2018 is partially due to the implementation of GASB Statement No. 75 reflecting the short-term portion of the College's proportionate share of the postemployment benefit liability for state's OPEB. This increase in current liabilities was \$2.9 million. The other significant difference in current liabilities is due to timing difference with the reconciling expenses to the state allocation as mentioned above in current assets. That caused our accounts payable with the state allocation to increase by \$1.7 million.

There was a slight increase in unearned revenue due to our slight increase in tuition rates and enrollments.

Non-current liabilities primarily consist of pension and Other Post Retirement Benefits (OPEB) liabilities, 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 primarily increased due to the implementation of GASB Statement No. 75, reflecting the College's proportionate share of the postemployment benefit liability for state's OPEB. This increase in non-current liabilities was \$26.7 million.

The changes in non-current liabilities also include increases to employee vacation and sick leave balances due to added positions and an increase in the number of vacations days accrued for classified employees as per Washington Federation of State Employees (WFSE).

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

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

***Restricted:***

***Nonexpendable*** – consists of funds in which a donor or external party has imposed the restriction that the principal is not available for spending but for investment purposes only. Over the last 33 years, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. Prior to the creation of the Foundation, donors contributed directly to the College, and the principal of these funds remains in College accounts.

***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 the discretionary financial aid reserves (3 ½% funds) and the expendable amounts of the endowments that are over and above the principle.

***Unrestricted*** – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees. The negative unrestricted balance for FY2018 is due to the implementation of GASB Statement No. 75. As stated earlier in this section, the College's net position was reduced this year by \$30,769,812 due to the implementation of GASB Statement No. 75. This deficit also includes \$14.2 million due to the prior implementations of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017.

| <b>Net Position</b><br>As of June 30th       | <b>FY 2018</b>       | <b>FY 2017</b>        |
|--|----------------------|-----------------------|
| Net investment in capital assets             | \$ 125,069,050       | \$ 128,755,376        |
| Restricted                                   |                      |                       |
| Expendable- Supplemental financial aid       | \$ 1,018,975         | \$ 1,325,034          |
| Nonexpendable- Principal for investment only | \$ 78,557            | \$ 78,557             |
| Unrestricted                                 | \$ (29,382,514)      | \$ 6,773,321          |
| <b>Total Net Position</b>                    | <b>\$ 96,784,068</b> | <b>\$ 136,932,288</b> |

### **Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2018. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

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

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

**For the Year Ended June 30, 2018 and 2017**

| <b>Operating Revenues</b>                                     | <b>2018</b>         | <b>2017</b>         |
|---|---------------------|---------------------|
| Student tuition and fees, net                                 | 21,741,150          | 21,707,263          |
| Auxiliary enterprise sales                                    | 3,653,556           | 2,544,926           |
| State and local grants and contracts                          | 19,792,895          | 19,770,454          |
| Federal grants and contracts                                  | 2,060,049           | 1,939,443           |
| Other operating revenues                                      | 1,420,137           | 1,567,702           |
| <b>Total operating revenues</b>                               | <b>48,667,786</b>   | <b>47,529,788</b>   |
| <br>  |                     |                     |
| <b>Operating Expenses</b>                                     |                     |                     |
| Salaries and wages  | 43,123,242          | 40,404,500          |
| Benefits  | 15,764,725          | 13,545,906          |
| Scholarships, net of discounts                                | 8,295,313           | 8,607,945           |
| Depreciation  | 5,401,902           | 5,420,538           |
| Other operating expenses                                      | 16,370,380          | 14,479,634          |
| <b>Total operating expenses</b>                               | <b>88,955,561</b>   | <b>82,458,523</b>   |
| <br>  |                     |                     |
| <b>Operating Income (Loss)</b>                                | <b>(40,287,775)</b> | <b>(34,928,735)</b> |
| <br>  |                     |                     |
| <b>Non-Operating Revenues (Expenses)</b>                      |                     |                     |
| State appropriations  | 27,172,522          | 25,898,482          |
| Federal Pell grant revenue                                    | 6,351,707           | 6,408,938           |
| Investment income, gains and losses                           | (129,108)           | (35,358)            |
| Other non-operating revenues (expenses)                       | (3,259,901)         | (2,908,914)         |
| <b>Net non-operating revenues (expenses)</b>                  | <b>30,135,220</b>   | <b>29,363,148</b>   |
| <br>  |                     |                     |
| <b>Income or (loss) before capital contributions</b>          | <b>(10,152,555)</b> | <b>(5,565,587)</b>  |
| <b>Capital appropriations and contributions</b>               | <b>774,146</b>      | <b>1,571,424</b>    |
| <b>Non cash capital contribution</b>                          |                     | <b>22,000</b>       |
| <b>Change in Net position</b>                                 | <b>(9,378,409)</b>  | <b>(3,972,163)</b>  |
| <br>  |                     |                     |
| <b>Net Position</b>   |                     |                     |
| Net position, beginning of year                               | 136,932,289         | 145,866,919         |
| Cumulative effect of change in accounting principle (GASB 75) | (30,769,812)        | (4,962,466)         |
| Net position, beginning of year, as restated                  | 106,162,477         | 140,904,453         |
| <br>  |                     |                     |
| <b>Net position, end of year</b>                              | <b>96,784,068</b>   | <b>136,932,290</b>  |

## Revenues

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

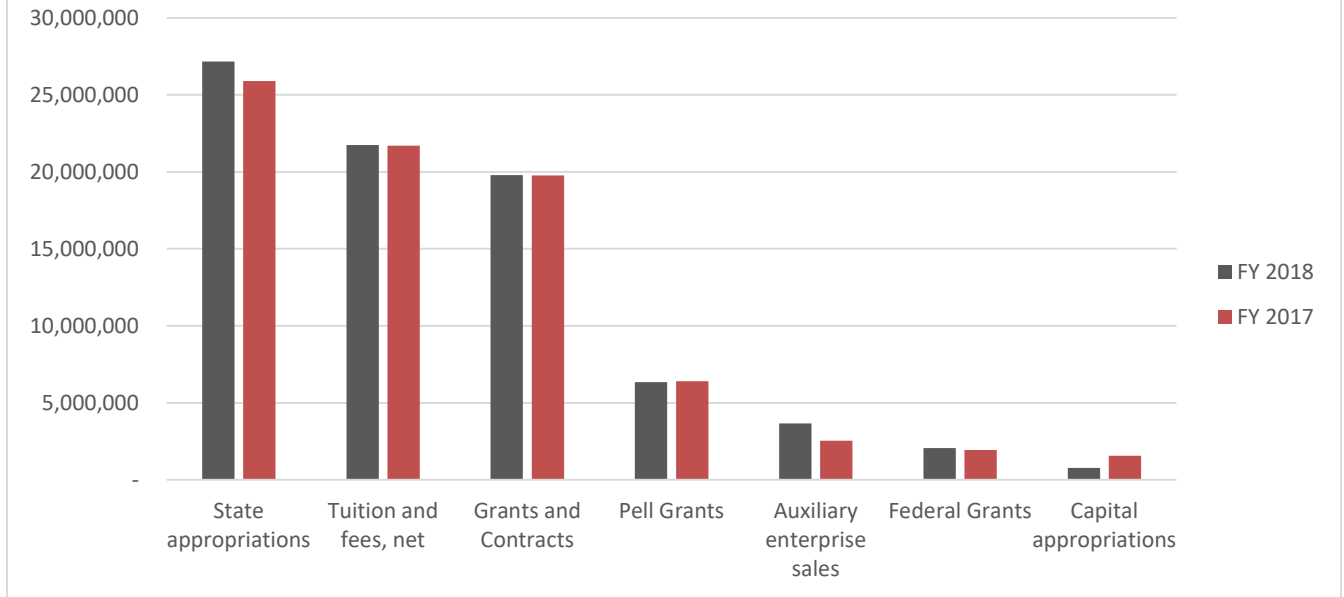
State enrollments and tuition rates (2% rate increase) increased slightly in FY 2018, tuition and fee revenue increased by approximately \$35,000. For FY 2018, the College attempted to keep other fees as stable as possible, resulting in only small changes in these revenues.

Traditionally, Pell grant revenues generally follow enrollment trends. Although, the College's enrollment increased slightly during FY 2018, the College's Pell Grant revenue slightly decreased. During an economy with low unemployment rates, students historically have received less funding through Pell grants. Currently Washington is enjoying a low unemployment rate which we think is impacting our Pell grant revenue.

In FY 2018, grant and contract revenues increased by approximately \$150,000 when compared with FY 2017. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. In FY 2018 we saw almost a 5% increase in enrollment of Running Start students. While the College also serves contracted international students who are not supported by state dollars, it did transfer 2% of the international FTE to meet its state supported target (in accordance with applicable state law). The net change to contract revenue did not change significantly due to a decrease to international contract revenue which offset the increase in running start contract revenue. The College also received a new grant from the U.S. Department of Labor, the H-1B TechHire Partnership grant.

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

## Selected Elements of Revenue



### Expenses

In FY 2018, salary increased by \$2.7 million and benefit costs increased by \$2.2 million. This was a result of the 2.0% salary increase required by the Legislature, negotiated increases for classified staff, and an increase in new positions and responsibilities. The College created new positions in line with Guided Pathways and Strategic Enrollment Management (among other areas) to better serve students. The College prioritizes investing in programs and staffing to ensure student success. The investments are conservative and are projected to bring additional revenues. Adding GASB Statement No. 75 increased pension expenses that were not previously recognized which caused pension expenses (included in benefit expenses) to increase by 1.2 million in FY 2018.

Utility costs have also increased by approximately \$83,000 as a result of rate increases for electricity, natural gas, and water, which is due to the fact that the college also added an additional housing facility in FY 2018.

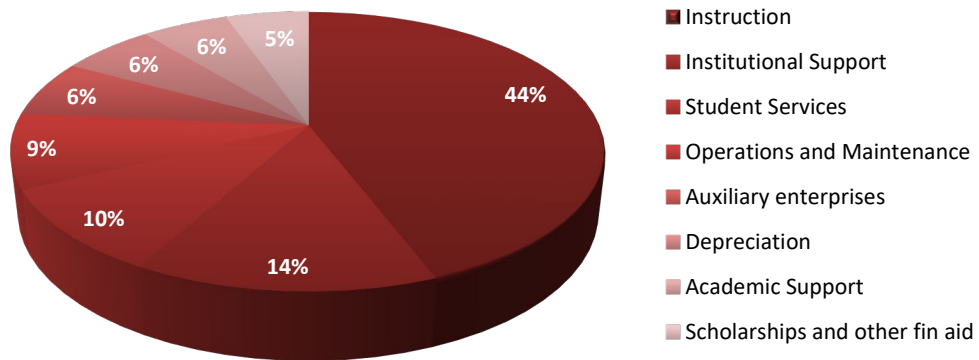
Supplies and materials increased by approximately \$270,000 and purchased services increased by approximately \$550,000 in FY 2018, primarily as a result of an increased spending related to capital projects. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. This year we had less capital projects that met the accounting criteria for capitalization causing an increase to supplies and materials and purchased services compared to FY 2017.



**Operating Expenses by Function**

The chart below shows the percentage of each functional area of operating expenses for FY 2018.

**FY 2018 Expenses by Functional Type**





### 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, 2018, the College had invested \$141,444,050 in capital assets, net of accumulated depreciation. This represents a decrease of \$4,776,326 from last year, as shown in the table below.

| Asset Type                                 | June 30, 2018         | June 30, 2017         | Change                |
|--|-----------------------|-----------------------|-----------------------|
| Land                                       | \$ 8,558,859          | \$ 8,558,859          | \$ -                  |
| Construction in Progress                   | \$ 346,930            | \$ -                  | \$ 346,930            |
| Buildings, net                             | \$ 128,807,959        | \$ 133,210,600        | \$ (4,402,642)        |
| Other Improvements and Infrastructure, net | \$ 771,472            | \$ 809,367            | \$ (37,895)           |
| Equipment, net                             | \$ 2,727,861          | \$ 3,407,417          | \$ (679,556)          |
| Library Resources, net                     | \$ 230,969            | \$ 234,132            | \$ (3,163)            |
| <b>Total Capital Assets, Net</b>           | <b>\$ 141,444,050</b> | <b>\$ 146,220,375</b> | <b>\$ (4,776,326)</b> |

This continuing decrease is primarily the result of a high existing depreciation expense without a commensurate offset of new assets. The college constructed five new buildings in the last 10 years, which created new annual depreciation costs. Due to these capital projects and construction, current depreciation expense is at \$5.4 million.

Additional information on capital assets can be found in Note 6 of the Notes to the Financial Statements.

At June 30, 2018, the College had \$16,375,000 in outstanding debt. This represents a decrease of \$1,090,000 from last year, as shown in the table below. The decrease in FY 2018 is due to the short-term debt service payment of \$1,090,000. The College has no capital leases at this time.

|                               | June 30, 2018        | June 20, 2017        | Change                |
|-------------------------------|----------------------|----------------------|-----------------------|
| Certificates of Participation | \$ 16,375,000        | \$ 17,465,000        | \$ (1,090,000)        |
| Capital Leases                | \$ -                 | \$ -                 | \$ -                  |
| <b>Total</b>                  | <b>\$ 16,375,000</b> | <b>\$ 17,465,000</b> | <b>\$ (1,090,000)</b> |

Additional information of notes payable, long term debt and debt service schedules can be found in Notes 12, 13 and 14 of the Notes to the Financial Statements.

### **Economic Factors That May Affect the Future**

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2018. Beginning FY 2017, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill a portion of this loss. In FY 2018 the Legislature approved a 2% tuition increase resulting in a net decrease of 3% in the last 2 years. In FY 2017, the State Board for Community and Technical College's elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Due to variable enrollment and not meeting our state target for enrollment, it is estimated that the College will likely see a decrease in state operating appropriations in future year. The other anticipated change in distribution is that Running Start students will no longer be counted in student achievement calculations. This will negatively impact the College, as we have a significant Running Start enrollment. For FY 2019 the state did not increase its funding to the college except that it partially funded (62%) compensation increases that were approved by the state, continual decline of state funding is expected to increase in future years.

A SBCTC cost that will impact the College is the CTClick technology system replacement. Ongoing costs, and delay of implementation have increased the costs to each college, and this will increase College expenditures to fund its share of CTClick costs for the next ten years.

The State Legislators approved use of local funds to finance bargained faculty salary increases. As of July 1, 2018, we currently were actively bargaining and to date the contract is still being bargained. We have yet to determine what, if any, amount of local funds would be used to finance across the board salary increases.

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

In FY 2017 the college decided to better accommodate our students (including non-resident and international) by offering on-campus student housing. Having housing available also helps us to compete with other colleges who are offering these services. The college made a decision to lease the housing facilities rather than building on existing campus property to allow for future educational expansion. EvCC is challenged by having a small footprint, parking issues, and scarce property purchasing options in the area. The college entered into two lease agreements for student housing with two private developers (one in FY 2017 and one in FY 2018). The initial lease term is 20 years and may be extended for an additional two successive renewal terms of 10 years each. Rent is \$94,492 per month for one building and \$78,600 per

month for the other building and the rents will be adjusted by a CPI-U factor each year thereafter. FY 2018 was the first full year of both buildings being up and running and the buildings were not fully occupied. The net loss from this activity was just over \$300,000.

In FY 2019 it is possible that a local housing developer will be building a 140-unit housing facility adjacent to the college (opening in FY 2020) which may be a housing alternative for students who currently reside in EvCC's student housing. While as of FY 2019 student housing is at full occupancy, housing competition adjacent to the campus may impact our vacancy rate and therefore, lead to additional net loss. This developer was permitted by the City of Everett to benefit from the college's zoning so this complex could be considered student housing. Impacts from this zoning decision will include: less parking for the student tenants adding to the area's already congested neighborhoods and streets, reporting implications since we are required to report for the Clery Act and other disclosures about the drug and alcohol crime as well as other illegal activity of those tenants who would not be subject to student conduct code. The college appealed the City of Everett's decision to approve the development of this apartment complex in our inlay zone. The hearing examiner declined our appeal in October 2018. The college is now appealing that decision to the WA State Superior Court.

A salary survey was conducted at the State level and determined that there was a 12.4% gap between Washington CTC faculty and exempt salaries and those paid to faculty and exempt in peer states, after adjusting for cost-of-living differences. The State Board agreed to close this gap over the next two biennia. There will also be increases to classified staff as well. The college's state allocation does not provide full funding for salary increases so the remaining that is not funded by the state will need to be absorbed by the college.

In September of 2018, college President Dr. David Beyer announced that he would be retiring at the end of the 18/19 academic year. Dr. Beyer has been with the college for 13 years and in the next fiscal year there will be an active presidential search for the college's next president. The college has budgeted approximately \$100,000 to hire an outside search firm and the president's retirement payouts.

In March 2018, the incumbent Vice President of Administrative Services left the college after ten (10) years. From March 2018 until August 2018 EvCC had an interim Executive Director of Human Resource to assist with labor and employment issues and then in August 2018, EvCC hired a new Vice President of Administrative Services, Denise Gregory Wyatt

Everett Community College has identified mid-range and long-range goals in their Campus Master Plan to acquire property adjacent to the campus to support increased enrollments, to reduce pedestrian and vehicular congestion in the neighborhood and to support the construction of new facilities in on the east side of campus such as the new Learning Resource Center project and the Baker Hall replacement project. In November 2018 the SBCTC unanimously approved our request to be financed for a Certificate of Participation (COP) up to \$10 million to acquire additional property. The property could be purchased in FY 2019 with the

debt starting July of 2019. Having a COP allows the college to make yearly payments while keeping the majority of our cash reserves available. This will only make our debt to income ratio increase from 4.5% to 6%.

EvCC will continue to find ways to increase efficiency while providing quality education and continue to grow and innovate, as well as continue to look for additional revenue streams.



Everett Community College  
Statement of Net Position  
June 30, 2018

**Assets**

**Current assets**

|                             |                          |
|-----------------------------|--------------------------|
| Cash and cash equivalents   | \$ 11,516,343            |
| Restricted cash             | 91,778                   |
| Accounts receivable         | 5,755,773                |
| Interest receivable         | -                        |
| Inventories                 | 121,703                  |
| <b>Total current assets</b> | <b><u>17,485,597</u></b> |

**Non-Current Assets**

|                                     |                           |
|-------------------------------------|---------------------------|
| Long-term investments               | 14,021,531                |
| Restricted cash                     | 1,008,461                 |
| Non-depreciable capital assets      | 8,905,789                 |
| Capital assets, net of depreciation | 132,538,261               |
| <b>Total non-current assets</b>     | <b><u>156,474,042</u></b> |
| <b>Total assets</b>                 | <b><u>173,959,639</u></b> |

**Deferred Outflows of Resources**

|   |                         |
|---|-------------------------|
| Deferred outflows related to pensions       | 2,407,960               |
| Deferred outflows related to OPEB           | 936,015                 |
| <b>Total deferred outflows of resources</b> | <b><u>3,343,975</u></b> |

**Liabilities**

**Current Liabilities**

|                                       |                          |
|---------------------------------------|--------------------------|
| Accounts payable                      | 1,135,424                |
| Accrued liabilities                   | 5,029,406                |
| Compensated absences, short term      | 1,593,155                |
| Deposits payable                      | 75,309                   |
| Unearned revenue                      | 3,825,419                |
| Certificates of participation payable | 1,140,000                |
| Total pension liability, short term   | 68,854                   |
| OPEB liability, short term            | 2,910,883                |
| <b>Total current liabilities</b>      | <b><u>15,778,450</u></b> |

**Non-Current Liabilities**

|                                      |                          |
|--------------------------------------|--------------------------|
| Compensated absences                 | 2,888,874                |
| Long-term liabilities                | 15,235,000               |
| Net pension liability                | 9,067,012                |
| Total pension liability              | 3,690,352                |
| OPEB liability                       | 26,742,595               |
| <b>Total non-current liabilities</b> | <b><u>57,623,833</u></b> |
| <b>Total liabilities</b>             | <b><u>73,402,283</u></b> |

**Deferred Inflows of Resources**

|  |                         |
|--|-------------------------|
| Deferred inflows related to pensions       | 3,034,260               |
| Deferred inflows related to OPEB           | 4,083,003               |
| <b>Total deferred inflows of resources</b> | <b><u>7,117,263</u></b> |

**Net Position**

|                                  |                             |
|----------------------------------|-----------------------------|
| Net Investment in Capital Assets | 125,069,050                 |
| Restricted for:                  |                             |
| Nonexpendable                    | 78,557                      |
| Expendable                       | 1,018,975                   |
| Unrestricted (deficit)           | (29,382,514)                |
| <b>Total Net Position</b>        | <b><u>\$ 96,784,068</u></b> |

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

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

|  |                      |
|--|----------------------|
| <b>Operating Revenues</b>  |                      |
| Student tuition and fees, net                                      | \$ 21,741,150        |
| Auxiliary enterprise sales   | 3,653,556            |
| State and local grants and contracts                               | 19,792,895           |
| Federal grants and contracts                                       | 2,060,049            |
| Other operating revenues   | 1,420,137            |
| <b>Total operating revenue</b>                                     | <b>48,667,786</b>    |
| <br><b>Operating Expenses</b>                                      |                      |
| Other operating expenses   | 9,521,595            |
| Salaries and wages   | 43,123,242           |
| Benefits   | 15,764,725           |
| Scholarships and fellowships                                       | 8,295,313            |
| Supplies and materials   | 1,502,495            |
| Depreciation   | 5,401,902            |
| Purchased services   | 4,219,500            |
| Utilities  | 1,126,790            |
| <b>Total operating expenses</b>                                    | <b>88,955,561</b>    |
| <b>Operating income (loss)</b>                                     | <b>(40,287,775)</b>  |
| <br><b>Non-Operating Revenues (Expenses)</b>                       |                      |
| State appropriations   | 27,172,522           |
| Federal Pell grant revenue   | 6,351,707            |
| Investment income, gains and losses                                | (129,108)            |
| Building fee remittance  | (1,962,736)          |
| Innovation fund remittance   | (478,954)            |
| Other non-operating revenues (expenses)                            | (34,828)             |
| Interest on indebtedness   | (783,383)            |
| <b>Net non-operating revenue (expenses)</b>                        | <b>30,135,220</b>    |
| Income or (loss) before other revenues, expenses, gains, or losses | <b>(10,152,555)</b>  |
| <br><b>Capital Contributions</b>                                   |                      |
| Capital appropriations   | 774,146              |
| Non cash capital contribution                                      | 774,146              |
| <b>Increase (Decrease) in net position</b>                         | <b>(9,378,409)</b>   |
| <br><b>Net Position</b>  |                      |
| <b>Net position, beginning of year</b>                             | 136,932,289          |
| <b>Cummulative effect of change in accounting principle</b>        | (30,769,812)         |
| <b>Net position, beginning of year, as restated</b>                | 106,162,477          |
| <b>Net position, end of year</b>                                   | <b>\$ 96,784,068</b> |

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

Everett Community College  
Statement of Cash Flows  
For the Year Ended June 30, 2018

|   |                          |
|---|--------------------------|
| <b>Cash flows from operating activities</b>   |                          |
| Student tuition and fees  | \$ 21,999,442            |
| Grants and contracts  | 21,968,272               |
| Payments to vendors   | (5,276,815)              |
| Payments for utilities  | (1,057,558)              |
| Payments to employees   | (42,452,173)             |
| Payments for benefits   | (14,432,578)             |
| Auxiliary enterprise sales  | 3,624,597                |
| Payments for scholarships and fellowships   | (8,295,313)              |
| Other receipts (payments)   | (8,408,175)              |
| Net cash used by operating activities   | <u>(32,330,301)</u>      |
| <br><b>Cash flows from noncapital financing activities</b>                            |                          |
| State appropriations  | 29,427,351               |
| Pell grants   | 6,351,707                |
| Building fee remittance   | (1,937,759)              |
| Innovation fund remittance  | (477,951)                |
| Net cash provided by noncapital financing activities                                  | <u>33,363,347</u>        |
| <br><b>Cash flows from capital and related financing activities</b>                   |                          |
| Capital appropriations  | 893,711                  |
| Purchases of capital assets   | (658,746)                |
| Principal paid on capital debt  | (1,090,000)              |
| Interest paid   | (783,383)                |
| Net cash used by capital and related financing activities                             | <u>(1,638,417)</u>       |
| <br><b>Cash flows from investing activities</b>                                       |                          |
| Purchase of investments   | 41,557                   |
| Income of investments   | (129,108)                |
| Net cash provided by investing activities   | <u>(87,551)</u>          |
| Increase in cash and cash equivalents   | (692,922)                |
| Cash and cash equivalents at the beginning of the year                                | <u>13,309,504</u>        |
| Cash and cash equivalents at the end of the year                                      | <u><u>12,616,581</u></u> |
| <br>Reconciliation of Operating Loss to Net Cash used by Operating Activities         |                          |
| <b>Operating Loss</b>   | <u>(40,287,775)</u>      |
| <br><b>Adjustments to reconcile net loss to net cash used by operating activities</b> |                          |
| Depreciation expense  | 5,401,902                |
| <br><b>Changes in assets and liabilities</b>  |                          |
| Receivables, net  | (133,951)                |
| Inventories   | 66,160                   |
| Accounts payable  | 157,222                  |
| Accrued liabilities   | 506,614                  |
| Deferred revenue  | 135,307                  |
| Compensated absences  | 520,179                  |
| Pension liability adjustment  | 1,267,453                |
| Deposits payable  | 36,587                   |
| Net cash used by operating activities   | <u>\$ (32,330,301)</u>   |

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

EVERETT COMMUNITY COLLEGE FOUNDATION  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2018 and 2017

ASSETS

|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| CURRENT ASSETS:                          |                     |                     |
| Cash and cash equivalents                | \$ 942,758          | \$ 922,081          |
| Short-term investments                   | 271,534             | 372,582             |
| Current portion of promises to give, net | <u>43,840</u>       | <u>80,557</u>       |
| TOTAL CURRENT ASSETS                     | <u>1,258,132</u>    | <u>1,375,220</u>    |
| OTHER ASSETS:                            |                     |                     |
| Promises to give, net of current portion | 1,000               | 30,000              |
| Other assets                             | 6,900               | 29,900              |
| Property and equipment, net              | 103,341             | 92,488              |
| Long-term investments                    | 3,095,049           | 2,865,735           |
| Collection items                         | <u>176,601</u>      | <u>176,601</u>      |
| TOTAL OTHER ASSETS                       | <u>3,382,891</u>    | <u>3,194,724</u>    |
|  | <u>\$ 4,641,023</u> | <u>\$ 4,569,944</u> |

LIABILITIES AND NET ASSETS

|                        |                     |                     |
|------------------------|---------------------|---------------------|
| CURRENT LIABILITIES:   |                     |                     |
| Accounts payable       | <u>\$ 16,203</u>    | <u>\$ 36,735</u>    |
| NET ASSETS:            |                     |                     |
| Unrestricted           | 782,710             | 755,965             |
| Temporarily restricted | 1,592,695           | 1,593,041           |
| Permanently restricted | <u>2,249,415</u>    | <u>2,184,203</u>    |
| TOTAL NET ASSETS       | <u>4,624,820</u>    | <u>4,533,209</u>    |
|                        | <u>\$ 4,641,023</u> | <u>\$ 4,569,944</u> |



EVERETT COMMUNITY COLLEGE FOUNDATION  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

|   | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|---|-------------------|---------------------------|---------------------------|---------------------|
| <b>REVENUES, GAINS, AND OTHER SUPPORT:</b>          |                   |                           |                           |                     |
| Contributions                                       | \$ 57,800         | \$ 353,007                | \$ 65,212                 | \$ 476,019          |
| In-kind contributions                               | 162,193           | 69,227                    | 0                         | 231,420             |
| Special events revenue                              | 101,000           | 1,831                     | 0                         | 102,831             |
| Contract revenue                                    | 57,158            | 1,488                     | 0                         | 58,646              |
| Investment income                                   | 11,925            | 77,818                    | 0                         | 89,743              |
| Net realized and unrealized gain<br>on investments  | 11,778            | 80,802                    | 0                         | 92,580              |
| Net assets released from restrictions               | <u>584,519</u>    | <u>(584,519)</u>          | <u>0</u>                  | <u>0</u>            |
| <b>TOTAL REVENUES, GAINS, AND OTHER<br/>SUPPORT</b> | <u>986,373</u>    | <u>(346)</u>              | <u>65,212</u>             | <u>1,051,239</u>    |
| <b>EXPENSES:</b>                                    |                   |                           |                           |                     |
| College program support                             | 342,115           | 0                         | 0                         | 342,115             |
| Scholarships  | <u>271,276</u>    | <u>0</u>                  | <u>0</u>                  | <u>271,276</u>      |
| <b>Total program support</b>                        | <u>613,391</u>    | <u>0</u>                  | <u>0</u>                  | <u>613,391</u>      |
| Administration                                      | 204,602           | 0                         | 0                         | 204,602             |
| Fundraising   | <u>141,635</u>    | <u>0</u>                  | <u>0</u>                  | <u>141,635</u>      |
| <b>Total support services</b>                       | <u>346,237</u>    | <u>0</u>                  | <u>0</u>                  | <u>346,237</u>      |
| <b>TOTAL EXPENSES</b>                               | <u>959,628</u>    | <u>0</u>                  | <u>0</u>                  | <u>959,628</u>      |
| <b>CHANGE IN NET ASSETS</b>                         | 26,745            | (346)                     | 65,212                    | 91,611              |
| <b>BEGINNING NET ASSETS</b>                         | <u>755,965</u>    | <u>1,593,041</u>          | <u>2,184,203</u>          | <u>4,533,209</u>    |
| <b>ENDING NET ASSETS</b>                            | <u>\$ 782,710</u> | <u>\$ 1,592,695</u>       | <u>\$ 2,249,415</u>       | <u>\$ 4,624,820</u> |

EVERETT COMMUNITY COLLEGE FOUNDATION  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2018 and 2017

|  | 2018              | 2017              |
|--|-------------------|-------------------|
| CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:  |                   |                   |
| Change in net assets   | <u>\$ 91,611</u>  | <u>\$ 252,029</u> |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: |                   |                   |
| Contributions restricted for endowments  | (101,552)         | (64,753)          |
| Depreciation expense   | 12,147            | 2,447             |
| Net realized and unrealized gain on investments  | (92,580)          | (232,460)         |
| In-kind contribution of other assets and property and equipment                                    | 0                 | 2,500             |
| Reinvested interest on short-term investments  | (810)             | (837)             |
| Changes in assets and liabilities:   |                   |                   |
| Decrease (increase) in assets:   |                   |                   |
| Promises to give   | 65,717            | 84,641            |
| Increase (decrease) in liabilities:  |                   |                   |
| Accounts payable   | <u>(20,532)</u>   | <u>22,502</u>     |
| Total adjustments and changes  | <u>(137,610)</u>  | <u>(185,960)</u>  |
|  | <u>(45,999)</u>   | <u>66,069</u>     |
| CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:  |                   |                   |
| Investment of assets restricted for endowments   | (101,552)         | (64,753)          |
| Payments for purchases of investments  | (1,088,861)       | (542,077)         |
| Proceeds from sale of investments  | <u>1,155,537</u>  | <u>662,253</u>    |
|  | <u>(34,876)</u>   | <u>55,423</u>     |
| CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:  |                   |                   |
| Contributions restricted for endowments  | <u>101,552</u>    | <u>64,753</u>     |
| NET INCREASE IN CASH AND EQUIVALENTS   | 20,677            | 186,245           |
| BEGINNING CASH AND CASH EQUIVALENTS  | <u>922,081</u>    | <u>735,836</u>    |
| ENDING CASH AND CASH EQUIVALENTS   | <u>\$ 942,758</u> | <u>\$ 922,081</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITY:  |                   |                   |
| Transfer of other assets to property and equipment   | \$ 23,000         | \$ 0              |
| Equipment contributed to the College   | \$ 0              | \$ 2,500          |

## Notes to the Financial Statements

June 30, 2018

These notes form an integral part of the financial statements.

### Note 1 - Summary of Significant Accounting Policies

#### Financial Reporting Entity

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

The Everett Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1984 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to provide scholarships to students, professional development opportunities to faculty and staff, equipment to aid in the teaching process, and financial assistance to the College to meet its greatest needs as may be determined by the Foundation Board of Directors. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2018, the Foundation distributed approximately \$613,391 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 insert phone number and/or address.

### **Basis of Presentation**

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

### **Basis of Accounting**

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

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

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

### **Cash, Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash 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. Endowment investments are classified as noncurrent assets. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value.

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

### **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 supplies used by aviation and cosmetology programs, are valued at cost using the first in, first out method.

### **Capital Assets**

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

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

The college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2018, no assets had been written down.

### **Unearned Revenues**

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer and fall quarter tuition and fees (including housing fees) as unearned revenues.

### **Tax Exemption**

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

### **Pension Liability**

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

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

### **OPEB Liability**

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

### **Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period.

Deferred outflows related to pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed period of time. Deferred inflows related to pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized in the same manner as deferred outflows.

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

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

### **Net Position**

The College's net position is classified as follows.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources and then towards restricted resources.

### **Classification of Revenues and Expenses**

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

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

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

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

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

### **Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2018 are \$7,032,830.

### **State Appropriations**

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

### **Building and Innovation Fee Remittance**

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is



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

## Note 2 - Accounting and Reporting Changes

### Reporting Changes

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

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB)*, the College has a deficit unrestricted net position of \$29,382,514. This new accounting standard requires the College to recognize its portion of the State's total OPEB liability, reducing net position by a substantial amount. Additional information regarding GASB Statement No. 75 can be found in Note 18. The College's net position was reduced this year by \$30,769,812 due to the implementation of GASB Statement No. 75. This deficit in unrestricted net assets also includes the prior implementations of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017.

### Cumulative Effect of a Change in Accounting Principle

Beginning net position was restated by \$30,769,812 in fiscal year 2018 as a result of implementing GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*.

### **Accounting Standard Impacting the Future**

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

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

### **Note 3 - Cash and Investments**

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets, and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates. For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The LGIP portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification and liquidity for external investment pools that wish to measure all of its investments at amortized costs. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP.

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

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

As of June 30, 2018, the carrying amount of the College’s cash and equivalents was \$12,616,582 as represented in the table below.

| <b>Cash and Cash Equivalents</b>               | <b>June 30, 2018</b> |
|--|----------------------|
| Petty Cash and Change Funds                    | \$ 5,300             |
| Bank Demand and Time Deposits                  | 10,107,711           |
| Local Government Investment Pool               | 1,247,149            |
| Deposits in Transit                            | 156,182              |
| <b>Total Cash and Cash Equivalents</b>         | <b>\$ 11,516,343</b> |
| Cash restricted for retainage held             | 91,778               |
| Cash restricted for supplemental financial aid | 1,008,461            |
| <b>Total Restricted Cash</b>                   | <b>\$ 1,100,239</b>  |

Outside of investment in the LGIP, investments by the college consist of U.S. Agency bonds. The college measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

All bonds held by the College are obligations of the United States or its agencies and are classified as Level 2 in the fair value hierarchy. As of June 30, 2018, the fair value of investments was \$14,021,531 with maturities ranging from 1 -5 years.

**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**

The College manages its exposure to interest rate changes by limiting the duration of investments to mature at various points in the year. The portfolio average maturity is three years or less.

### **Concentration of Credit Risk—Investments**

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

### **Custodial Credit Risk—Investments**

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2018 none of the College's investments are exposed to custodial credit risk because the investments are held by US Bank Safekeeping of Washington in the College's name.

### **Investment Expenses**

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2018 were \$528.

### **Note 4 - Accounts Receivable**

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

| <b>Accounts Receivable</b>                | <b>Amount</b>                     |
|---|-----------------------------------|
| Student Tuition and Fees                  | \$ 2,022,952                      |
| Due from the Federal Government           | 375,487                           |
| Due from Other State Agencies             | 3,588,622                         |
| Auxiliary Enterprises                     | 239,236                           |
| Interest Receivable                       | -                                 |
| Other                                     | 2,650                             |
| Subtotal                                  | <u>6,228,947</u>                  |
| Less Allowance for Uncollectible Accounts | <u>(473,174)</u>                  |
| <b>Accounts Receivable, net</b>           | <b><u><u>\$ 5,755,773</u></u></b> |

### Note 5 – Inventories

Inventories, stated at cost using first in, first out method, consisted of consumable inventories in the amount of \$121,703 as of June 30, 2018.

### Note 6- Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2018 is presented as follows. The current year depreciation expense was \$5,401,902.

| Capital Assets                                | Beginning Balance     | Additions/ Transfers  | Retirements      | Ending Balance        |
|---|-----------------------|-----------------------|------------------|-----------------------|
| <b>Capital assets, non-depreciable</b>        |                       |                       |                  |                       |
| Land  | \$ 8,558,859          | \$ -                  | \$ -             | \$ 8,558,859          |
| Construction in progress                      | -                     | 346,930               | -                | 346,930               |
| <b>Total capital assets, non-depreciable</b>  | <b>8,558,859</b>      | <b>346,930</b>        | <b>-</b>         | <b>8,905,789</b>      |
| <b>Capital assets, depreciable</b>            |                       |                       |                  |                       |
| Buildings                                     | 179,236,301           | -                     | -                | 179,236,301           |
| Other improvements and infrastructure         | 1,136,839             | -                     | -                | 1,136,839             |
| Equipment                                     | 10,319,953            | 240,273               | 271,821          | 10,288,405            |
| Library resources                             | 515,153               | 69,358                | 78,366           | 506,145               |
| <b>Total capital assets, depreciable</b>      | <b>191,208,247</b>    | <b>309,631</b>        | <b>350,187</b>   | <b>191,167,691</b>    |
| <b>Less accumulated depreciation</b>          |                       |                       |                  |                       |
| Buildings                                     | 46,025,701            | 4,402,642             | -                | 50,428,343            |
| Other improvements and infrastructure         | 327,472               | 37,895                | -                | 365,367               |
| Equipment                                     | 6,912,535             | 888,844               | 240,836          | 7,560,543             |
| Library resources                             | 281,021               | 72,521                | 78,366           | 275,176               |
| <b>Total accumulated depreciation</b>         | <b>53,546,729</b>     | <b>5,401,902</b>      | <b>319,202</b>   | <b>58,629,429</b>     |
| <b>Total capital assets, depreciable, net</b> | <b>137,661,518</b>    | <b>5,092,271</b>      | <b>30,985</b>    | <b>132,538,261</b>    |
| <b>Capital assets, net</b>                    | <b>\$ 146,220,377</b> | <b>\$ (4,745,341)</b> | <b>\$ 30,985</b> | <b>\$ 141,444,050</b> |

### Note 7 - Accrued Liabilities

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

| Accrued Liabilities              | Amount                 |
|----------------------------------|------------------------|
| Amounts Owed to Employees        | \$ 1,723,434.62        |
| Amounts Held for Others          | \$ 3,305,970.95        |
| <b>Total Accrued Liabilities</b> | <b>\$ 5,029,405.57</b> |

## Note 8 - Unearned Revenue

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

| <b>Unearned Revenue</b>              | <b>Amount</b>          |
|--------------------------------------|------------------------|
| Summer & Fall Quarter Tuition & Fees | \$ 3,539,346.55        |
| Housing and Other Deposits           | \$ 286,072.69          |
| <b>Total Unearned Revenue</b>        | <b>\$ 3,825,419.24</b> |

## Note 9 - Risk Management

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

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

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2017 through June 30, 2018, were \$102,555.

## Note 10 - 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 \$1,818,959 and accrued sick leave totaled \$2,663,072 at June 30, 2018.

An estimated amount, based on a three-year average payout, is accrued as a current liability. The remaining amount of accrued annual and sick leave are categorized as non-current liabilities.

### Note 11 - Leases Payable

#### Operating Leases

The College also has leases for office/program space, residence halls (including one additional building as of FY 2018), and office equipment with various vendors. These leases are classified as operating leases.

As of June 30, 2018, the minimum lease payments under operating leases consist of the following:

| <b>Operating Leases</b>             |           |                   |
|-------------------------------------|-----------|-------------------|
| <b>Fiscal year</b>                  |           | <b>Total</b>      |
| 2019                                | \$        | 2,545,411         |
| 2020                                | \$        | 2,355,794         |
| 2021                                | \$        | 2,323,156         |
| 2022                                | \$        | 2,299,671         |
| 2023                                | \$        | 2,139,011         |
| 2024-2028                           | \$        | 10,695,056        |
| 2029-2033                           | \$        | 10,695,056        |
| 2034-2038                           | \$        | 7,969,060         |
| 2039-2043                           | \$        | 58,820            |
| <b>Total minimum lease payments</b> | <b>\$</b> | <b>41,081,033</b> |

### Note 12 - Notes Payable

In August, 2009, the College obtained financing to build the Health Education & Fitness Center through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$20,440,000. Students assessed themselves, on a quarterly basis, a



mandatory fee to service the debt starting in 2011. The interest rate charged is approximately 4.463%.

Student fees related to the Health Education & Fitness Center COP which are used to pay a portion of the principal and interest are accounted for in a dedicated fund, apart from the general operating budget. The College’s debt service requirements for these note agreements for the next five years and thereafter are listed below.

In August, 2012, the College obtained financing to remodel the Corporate and Continuing Education Building through a certificate of participation (COP), issued by the Washington State Treasurer (OST) in the amount of \$3,545,000. The interest rate charged is approximately 3.103%.

### Note 13 - Annual Debt Service Requirements

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

| <b>Certificates of Participation</b> |                         |                        |                         |
|--------------------------------------|-------------------------|------------------------|-------------------------|
| <b>Fiscal year</b>                   | <b>Principal</b>        | <b>Interest</b>        | <b>Total</b>            |
| 2019                                 | \$ 1,140,000.00         | \$ 739,107.50          | \$ 1,879,107.50         |
| 2020                                 | \$ 1,185,000.00         | \$ 692,057.50          | \$ 1,877,057.50         |
| 2021                                 | \$ 1,235,000.00         | \$ 643,157.50          | \$ 1,878,157.50         |
| 2022                                 | \$ 1,285,000.00         | \$ 590,813.76          | \$ 1,875,813.76         |
| 2023                                 | \$ 1,340,000.00         | \$ 534,963.76          | \$ 1,874,963.76         |
| 2024-2028                            | \$ 7,680,000.00         | \$ 1,710,661.26        | \$ 9,390,661.26         |
| 2029-2033                            | \$ 2,510,000.00         | \$ 175,450.00          | \$ 2,685,450.00         |
| 2034-2038                            | \$ -                    | \$ -                   | \$ -                    |
| 2039-2043                            | \$ -                    | \$ -                   | \$ -                    |
| <b>Total</b>                         | <b>\$ 16,375,000.00</b> | <b>\$ 5,086,211.28</b> | <b>\$ 21,461,211.28</b> |

### Note 14 - Schedule of Long Term Liabilities

|                               | Balance<br>outstanding<br>6/30/17 | Additions              | Reductions              | Balance<br>outstanding<br>6/30/18 | Current portion        |
|-------------------------------|-----------------------------------|------------------------|-------------------------|-----------------------------------|------------------------|
| Certificates of Participation | \$ 17,465,000.00                  | \$ -                   | \$ 1,090,000.00         | \$ 16,375,000.00                  | \$ 1,140,000.00        |
| Compensation absences         | \$ 3,961,850.00                   | \$ 2,308,049.00        | \$ 1,787,870.00         | \$ 4,482,029.00                   | \$ 1,593,155.00        |
| Capital leases                | \$ -                              | \$ -                   | \$ -                    | \$ -                              | \$ -                   |
| Net pension liability         | \$ 11,730,745.00                  | \$ 1,583,583.06        | \$ 4,247,315.65         | \$ 9,067,012.41                   | \$ -                   |
| Total pension liability       | \$ 3,985,925.00                   | \$ 1,349,705.25        | \$ 1,576,423.00         | \$ 3,759,206.25                   | \$ 68,854.00           |
| OPEB liability                | \$ 30,769,812.29                  | \$ 3,907,782.00        | \$ 5,024,115.00         | \$ 29,653,478.29                  | \$ 2,910,883.00        |
| <b>Total</b>                  | <b>\$ 67,913,332.29</b>           | <b>\$ 9,149,119.30</b> | <b>\$ 13,725,723.65</b> | <b>\$ 63,336,725.94</b>           | <b>\$ 5,712,892.00</b> |

### Note 15 - Pension Liability

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

| <b>Pension Liability by Plan</b> | <b>Amount</b>           |
|----------------------------------|-------------------------|
| PERS 1                           | \$ 4,572,928.00         |
| PERS 2/3                         | \$ 4,111,087.00         |
| TRS 1                            | \$ 312,606.00           |
| TRS 2/3                          | \$ 70,393.00            |
| SBRP                             | \$ 3,759,206.00         |
| <b>Total Pension Liability</b>   | <b>\$ 12,826,220.00</b> |

### Note 16 - Retirement Plans

#### A. General

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

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

| <b>Covered Payroll by Plan</b> | <b>Amount</b>           |
|--------------------------------|-------------------------|
| PERS                           | \$ 12,794,667.87        |
| TRS                            | \$ 562,411.84           |
| SBRP                           | \$ 29,258,339.87        |
| <b>Total Covered Payroll</b>   | <b>\$ 42,615,419.59</b> |

**Basis of Accounting**

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

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

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

**Aggregate Pension Amounts - All Plans**

|  |                 |
|--|-----------------|
| Pension Liabilities                                | \$ (12,826,218) |
| Deferred outflows of resources related to pensions | \$ 2,407,960    |
| Deferred inflows of resources related to pensions  | \$ (3,034,260)  |
| Pension Expense                                    | \$ 983,185      |

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

### ***PERS and TRS***

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

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

The college also has 2 employees (1 faculty and 1 classified) 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, 2018, 2017, and 2016 are as follows.

| Contribution Rates at June 30 |          |         |          |         |          |         |
|-------------------------------|----------|---------|----------|---------|----------|---------|
| Plan                          | FY 2016  |         | FY 2017  |         | FY 2018  |         |
| PERS                          | Employee | College | Employee | College | Employee | College |
| Plan 1                        | 6%       | 11%     | 6%       | 11%     | 6%       | 13%     |
| Plan 2                        | 6%       | 11%     | 6%       | 11%     | 7%       | 13%     |
| Plan 3                        | 5 - 15%  | 11%     | 5 - 15%  | 11%     | 5 - 15%  | 13%     |
| TRS                           | Employee | College | Employee | College | Employee | College |
| Plan 1                        | 6%       | 13%     | 6%       | 13%     | 6%       | 15%     |
| Plan 2                        | 6%       | 13%     | 6%       | 13%     | 7%       | 15%     |
| Plan 3                        | 5-15%    | 13%     | 5-15%    | 13%     | 5-15%    | 15%     |

| Required Contributions |            |            |            |            |            |              |
|------------------------|------------|------------|------------|------------|------------|--------------|
|                        | FY 2016    |            | FY 2017    |            | FY 2018    |              |
| PERS                   | Employee   | College    | Employee   | College    | Employee   | College      |
| Plan 1                 | \$ 14,571  | \$ 27,150  | \$ 14,311  | \$ 26,667  | \$ 13,147  | \$ 27,828    |
| Plan 2                 | \$ 535,722 | \$ 978,756 | \$ 533,177 | \$ 977,010 | \$ 692,105 | \$ 1,191,047 |
| Plan 3                 | \$ 164,071 | \$ 272,277 | \$ 189,625 | \$ 322,925 | \$ 208,347 | \$ 406,047   |
| TRS                    | Employee   | College    | Employee   | College    | Employee   | College      |
| Plan 1                 | \$ 6,519   | \$ 13,944  | \$ 4,500   | \$ 9,847   | \$ 2,163   | \$ 5,464     |
| Plan 2                 | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -         |
| Plan 3                 | \$ 28,418  | \$ 39,514  | \$ 35,087  | \$ 54,896  | \$ 42,675  | \$ 80,023    |

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

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

For the year ended June 30, 2017, the annual money-weighted rate of return on the pension investments, net of pension plan investment expenses, are as follows:

| <b>Pension Plan</b> | <b>Rate of Return</b> |
|---------------------|-----------------------|
| PERS Plan 1         | 13.84%                |
| PERS Plan 2/3       | 14.11%                |
| TRS Plan 1          | 14.45%                |
| TRS Plan 2/3        | 14.10%                |

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

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2017, are summarized in the following table:

| <b>Asset Class</b> | <b>Target Allocation</b> | <b>Long-term Expected Real Rate of Return</b> |
|--------------------|--------------------------|---|
| Fixed Income       | 20%                      | 1.70%   |
| Tangible Assets    | 5%                       | 4.90%   |
| Real Estate        | 15%                      | 5.80%   |
| Public Equity      | 37%                      | 6.30%   |
| Private Equity     | 23%                      | 9.30%   |
| <b>Total</b>       | <b>100%</b>              |   |

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

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

|  | <b>PERS 1</b>     | <b>PERS 2/3</b>   | <b>TRS 1</b>    | <b>TRS 2/3</b>   | <b>Total</b>      |
|--|-------------------|-------------------|-----------------|------------------|-------------------|
| Actuarially determined pension expense                     | \$ 285,442        | \$ 571,643        | \$ 20,098       | \$ 25,308        | \$ 902,492        |
| Amortization of change in proportionate share of liability | (83,293)          | 85,892            | (11,703)        | 7,685            | (1,419)           |
| <b>Total Pension Expense</b>                               | <b>\$ 202,149</b> | <b>\$ 657,535</b> | <b>\$ 8,395</b> | <b>\$ 32,993</b> | <b>\$ 901,073</b> |

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

|          | <u>2016</u> | <u>2017</u> | <u>Change</u> |
|----------|-------------|-------------|---------------|
| PERS 1   | 0.09796%    | 0.09637%    | -0.00159%     |
| PERS 2/3 | 0.11955%    | 0.11832%    | -0.00123%     |
| TRS 1    | 0.01069%    | 0.01034%    | -0.00035%     |
| TRS 2/3  | 0.00622%    | 0.00763%    | 0.00141%      |

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 net pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

|                                  |              |
|----------------------------------|--------------|
| Economic Inflation               | 3.00%        |
| Salary Increases                 | 3.75%        |
| <u>Investment Rate of Return</u> | <u>7.50%</u> |

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.

Changes in methods and assumptions since the last valuation include:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.

- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

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

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

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

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

| <b>Pension Plan</b> | <b>1% Decrease</b> |            | <b>Current Rate</b> |           | <b>1% Increase</b> |             |
|---------------------|--------------------|------------|---------------------|-----------|--------------------|-------------|
|                     | <b>6.50%</b>       |            | <b>7.50%</b>        |           | <b>8.50%</b>       |             |
| PERS 1              | \$                 | 5,570,699  | \$                  | 4,572,924 | \$                 | 3,708,642   |
| PERS 2/3            | \$                 | 11,075,705 | \$                  | 4,111,091 | \$                 | (1,595,380) |
| TRS 1               | \$                 | 388,719    | \$                  | 312,606   | \$                 | 246,725     |
| TRS 2/3             | \$                 | 239,080    | \$                  | 70,393    | \$                 | (66,612)    |
|                     | \$                 | 17,274,201 | \$                  | 9,067,013 | \$                 | 2,293,375   |

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

The following represent the components of the College’s deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2018:



|   | <b>PERS 1</b>            |                         |
|---|--------------------------|-------------------------|
|   | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> |
| Difference between expected and actual experience                           | -                        | -                       |
| Difference between expected and actual earnings of pension plan investments | -                        | 170,649                 |
| Changes of assumptions  | -                        | -                       |
| Changes in College's proportionate share of pension liabilities             | -                        | -                       |
| Contributions subsequent to the measurement date                            | 663,448                  | -                       |
| <b>Totals</b>   | <b>\$ 663,448</b>        | <b>\$ 170,649</b>       |

|   | <b>PERS 2/3</b>          |                         |
|---|--------------------------|-------------------------|
|   | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> |
| Difference between expected and actual experience                           | 416,550                  | 135,207                 |
| Difference between expected and actual earnings of pension plan investments | -                        | 1,095,917               |
| Changes of assumptions  | 43,668                   | -                       |
| Changes in College's proportionate share of pension liabilities             | 78,297                   | 62,345                  |
| Contributions subsequent to the measurement date                            | 942,218                  | -                       |
| <b>Totals</b>   | <b>\$ 1,480,733</b>      | <b>\$ 1,293,470</b>     |

|   | <b>TRS 1</b>             |                         |
|---|--------------------------|-------------------------|
|   | <b>Deferred Outflows</b> | <b>Deferred Inflows</b> |
| Difference between expected and actual experience                           | -                        | -                       |
| Difference between expected and actual earnings of pension plan investments | -                        | 13,244                  |
| Changes of assumptions  | -                        | -                       |
| Changes in College's proportionate share of pension liabilities             | -                        | -                       |
| Contributions subsequent to the measurement date                            | 43,513                   | -                       |
| <b>Totals</b>   | <b>\$ 43,513</b>         | <b>\$ 13,244</b>        |

|   | <b>TRS 2/3</b>           |                         |
|---|--------------------------|-------------------------|
|   | <b>Deferred Outflows</b> | <b>Deferred Inflows</b> |
| Difference between expected and actual experience                           | 17,554                   | 3,591                   |
| Difference between expected and actual earnings of pension plan investments | -                        | 25,475                  |
| Changes of assumptions  | 830                      | -                       |
| Changes in College's proportionate share of pension liabilities             | 33,600                   | 7,469                   |
| Contributions subsequent to the measurement date                            | 41,147                   | -                       |
| <b>Totals</b>   | <b>\$ 93,130</b>         | <b>\$ 36,535</b>        |

The \$2,280,824 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, 2019.

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

| <b>Year ended</b> |                     |                     |                    |                  |
|-------------------|---------------------|---------------------|--------------------|------------------|
| <b>June 30:</b>   | <b>PERS 1</b>       | <b>PERS 2/3</b>     | <b>TRS 1</b>       | <b>TRS 2/3</b>   |
| 2019              | (115,348)           | (395,903)           | (9,728)            | (2,296)          |
| 2020              | 36,417              | 119,627             | 3,642              | 11,384           |
| 2021              | (8,456)             | (99,429)            | (324)              | 1,621            |
| 2022              | (83,263)            | (447,950)           | (6,834)            | (9,306)          |
| 2023              | -                   | 29,870              | -                  | 2,926            |
| Thereafter        | -                   | 38,831              | -                  | 11,119           |
| <b>Total</b>      | <b>\$ (170,649)</b> | <b>\$ (754,954)</b> | <b>\$ (13,244)</b> | <b>\$ 15,449</b> |

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2018 were each \$2,107,594.

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

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

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

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

The SRP pension benefits are unfunded. For the year ended June 30, 2018, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of \$1,300,000. The College's share of this amount was \$56,061. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During fiscal year 2018, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$146,291.70. This amount was not used as a part of GASB 73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2018, the Community and Technical College system accounted for \$16,351,270 of the fund balance.

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

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

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

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

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

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

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

|  |           |               |
|--|-----------|---------------|
| <b>Proportionate Share (%)</b>                                     |           | <b>4.31%</b>  |
| Service Cost   | \$        | 165,034       |
| Interest Cost  | \$        | 151,665       |
| Amortization of Differences Between Expected and Actual Experience | \$        | (199,834)     |
| Amortization of Changes of Assumptions                             | \$        | (52,913)      |
| Changes of Benefit Terms   | \$        | -             |
| Administrative Expenses  | \$        | -             |
| Other Changes in Fiduciary Net Position                            | \$        | -             |
| <b>Proportionate Share of Collective Pension Expense</b>           | <b>\$</b> | <b>63,952</b> |
| Amortization of the Change in Proportionate Share of TPL           | \$        | 18,161        |
| <b>Total Pension Expense</b>                                       | <b>\$</b> | <b>82,113</b> |

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2018 was 4.31%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

|                                     |              |
|-------------------------------------|--------------|
| <b>Proportionate Share (%) 2017</b> | <b>4.19%</b> |
| <b>Proportionate Share (%) 2018</b> | <b>4.31%</b> |

|  |                   |
|--|-------------------|
| Total Pension Liability - Ending 2017                  | \$ 3,985,925      |
| Total Pension Liability - Beginning 2018               | \$ 4,098,891      |
| Total Pension Liability - Change in Proportion         | \$ 112,966        |
| Total Deferred Inflow/Outflows - 2017                  | \$ 1,140,465      |
| Total Deferred Inflow/Outflows - 2018                  | \$ 1,172,787      |
| Total Deferred Inflows/Outflows - Change in Proportion | \$ 32,322         |
| <b>Total Change in Proportion</b>                      | <b>\$ 145,288</b> |

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

#### Number of Participating Members

| Plan | Inactive Members or<br>Beneficiaries Currently<br>Receiving Benefits | Inactive Members Entitled<br>to But Not Yet Receiving<br>Benefits | Active<br>Members | Total<br>Members |
|------|--|---|-------------------|------------------|
| SRP  | 4  | 0   | 235               | 239              |

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

### Schedule of Changes in Total Pension Liability

|  | <b>Amount</b>              |
|--|----------------------------|
| Service Cost                                       | \$ 165,034                 |
| Interest   | \$ 151,665                 |
| Changes of Benefit Terms                           | \$ -                       |
| Differences Between Expected and Actual Experience | \$ (448,571)               |
| Changes in Assumptions                             | \$ (151,752)               |
| Benefit Payments                                   | \$ (56,061)                |
| Change in Proportionate Share of TPL               | \$ 112,966                 |
| Other  | \$ -                       |
| <b>Net Change in Total Pension Liability</b>       | <b>\$ (226,719)</b>        |
| Total Pension Liability - Beginning                | <u>\$ 3,985,925</u>        |
| <b>Total Pension Liability - Ending</b>            | <b><u>\$ 3,759,206</u></b> |

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

|                            |                              |                    |
|----------------------------|------------------------------|--------------------|
| 2018 Proportionate share % |                              | 4.31%              |
| <b>1% Decrease</b>         | <b>Current Discount Rate</b> | <b>1% Increase</b> |
| <b>(2.87%)</b>             | <b>(3.87%)</b>               | <b>(4.87%)</b>     |
| \$4,287,688                | \$3,759,210                  | \$3,319,636        |

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

|   | <b>Deferred Outflows of<br/>Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|---|---|--|
| Difference Between Expected and Actual Experience             | \$ -                                      | \$ 1,197,583                             |
| Changes of Assumptions  | \$ -                                      | \$ 322,780                               |
| Changes in College's proportionate share of pension liability | \$ 127,127                                | \$ -                                     |
| Transactions Subsequent to the Measurement Date               | \$ -                                      | \$ -                                     |
| <b>Total</b>  | <b>\$ 127,127</b>                         | <b>\$ 1,520,363</b>                      |

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

### **State Board Supplemental Retirement Plan**

|            |    |           |
|------------|----|-----------|
| 2019       | \$ | (234,586) |
| 2020       | \$ | (234,586) |
| 2021       | \$ | (234,586) |
| 2022       | \$ | (234,586) |
| 2023       | \$ | (234,586) |
| Thereafter | \$ | (220,306) |

#### **D. Defined Contribution Plans**

##### **Public Employees' Retirement System Plan 3**

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



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

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

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

### **Teachers' Retirement System Plan 3**

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

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

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

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

### **Washington State Deferred Compensation Program**

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State

employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

### Note 17 - Other Post-Employment Benefits

The College implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting. In addition to pension benefits as described in Note 17, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan.

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

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

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

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

## Summary of Plan Participants As of June 30, 2017

|  |                |
|--|----------------|
| Active Employees                           | 123,379        |
| Retirees Receiving Benefits*               | 46,180         |
| Retirees Not Receiving Benefits**          | 6,000          |
| <b>Total Active Employees and Retirees</b> | <b>175,559</b> |

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

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

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

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

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

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

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

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

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

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

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer’s annual OPEB costs and contributions made, the funded status and funding progress of the employer’s individual plan, and actuarial methods and assumptions used.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

**Total OPEB Liability**

As of June 30, 2018, the state reported a total OPEB liability of \$5.83 billion. The College’s proportionate share of the total OPEB liability is \$29,653,478. This liability was determined based on a measurement date of June 30, 2017.

**Actuarial Assumptions.** Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the

historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

---

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

---

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

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

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

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

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

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

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

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

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

### **Changes in Total OPEB Liability**

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

### Everett Community College

|  |           |                   |
|--|-----------|-------------------|
| <b>Proportionate Share (%)</b>                     |           | <b>0.509001%</b>  |
| Service Cost                                       | \$        | 2,010,325         |
| Interest Cost                                      |           | 941,649           |
| Differences Between Expected and Actual Experience |           | -                 |
| Changes in Assumptions*                            |           | (4,593,378)       |
| Changes of Benefit Terms                           |           | -                 |
| Benefit Payments                                   |           | (479,879)         |
| Changes in Proportionate Share                     |           | 533,122           |
| Other  |           | -                 |
| Net Change in Total OPEB Liability                 |           | (1,588,161)       |
| Total OPEB Liability - Beginning                   |           | 31,241,640        |
| <b>Total OPEB Liability - Ending</b>               | <b>\$</b> | <b>29,653,478</b> |

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

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

| <b>Discount Rate Sensitivity</b> |            |                              |            |                    |            |
|----------------------------------|------------|------------------------------|------------|--------------------|------------|
| <b>1% Decrease</b>               |            | <b>Current Discount Rate</b> |            | <b>1% Increase</b> |            |
| <b>2.58%</b>                     |            | <b>3.58%</b>                 |            | <b>4.58%</b>       |            |
| \$                               | 36,180,906 | \$                           | 29,653,476 | \$                 | 24,602,300 |

**Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates.** The following represents the total OPEB liability of the College, calculated using the health care

trend rates of 7.00 percent decreasing to 5.00 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.0 percent decreasing to 6.00 percent that the current rate:

| <b>Health Care Cost Trend Rate Sensitivity</b> |                              |                    |
|--|------------------------------|--------------------|
| <b>1% Decrease</b>                             | <b>Current Discount Rate</b> | <b>1% Increase</b> |
| <b>2.58%</b>                                   | <b>3.58%</b>                 | <b>4.58%</b>       |
| \$ 23,955,931                                  | \$ 29,653,476                | \$ 37,300,097      |

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

For the year ending June 30, 2018, the College will recognize OPEB expense of \$2,499,939. OPEB expense consists of the following elements:

| <b>Everett Community College</b>                                   |                     |
|--|---------------------|
| <b>Proportionate Share (%)</b>                                     | <b>0.509001%</b>    |
| Service Cost   | \$ 2,010,325        |
| Interest Cost  | \$ 941,649          |
| Amortization of Differences Between Expected and Actual Experience | \$ -                |
| Amortization of Changes of Assumptions                             | \$ (510,375)        |
| Changes of Benefit Terms   | \$ -                |
| Administrative Expenses  | \$ -                |
| <b>Proportionate Share of Collective Pension Expense</b>           | <b>2,441,598</b>    |
| Current Year Benefit Payments                                      | -                   |
| Amortization of the Change in Proportionate Share of TPL           | 58,341              |
| <b>Total Pension Expense</b>                                       | <b>\$ 2,499,939</b> |

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



**Everett Community College**

|   |                         |                         |
|---|-------------------------|-------------------------|
| <b>2018 Proportionate share %</b>                 | <b>0.50900072135%</b>   |                         |
| <b>Deferred Inflows/Outflows of Resources</b>     | <b>Deferred Inflows</b> | <b>Deferred Outflow</b> |
| Difference Between Expected and Actual Experience | \$0                     | \$0                     |
| Changes of Assumptions                            | \$4,083,001             | \$0                     |
| Transactions Subsequent to the Measurement Date   | \$0                     | \$469,285               |
| Changes in Proportion                             | \$0                     | \$466,730               |
| <b>Total Deferred (Inflows)/ Outflows</b>         | <b>\$4,083,001</b>      | <b>\$936,015</b>        |

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

| <b>Everett Community College</b>  |    |              |
|-----------------------------------|----|--------------|
| <b>2018 Proportionate share %</b> |    |              |
| 2019                              | \$ | (452,034.00) |
| 2020                              | \$ | (452,034.00) |
| 2021                              | \$ | (452,034.00) |
| 2022                              | \$ | (452,034.00) |
| 2023                              | \$ | (452,034.00) |
| Thereafter                        | \$ | 1,356,103.00 |

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

|  |                          |
|--|--------------------------|
| <b>Proportionate Share (%) 2016</b>                    | <b>0.5004606230%</b>     |
| <b>Proportionate Share (%) 2017</b>                    | <b>0.5090007214%</b>     |
| Total OPEB Liability - Ending 2016                     | \$ 31,241,640            |
| Total OPEB Liability - Beginning 2017 (chg in prop)    | 31,774,762               |
| Total OPEB Liability - Change in Proportion            | <u>533,122</u>           |
| Total Deferred Inflow/Outflows - 2016                  | 471,828                  |
| Total Deferred Inflow/Outflows - 2017 (chg in prop)    | 479,879                  |
| Total Deferred Inflows/Outflows - Change in Proportion | <u>8,051</u>             |
| <b>Total Change in Proportion</b>                      | <b><u>\$ 525,071</u></b> |

### Note 18 - Operating Expenses by Program

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

| <b>Expenses by Functional Classification</b> |                         |
|--|-------------------------|
| Instruction                                  | \$ 39,286,633.57        |
| Academic Support Services                    | \$ 4,994,633.22         |
| Student Services                             | \$ 8,639,051.89         |
| Institutional Support                        | \$ 12,326,145.43        |
| Operations and Maintenance of Plant          | \$ 7,671,787.72         |
| Scholarships and Other Student Financial Aid | \$ 4,812,025.00         |
| Auxiliary enterprises                        | \$ 5,851,529.67         |
| Depreciation                                 | \$ 5,373,754.00         |
| <b>Total operating expenses</b>              | <b>\$ 88,955,560.50</b> |

### Note 19 - Commitments and Contingencies

The College has commitments of \$2,398,847 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

The College is engaged in a current appeal with the WA State Superior Court in regard to the City of Everett allowing local housing developer will be building a 140-unit housing facility adjacent to the college. The outcome of this appeal, including any potential loss, cannot be estimated at this time.

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

### 20. Subsequent Events

In January 2019, The Board of Directors authorized the College President to enter into negotiations to purchase a property adjacent to the campus, estimated at approximately \$3.9 million. The property will be purchased to support increased enrollments, to reduce pedestrian and vehicular congestion in the nearby neighborhoods, and to support the construction of new facilities that the college will be constructing over the next two biennia. The college will utilize institutional reserves to complete the actual purchase, and will be reimbursed through a Certificate of Participation approved by the State Board for Community and Technical Colleges (SBCTC) and the Legislature.

## Required Supplementary Information

### Pension Plan Information

#### Cost Sharing Employer Plans

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

| <b>Schedule of Everett Community College's Share of the Net Pension Liability</b><br><b>Public Employees' Retirement System (PERS) Plan 1</b><br>Measurement Date of June 30 |   |  |                         |   |  |  |
|--|---|--|-------------------------|---|--|--|
| Fiscal Year  | College's proportion of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |  |
| 2014   | 0.096618%   | \$ 4,867,177   | \$ 10,406,371           | 46.77%  | 61.19%   |  |
| 2015   | 0.095772%   | \$ 5,009,766   | \$ 10,696,455           | 46.84%  | 59.10%   |  |
| 2016   | 0.097963%   | \$ 5,261,075   | \$ 11,403,906           | 46.13%  | 57.03%   |  |
| 2017   | 0.096372%   | \$ 4,572,927   | \$ 11,840,026           | 38.62%  | 61.24%   |  |
| 2018   |   |  |                         |   |  |  |
| 2019   |   |  |                         |   |  |  |
| 2020   |   |  |                         |   |  |  |
| 2021   |   |  |                         |   |  |  |
| 2022   |   |  |                         |   |  |  |
| 2023   |   |  |                         |   |  |  |

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

## Cost Sharing Employer Plans

### Schedules of Everett Community College's Proportionate Share of the Net Pension Liability

| <b>Schedule of Everett Community College's Share of the Net Pension Liability</b><br><b>Public Employees' Retirement System (PERS) Plan 2/3</b><br>Measurement Date of June 30 |   |  |                         |   |  |  |
|--|---|--|-------------------------|---|--|--|
| Fiscal Year  | College's proportion of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |  |
| 2014   | 0.119316%   | \$ 2,411,808   | \$ 10,221,300           | 23.60%  | 93.29%   |  |
| 2015   | 0.118000%   | \$ 4,216,886   | \$ 10,472,588           | 40.27%  | 89.20%   |  |
| 2016   | 0.119548%   | \$ 6,019,147   | \$ 11,161,338           | 53.93%  | 85.82%   |  |
| 2017   | 0.118321%   | \$ 4,111,089   | \$ 11,600,265           | 35.44%  | 90.97%   |  |
| 2018   |   |  |                         |   |  |  |
| 2019   |   |  |                         |   |  |  |
| 2020   |   |  |                         |   |  |  |
| 2021   |   |  |                         |   |  |  |
| 2022   |   |  |                         |   |  |  |
| 2023   |   |  |                         |   |  |  |

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

## Cost Sharing Employer Plans

### Schedules of Everett Community College's Proportionate Share of the Net Pension Liability

| <b>Schedule of Everett Community College's Share of the Net Pension Liability</b><br><b>Teachers' Retirement System (TRS) Plan 1</b><br>Measurement Date of June 30 |   |  |                         |   |  |  |
|---|---|--|-------------------------|---|--|--|
| Fiscal Year   | College's proportion of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |  |
| 2014  | 0.013539%   | \$ 399,327   | \$ 363,729              | 109.79%   | 68.77%   |  |
| 2015  | 0.012530%   | \$ 396,968   | \$ 466,279              | 85.14%  | 65.70%   |  |
| 2016  | 0.010694%   | \$ 365,118   | \$ 418,509              | 87.24%  | 62.07%   |  |
| 2017  | 0.010340%   | \$ 312,606   | \$ 496,426              | 62.97%  | 65.58%   |  |
| 2018  |   |  |                         |   |  |  |
| 2019  |   |  |                         |   |  |  |
| 2020  |   |  |                         |   |  |  |
| 2021  |   |  |                         |   |  |  |
| 2022  |   |  |                         |   |  |  |
| 2023  |   |  |                         |   |  |  |

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

## Cost Sharing Employer Plans

### Schedules of Everett Community College's Proportionate Share of the Net Pension Liability

| <b>Schedule of Everett Community College's Share of the Net Pension Liability</b><br><b>Teachers' Retirement System (TRS) Plan 2/3</b><br>Measurement Date of June 30 |   |  |                         |   |  |  |
|---|---|--|-------------------------|---|--|--|
| Fiscal Year   | College's proportion of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |  |
| 2014  | 0.003654%   | \$ 11,802  | \$ 159,958              | 7.38%   | 96.81%   |  |
| 2015  | 0.007400%   | \$ 62,129  | \$ 346,416              | 17.93%  | 92.48%   |  |
| 2016  | 0.006219%   | \$ 85,405  | \$ 306,450              | 27.87%  | 88.72%   |  |
| 2017  | 0.007627%   | \$ 70,393  | \$ 418,194              | 16.83%  | 93.14%   |  |
| 2018  |   |  |                         |   |  |  |
| 2019  |   |  |                         |   |  |  |
| 2020  |   |  |                         |   |  |  |
| 2021  |   |  |                         |   |  |  |
| 2022  |   |  |                         |   |  |  |
| 2023  |   |  |                         |   |  |  |

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

## Pension Plan Information

### Cost Sharing Employer Plans Schedules of Contributions

| <b>Schedule of Contributions</b><br><b>Public Employees' Retirement System (PERS) Plan 1</b><br>Fiscal Year Ended June 30 |                                      |                                      |                                  |                                  |                 |  |
|---|--------------------------------------|--------------------------------------|----------------------------------|----------------------------------|-----------------|--|
| Fiscal Year   | Contractually Required Contributions | Contractually Required Contributions | Contributions in relation to the | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
| 2014  | \$ 427,661                           | \$ 427,661                           |                                  | \$ -                             | \$10,406,371    | 4.11%  |
| 2015  | \$ 440,170                           | \$ 440,170                           |                                  | \$ -                             | \$10,696,455    | 4.12%  |
| 2016  | \$ 555,544                           | \$ 555,544                           |                                  | \$ -                             | \$11,403,906    | 4.87%  |
| 2017  | \$ 579,708                           | \$ 579,708                           |                                  | \$ -                             | \$11,840,026    | 4.90%  |
| 2018  | \$ 657,189                           | \$ 657,189                           |                                  | \$ -                             | \$12,767,148    | 5.15%  |
| 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

| <b>Schedule of Contributions</b><br><b>Public Employees' Retirement System (PERS) Plan 2/3</b><br>Fiscal Year Ended June 30 |                                      |                                      |                                  |                                  |                 |  |
|---|--------------------------------------|--------------------------------------|----------------------------------|----------------------------------|-----------------|--|
| Fiscal Year   | Contractually Required Contributions | Contractually Required Contributions | Contributions in relation to the | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
| 2014  | \$ 504,038                           | \$ 504,038                           |                                  | \$ -                             | \$10,221,300    | 4.93%  |
| 2015  | \$ 525,719                           | \$ 525,719                           |                                  | \$ -                             | \$10,472,588    | 5.02%  |
| 2016  | \$ 690,137                           | \$ 690,137                           |                                  | \$ -                             | \$11,161,338    | 6.18%  |
| 2017  | \$ 722,693                           | \$ 722,693                           |                                  | \$ -                             | \$11,600,265    | 6.23%  |
| 2018  | \$ 933,850                           | \$ 933,850                           |                                  | \$ -                             | \$12,548,428    | 7.44%  |
| 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

| <b>Schedule of Contributions</b><br><b>Teachers' Retirement System (TRS) Plan 1</b><br>Fiscal Year Ended June 30 |                                      |   |                                  |                 |  |  |
|--|--------------------------------------|---|----------------------------------|-----------------|--|--|
| Fiscal Year  | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |  |
| 2014   | \$ 26,773                            | \$ 26,773   | \$ -                             | \$ 363,729      | 7.36%  |  |
| 2015   | \$ 28,039                            | \$ 28,039   | \$ -                             | \$ 466,279      | 6.01%  |  |
| 2016   | \$ 27,657                            | \$ 27,657   | \$ -                             | \$ 418,509      | 6.61%  |  |
| 2017   | \$ 36,185                            | \$ 36,185   | \$ -                             | \$ 496,426      | 7.29%  |  |
| 2018   | \$ 43,036                            | \$ 43,036   | \$ -                             | \$ 565,610      | 7.61%  |  |
| 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

| <b>Schedule of Contributions</b><br><b>Teachers' Retirement System (TRS) Plan 2/3</b><br>Fiscal Year Ended June 30 |                                      |                                      |                                  |                                  |                 |  |
|--|--------------------------------------|--------------------------------------|----------------------------------|----------------------------------|-----------------|--|
| Fiscal Year  | Contractually Required Contributions | Contractually Required Contributions | Contributions in relation to the | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
| 2014   | \$ 8,966                             | \$ 8,966                             |                                  | \$ -                             | \$ 159,958      | 5.61%  |
| 2015   | \$ 19,568                            | \$ 19,568                            |                                  | \$ -                             | \$ 346,416      | 5.65%  |
| 2016   | \$ 25,141                            | \$ 25,141                            |                                  | \$ -                             | \$ 306,450      | 8.20%  |
| 2017   | \$ 28,103                            | \$ 28,103                            |                                  | \$ -                             | \$ 418,194      | 6.72%  |
| 2018   | \$ 40,991                            | \$ 40,991                            |                                  | \$ -                             | \$ 529,353      | 7.74%  |
| 2019   |                                      |                                      |                                  |                                  |                 |  |
| 2020   |                                      |                                      |                                  |                                  |                 |  |
| 2021   |                                      |                                      |                                  |                                  |                 |  |
| 2022   |                                      |                                      |                                  |                                  |                 |  |
| 2023   |                                      |                                      |                                  |                                  |                 |  |

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

## State Board Supplemental Defined Benefit Plans

### Schedule of Changes in the Total Pension Liability and Related Ratios

#### Everett Community College

Fiscal Year Ended June 30, 2018

*(expressed in thousands)*

|  | 2017            | 2018            |
|--|-----------------|-----------------|
| <b>Total Pension Liability</b>   |                 |                 |
| Service Cost   | \$ 227          | \$ 165          |
| Interest   | 147             | 152             |
| Changes of benefit terms   | -               | -               |
| Differences between expected and actual experience                         | (1,062)         | (449)           |
| Changes of assumptions   | (251)           | (152)           |
| Benefit Payments   | (38)            | (56)            |
| Change in Proportionate Share of TPL                                       | -               | 113             |
| Other  | -               | -               |
| <b>Net Change in Total Pension Liability</b>                               | <b>(977)</b>    | <b>(227)</b>    |
| <b>Total Pension Liability - Beginning</b>                                 | <b>4,962</b>    | <b>3,985</b>    |
| <b>Total Pension Liability - Ending</b>                                    | <b>\$ 3,985</b> | <b>\$ 3,759</b> |
| <b>College's Proportion of the Pension Liability</b>                       | 4.190000%       | 4.310000%       |
| <b>Covered-employee payroll</b>  | \$ 23,390       | \$ 24,469       |
| <b>Total Pension Liability as a percentage of covered-employee payroll</b> | 0.170371954     | 0.153622951     |

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

## State Board Supplemental Defined Benefit Plans Notes to Required Supplementary Information

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

## Other Postemployment Benefits Information

| <b>Schedule of Changes in Total OPEB Liability and Related Ratios</b>   |                       |
|---|-----------------------|
| <b>Fiscal Year Ended June 30</b>  |                       |
| <b>Total OPEB Liability</b>   | <b>2018</b>           |
| Service cost  | \$ 2,010,325          |
| Interest cost   | 941,649               |
| Difference between expected and actual experience                       | -                     |
| Changes in assumptions  | (4,593,379)           |
| Changes in benefit terms  | -                     |
| Benefit payments  | (479,879)             |
| Changes in proportionate share  | 533,122               |
| Other   | -                     |
| <b>Net Changes in Total OPEB Liability</b>                              | <b>\$ (1,588,162)</b> |
| <b>Total OPEB Liability - Beginning</b>                                 | <b>\$ 31,241,640</b>  |
| <b>Total OPEB Liability - Ending</b>                                    | <b>\$ 29,653,478</b>  |
| <b>College's proportion of the Total OPEB Liability (%)</b>             | <b>0.509001%</b>      |
| <b>Covered-employee payroll</b>   | <b>\$ 42,615,420</b>  |
| <b>Total OPEB Liability as a percentage of covered-employee payroll</b> | <b>69.5839165%</b>    |

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

### Notes to Required Supplementary Information

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