Everett Community College

2019 Financial Report

Fiscal Year Ended June 30, 2019

2019
Financial Report

Table of Contents

You may view the financial report at
www.everettcc.edu/AuditedFinancialStatements

For information about the financial data included in this report, contact:
Shelby Burke, Executive Director of Finance
Everett Community College
2000 Tower Street
Everett, WA 98201
425.388.9254

For information about enrollment, degrees awarded, or academic programs, contact:
Laurie Franklin, Dean of Enrollment and Student Financial Services
Everett Community College
2000 Tower Street
Everett, WA 98201
425.388.9035

Trustees and Administrative Officers

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

March 4, 2020

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, as of and for the year ended June 30, 2019, 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 our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Everett Community College, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of Everett Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements as a whole. The Trustees and Administrative Officers list is 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 March 4, 2020, 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

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, 2019 (FY 2019). 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.

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 19,000 students. The College confers associate 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 109,000 residents. The College also has operations in Monroe, Marysville, Tulalip 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, 2019. 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 considered regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position and presents the College's assets, 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:

Everett Community College
Condensed Statement of Net Position
As of June 30, 2019

	2019	2018
Assets		
Current Assets	$ 15,533,880	$ 17,485,597
Capital Assets, net	$ 128,578,473	$ 132,538,261
Other Assets, non-current	$ 23,698,972	$ 23,935,781
Total Assets	$ 167,811,325	$ 173,959,639
Deferred Outflows of Resources	$ 5,659,727	$ 3,343,975
Liabilities		
Current Liabilities	$ 11,858,209	$ 15,778,450
Other Liabilities, non-current	$ 54,665,399	$ 57,623,833
Total Liabilities	$ 66,523,608	$ 73,402,283
Deferred Inflows of Resources	$ 13,886,523	$ 7,117,263
Net Position		
Net Investment in Capital Assets	$ 122,160,877	$ 125,069,050
Restricted	$ 566,120	$ 1,097,532
Unrestricted	$ (29,666,075)	$ (29,382,514)
Total Net Position, as restated	$ 93,060,922	$ 96,784,068

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The significant decrease of current assets in FY 2019 of just under $2 million can be attributed to the college's strategic use of its reserves to fund large equipment purchases, and Guided Pathways' planning activity. Cash and cash equivalents decreased by almost $4 million and accounts receivable increased by $1.8 million. 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 compared to FY 2019's accounts receivables caused our receivable with the state allocation to increase by $600,000.

Net capital assets decreased by almost $4 million from FY 2018 to FY 2019. The decrease is primarily the result of current depreciation expense of $4.8 million and only a small addition to assets of over $600 thousand. 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 15 years, which created new annual depreciation costs in the past five years and we haven't added as many new assets.

Non-current other assets consist primarily of the long-term portions of the college's investments in bonds (maturity beyond one year), and non-depreciable capital assets. In FY 2019 there was a $200 thousand decrease due to a $300k increase in long-term investments (agency bonds) and a $500k decrease in the amount of 3.5% funds held for students. Due to a decline in enrollment and an intentional effort to spend more of these funds for needy students, the amount left in the 3.5% fund decreased by year end.

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 $3,343,975 in FY 2018 and $5,659,727 in FY 2019 of pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the increase in deferred inflows in 2019 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and other post-employment benefits. The College recorded $7,117,263 in FY 2018 and $13,886,523 in FY 2019 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 $3.9 million decrease in current liabilities from FY 2018 to FY 2019 is the result of fewer accrued liabilities at year end which is due to a decrease in spending at year end. The other significant difference in current liabilities was due to the timing difference that took place in FY 2018 with the reconciling of expenses to the state allocation as mentioned above in current assets. That caused our accounts payable with the state allocation to decrease by $1 million in FY 2019 comparison to FY 2018. We also experienced a $2 million dollar decrease in the short-term portion of our liability related to other post-retirement benefits in FY 2019 due to a system wide reclassification of transactions subsequent to the measurement date and whether they are short term or long-term liabilities. There was a slight decrease in unearned revenue as enrollment declined by about 5% for the summer and fall quarters of 2018. The college also refinanced their COP through the state treasurer's office saving almost $2 million dollars over the remaining life of the COP. The refinance and a decrease in amount of the next principle payment decreased the short-term portion of the COP by over $140 thousand for FY 2019.

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 decreased by almost $3 million as the College pays down the principal owed on Certificates of Participation for capital construction, infrastructure, and remodel projects. The college also refinanced their COP through the state treasurer's office saving almost $2 million dollars over the remaining life of the COP. The College's non-current liabilities also decreased relating to the valuation of pension and OPEB liabilities decreasing in comparison to FY 2018.

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. This year, we transferred these funds to the Foundation since they are able to invest these funds with a higher rate of return than the college can and since they are set up to manage these funds properly. As a result, the college is not reporting any balance in this category.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are the discretionary financial aid reserves (3 .5% funds) and the expendable amounts of the endowments that are over and above the principle. This year there was an intentional effort to ensure that the funds were being maximized to award more needy students. This year we funded $450 thousand more to students than the previous year.

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

Net Position As of June 30th	**FY 2019**	**FY 2018**
Net investment in capital assets	122,160,877	125,069,050
Restricted		
Expendable- Supplemental financial aid	566,120	1,018,975
Nonexpendable- Principal for investment only	-	78,557
Unrestricted	(29,666,075)	(29,382,514)
Total Net Position	**93,060,922**	**96,784,068**

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 2019. 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, 2019 and 2018 is presented below.

Everett Community College
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Student tuition and fees, net	19,959,951	21,741,150
Auxiliary enterprise sales	4,510,231	3,653,556
Grants and contracts	24,572,146	21,852,944
Other operating revenues	1,188,393	1,420,137
Total operating revenues	**50,230,721**	**48,667,787**
Non-Operating Revenues		
State appropriations	28,688,131	27,172,522
Federal Pell grant revenue	6,216,414	6,351,707
Other non-operating revenues	520,968	-
Total non-operating revenues	35,425,513	33,524,229
Total revenues	**85,656,234**	**82,192,016**
Operating Expenses		
Salaries and Benefits	59,461,023	58,887,967
Scholarships	8,156,004	8,295,313
Depreciation	4,878,536	5,401,902
Other operating expenses	15,977,982	16,370,379
Total operating expenses	**88,473,545**	**88,955,561**
Non-Operating Expenses		
Building fee remittance	1,834,349	1,962,736
Other non-operating expenses	1,186,004	1,426,273
Total non-operating expenses	**3,020,353**	**3,389,009**
Total expenses	91,493,898	92,344,570
Excess (deficiency) before capital contributions	**(5,837,664)**	**(10,152,554)**
Capital appropriations and contributions	**2,114,518**	**774,146**
Change in Net position	**(3,723,146)**	**(9,378,408)**
Net Position		
Net position, beginning of year	96,784,068	136,932,289
Prior period adjustments or Cumulative effect of a change in accounting principle	-	(30,769,812)
Net position, beginning of year, as restated	-	106,162,477
Net position, end of year	**93,060,922**	**96,784,069**

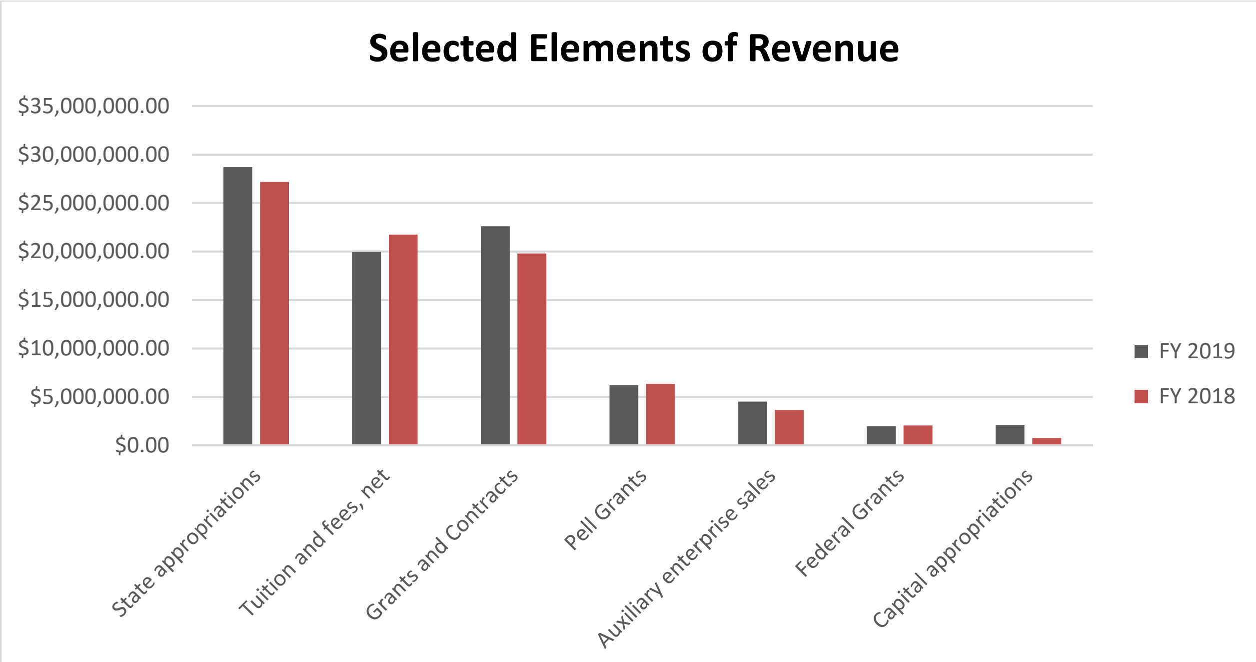
Revenues
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2018, the SBCTC allocated funds to each of the 34 college's based on 3-year average FTE actuals. Additionally, 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.

In FY 2019, enrollments declined but tuition rates were increased by 2.2% as approved by the state legislature. The net result of this caused student tuition and fees to decrease in FY 2019 by almost $2 million dollars.

Pell grant revenues generally follow enrollment trends. As the College's enrollment dropped during FY 2019 so did the College's Pell Grant revenue but not as much as tuition revenue. 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. This impact on Pell revenue continued in FY 2019 where we only saw a $100 thousand dollar decrease in comparison to FY 2018.

In FY 2019, grant and contract revenues increased by approximately $2.7 million when compared with FY 2018. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars.
In FY 2019 we saw almost a 16% increase in enrollment of Running Start students and over $2 million in increased revenue.

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.



Expenses

In FY 2019, salary expenses increased by approximately $1.4 million and benefit costs decreased by over $800 thousand. The increase in salary expenses is a result of an over a 4% salary increase required by the Legislature, and an increase in new positions and responsibilities. The College prioritizes investing in programs and staffing to ensure student success. The investments are conservative and are projected to bring additional revenues. The decrease in benefit expense is due to the change in pension expense of the state's pension plans and other post-employment benefits.

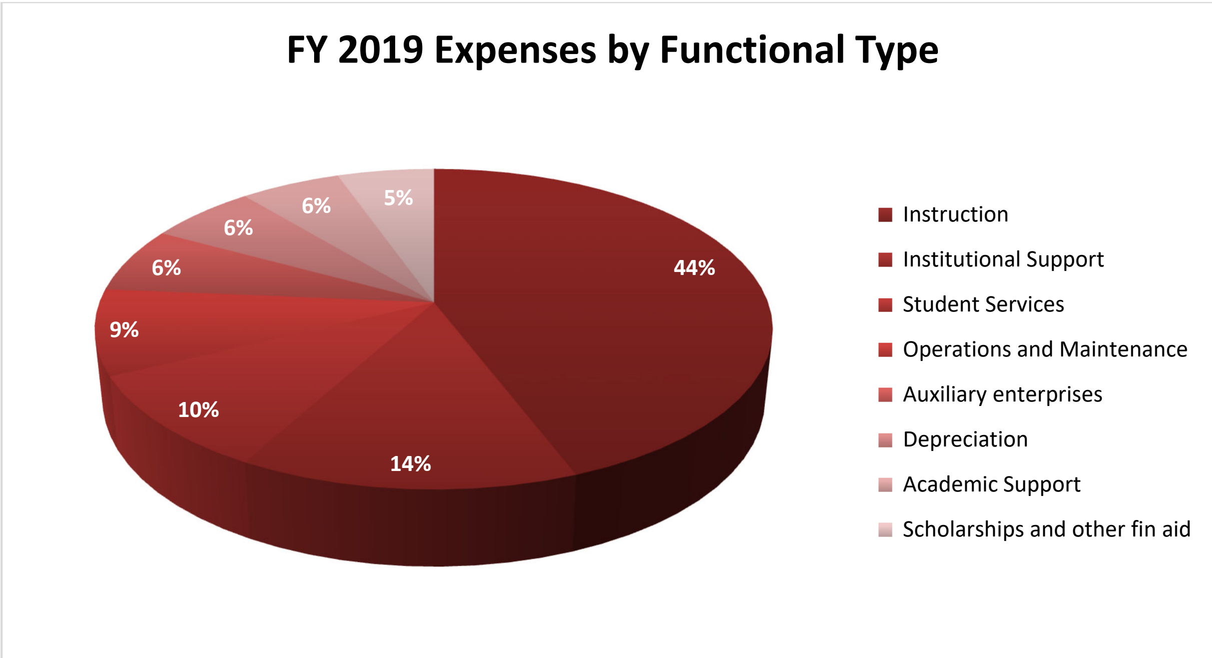
The College slightly reduced utility expenses in FY 2019 as a result of targeted efforts to reduce use, in spite of rate increases from utility providers electricity, natural gas, and water.

Supplies and materials expenses slightly increased in FY 2019 as a result of an enrollment decline.

Other operating expenses increased slightly due to an overall increase in the costs associated to efficiently run the college. The Consumer Price Index (CPI) in our area has increased by about 3% per year in the past few years, so naturally general operating expenses have risen in association with the CPI.

Operating Expenses by Function

The chart below shows the percentage of each functional area of operating expenses for FY 2019.



Capital Assets and Long-Term Debt Activities

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

At June 30, 2019, the College had invested $137,395,881 in capital assets, net of accumulated depreciation. This represents decrease of $4,048,169 from last year, as shown in the table below.

Asset Type		June 30, 2019		June 30, 2018
Land	$	8,558,859	$	8,558,859
Construction in Progress	$	258,550	$	346,930
Buildings, net	$	125,279,411	$	128,807,959
Other Improvements and Infrastructure, net	$	733,577	$	771,472
Equipment, net	$	2,333,961	$	2,727,861
Library Resources, net	$	231,523	$	230,969
Total Capital Assets, Net		**$137,395,881**		**$141,444,050**

The continuing decrease in net capital assets 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 15 years, which created new annual depreciation costs. Due to these capital projects and construction, current depreciation expense is at $4.8 million. Additional information on capital assets can be found in Note #6 of the Notes to the Financial Statements.

At June 30, 2019, the College had $13,294,472 in outstanding debt. This represents a decrease of over $3 million from last year, as shown in the table below. The decrease in FY 2019 is due to the college refinancing their COP for the Health Education & Fitness Center through the state treasurer's office saving almost $2 million dollars over the remaining life of the COP. The decrease in FY 2019 is also due to the short-term debt service payment of $1,140,000 that was remitted in FY 2019. The College has no capital leases at this time.

	June 30, 2019	June 20, 2018	Change
Certificates of Participation	13,294,473	16,375,000	(3,080,527)
Total	**$ 13,294,473**	**$ 16,375,000**	**$ (3,080,527)**

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

Economic Factors That May Affect the Future

In FY 2017, the State Board for Community and Technical College's (SBCTC) 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 the future years. 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.

The 19-21 state allocation also included two new special allocations with the purpose of increasing salaries to help recruit and maintain faculty in high demand programs. The first allocation was specifically for nurse educators and was made available to community and technical colleges effective July 1, 2019. The high demand allocation is for all other high demand programs, including nursing. The high demand allocation will be made available to the community and technical colleges as of July 1, 2020. Both of these special allocations are funded at the state level by a new tax revenue. As the community and technical colleges negotiate salary increases for the affected faculty, part of the agreement is that should the funding source go away, then the increases will as well.

The state previously had provided a special allocation for Guided Pathways to five (5) community and technical colleges at $100,000 a year. For FY 2020 the state provided all colleges with $100,000 and for the FY 2021, the State Board is currently determining how to allocate the additional $30 million of Guide Pathway funds. As of FY 2020, we have funded for the past three (3) years multiple positions that have supported Guided Pathways from our Board reserve. The College anticipates using its FY 2021 Guide Pathways allocation to fund these positions going forward as the Board reserve funding was only approved for FY 2018-2020.

The ctcLink technology system replacement is a SBCTC system expense that will cost the college for years to come. On-going expenses, and the delay of implementation have increased the costs to each college, and this will increase College expenditures to fund its share of ctcLink costs for the next ten years. As other community and technical colleges proceed with going live with ctcLink, community and technical colleges are being encouraged to hire on additional staff to assist with the business analyst duties as well as backfilling for those who are working on the preparation and implementation.

The State Legislators approved use of local funds to finance bargained faculty salary increases beginning in July 2017. Everett Community College and AFT Faculty Local 1873 ratified and approved a new collective bargaining agreement in June 2019. The cost of the contract for FY 2020 is over $900,000.

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 decided 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 started at $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. For FY 2019 the buildings were about 95% or more occupied Fall through Spring of the academic year helping us to cover our expenses. The total net loss from this activity after 2 years of them being occupied was over $500,000.

In FY 2020 a local housing developer will be building a 124-unit housing facility adjacent to the college (anticipated grand opening in FY 2021) which may be a housing alternative for students who currently reside in EvCC's student housing and are not international students that are required to live in EvCC's student housing. While as of FY 2019 EvCC's 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.

A salary survey was conducted 2018 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. While the State Board proposed to the Governor to close this gap over the next two biennia, it was not put forward in the Governor's budget nor did the legislature act on this proposal. We anticipate that this gap will be revisited in future legislative sessions. The legislation did approve the negotiated increases to classified staff. The college's state allocation does not provide full funding for salary increases so the remaining balance 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 2018-2019 academic year. Dr. Beyer retired on June 30th, 2019 after 13 years as the college president. On July 1st, 2019 our new president, Dr. Daria Willis began her tenure as EvCC's 17th President. The college spent approximately $100,000 to hire an outside search firm to recruit our new president and on the prior president's retirement payouts.

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 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 within the 19-21 biennium. 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%. As of November 2019, we have yet to utilize the COP due to the complexity of finding property near the college that is available to purchase and within the size and price that we are looking for.

EvCC is making a concerted effort to improve the enrollment process, provide a more student-centered advising approach, and explore evening and weekend program ideas for adult students. These ideas are intended to meet the needs of all our students which will in turn increase enrollments and revenue. As always, EvCC will continue to find ways to increase efficiency while providing quality education and continue to grow and innovate.

Everett Community College

Statement of Net Position

June 30, 2019

Assets	
Current assets	
Cash and cash equivalents	$ 7,701,976
Restricted cash	123,486
Accounts receivable	7,576,171
Inventories	132,247
Total current assets	15,533,880
Non-Current Assets	
Long-term investments	14,404,758
Restricted cash	476,806
Non-depreciable capital assets	8,817,409
Capital assets, net of depreciation	128,578,473
Total non-current assets	152,277,445
Total assets	**167,811,325**
Deferred Outflows of Resources	
Deferred outflows related to pensions	3,153,686
Deferred outflows related to OPEB	2,506,041
Total deferred outflows of resources	5,659,727
Liabilities	
Current Liabilities	
Accounts payable	783,251
Accrued liabilities	4,028,340
Compensated absences, current portion	1,752,298
Deposits payable	94,173
Unearned revenue	3,616,111
Certificates of participation payable, current portion	999,101
Total pension liability, current portion	99,229
OPEB liability, current portion	485,705
Total current liabilities	11,858,209
Non-Current Liabilities	
Compensated absences	2,930,002
Long-term liabilities	14,235,904
Net pension liability	6,801,107
Total pension liability	4,731,169
OPEB liability	25,967,217
Total non-current liabilities	54,665,399
Total liabilities	**66,523,608**
Deferred Inflows of Resources	
Deferred inflows related to pensions	3,794,667
Deferred inflows related to OPEB	10,091,856
Total deferred inflows of resources	13,886,523
Net Position	
Net Investment in Capital Assets	122,160,877
Restricted for:	
Expendable	566,120
Unrestricted (deficit)	(29,666,075)
Total Net Position	**$ 93,060,921**

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, 2019

Operating Revenues	
Student tuition and fees, net of scholarship discounts and allowances	$ 19,959,951
Auxiliary enterprise sales	4,510,231
State and local grants and contracts	22,594,644
Federal grants and contracts	1,977,501
Other operating revenues	1,188,393
Total operating revenue	50,230,719
Operating Expenses	
Salaries and wages	44,531,130
Benefits	14,929,893
Scholarships and fellowships	8,156,004
Supplies and materials	1,411,072
Depreciation	4,878,536
Purchased services	3,846,639
Utilities	1,063,444
Other operating expenses	9,656,827
Total operating expenses	88,473,545
Operating income (loss)	(38,242,825)
Non-Operating Revenues (Expenses)	
State appropriations	28,688,131
Federal Pell grant revenue	6,216,414
Investment income, gains and losses	520,968
Building fee remittance	(1,834,349)
Innovation fund remittance	(442,020)
Interest on indebtedness	(739,108)
Other non operating rev (exps) Loss on disposal	(4,877)
Net non-operating revenue (expenses)	**32,405,160**
Income (Loss) before Capital Appropriations	(5,837,665)
Capital Contributions	
Capital appropriations	2,114,518
	2,114,518
Increase (Decrease) in net position	(3,723,147)
Net Position	
Net position, beginning of year	96,784,068
Net position, end of year	$ 93,060,921

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

Everett Community College

Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Student tuition and fees	$ 19,378,386
Grants and contracts	27,071,258
Payments to vendors	(5,089,794)
Payments for utilities	(1,178,796)
Payments to employees	(44,188,976)
Payments for benefits	(14,820,147)
Auxiliary enterprise sales	4,390,187
Payments for scholarships and fellowships	(8,156,004)
Other receipts (payments)	(11,372,587)
Net cash used by operating activities	(33,966,473)
Cash flows from noncapital financing activities	
State appropriations	26,330,914
Pell grants	6,216,414
Building fee remittance	(1,882,810)
Innovation fund remittance	(443,727)
Net cash provided by noncapital financing activities	30,220,791
Cash flows from capital and related financing activities	
Capital appropriations	2,000,931
Purchases of capital assets	(828,196)
Principal paid on capital debt	(1,140,000)
Interest paid	(739,108)
Net cash used by capital and related financing activities	(706,373)
Cash flows from investing activities	
Purchase of investments	(383,227)
Income of investments	520,968
Net cash provided by investing activities	137,741
Increase in cash and cash equivalents	(4,314,314)
Cash and cash equivalents at the beginning of the year	12,616,582
Cash and cash equivalents at the end of the year	8,302,268

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(38,242,825)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	4,878,536
Changes in assets and liabilities	
Receivables, net	(923,740)
Inventories	(10,544)
Other assets	-
Accounts payable	(352,173)
Accrued liabilities	608,673
Unearned revenue	(201,774)
Compensated absences	200,271
Pension liability adjustment	58,238
Deposits payable	18,864
Loans to students and employees	-
Net cash used by operating activities	$ (33,966,473)

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

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,316,085	$ 942,758
Short-term investments	181,108	271,534
Current portion of promises to give	25,025	43,840
TOTAL CURRENT ASSETS	1,522,218	1,258,132
OTHER ASSETS:		
Promises to give, net of current portion	0	1,000
Long-term investments	3,322,983	3,095,049
Other assets	11,700	6,900
Property and equipment, net	101,293	103,341
Collection items	176,601	176,601
TOTAL OTHER ASSETS	3,612,577	3,382,891
TOTAL ASSETS	$ 5,134,795	$ 4,641,023

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES:		
Accounts payable	$ 45,465	$ 16,203
NET ASSETS:		
Without donor restrictions	851,226	886,051
With donor restrictions	4,238,104	3,738,769
TOTAL NET ASSETS	5,089,330	4,624,820
TOTAL LIABILITIES AND NET ASSETS	$ 5,134,795	$ 4,641,023

See accompanying notes to financial statements.

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Contributions	$ 76,057	$ 843,630	$ 919,687
In-kind contributions	164,611	67,621	232,232
Special events revenue	103,312	0	103,312
Contract revenue	62,814	2,231	65,045
Net investment return	18,709	145,206	163,915
Other income	0	141,294	141,294
Net assets released from restrictions	700,647	(700,647)	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,126,150	499,335	1,625,485
EXPENSES:			
College program support	443,369	0	443,369
Scholarships	373,095	0	373,095
Total program services	816,464	0	816,464
Administration	189,862	0	189,862
Fundraising	154,649	0	154,649
Total supporting services	344,511	0	344,511
TOTAL EXPENSES	1,160,975	0	1,160,975
CHANGE IN NET ASSETS	(34,825)	499,335	464,510
BEGINNING NET ASSETS	886,051	3,738,769	4,624,820
ENDING NET ASSETS	$ 851,226	$ 4,238,104	$ 5,089,330

See accompanying notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Contributions	$ 57,800	$ 418,219	$ 476,019
In-kind contributions	162,193	69,227	231,420
Special events revenue	101,000	1,831	102,831
Contract revenue	57,158	1,488	58,646
Net investment return	4,625	158,620	163,245
Net assets released from restrictions	595,372	(595,372)	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	978,148	54,013	1,032,161
EXPENSES:			
College program support	329,968	0	329,968
Scholarships	271,216	0	271,216
Total program services	601,184	0	601,184
Administration	197,671	0	197,671
Fundraising	141,695	0	141,695
Total supporting services	339,366	0	339,366
TOTAL EXPENSES	940,550	0	940,550
CHANGE IN NET ASSETS	37,598	54,013	91,611
BEGINNING NET ASSETS	848,453	3,684,756	4,533,209
ENDING NET ASSETS	$ 886,051	$ 3,738,769	$ 4,624,820

See accompanying notes to financial statements.

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	$ 464,510	$ 91,611
Adjustments to reconcile change in net assets to net cash:		
Contributions restricted for endowments	(241,778)	(101,552)
Depreciation	7,048	12,147
Net realized and unrealized gain on investments	(88,186)	(92,580)
In-kind contribution of other assets and property and equipment	(9,800)	0
Reinvested interest on short-term investments	(1,597)	(810)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Promises to give	19,815	65,717
Increase (decrease) in liabilities:		
Accounts payable	29,262	(20,532)
Total adjustments and changes	(285,236)	(137,610)
	179,274	(45,999)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Investment of assets restricted for endowments	(241,778)	(101,552)
Purchases of investments	(828,908)	(1,088,861)
Proceeds from sale of investments	1,022,961	1,155,537
	(47,725)	(34,876)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Contributions restricted for endowments	241,778	101,552
NET INCREASE IN CASH AND CASH EQUIVALENTS	373,327	20,677
BEGINNING CASH AND CASH EQUIVALENTS	942,758	922,081
ENDING CASH AND CASH EQUIVALENTS	$ 1,316,085	$ 942,758
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:		
Transfer of other assets to property and equipment	$ 0	$ 23,000
Capitalization of land donation	$ 5,000	$ 0
Capitalization of other assets donation	$ 4,800	$ 0

See accompanying notes to financial statements.

EVERETT COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Program Services	Administration	Fundraising	Total	Program Services	Administration	Fundraising	Total
College program support	$ 443,369	$ 0	$ 0	$ 443,369	$ 329,868	$ 0	$ 0	$ 329,868
Scholarships	373,095	0	0	373,095	271,216	0	0	271,216
Professional fees	0	156,633	84,548	241,181	0	164,282	81,006	245,288
Advertising	0	0	0	0	0	0	300	300
Donor development	0	195	59,338	59,533	0	417	36,898	37,315
Information technology	0	5,755	0	5,755	0	2,382	0	2,382
Office expenses	0	13,409	0	13,409	0	13,454	0	13,454
Printing and postage	0	1,862	55	1,917	100	1,987	0	2,087
Supplies	0	1,214	10,060	11,274	0	172	14,917	15,089
Travel	0	2,184	0	2,184	0	709	0	709
Depreciation	0	7,048	0	7,048	0	12,147	0	12,147
Other	0	1,562	648	2,210	0	2,121	8,574	10,695
TOTAL EXPENSES	$ 816,464	$ 189,862	$ 154,649	$ 1,160,975	$ 601,184	$ 197,671	$ 141,695	$ 940,550

See accompanying notes to financial statements.

Notes to the Financial Statements

June 30, 2019

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 associate's 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, 2019, the Foundation distributed approximately $816,464 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 425-388-9555 and 2000 Tower Street Everett, WA 98201-1390.

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. The College records all cash and cash

equivalents at fair value. Investments in the state's Local Government Investment Pool (LGIP), a qualified external investment pool, are reported at amortized cost which approximates fair value. All other investments are reported at fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash, cash equivalents, and 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 merchandise for resale in the college bookstore and course-related supplies, 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, 2019, no assets had been written down

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer quarter tuition and fees and housing deposits 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 GASB 68 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 Loans. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.

- Restricted for Expendable. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.

- Unrestricted. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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, 2019 are $7,069,167.

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

Accounting Standard Impacting the Future

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.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which will be effective for the fiscal year ending June 30, 2021. This Statement require that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will no longer be included in the capitalized cost of capital assets reported by the College. The Statement will be applied on a prospective basis and the interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated.

Note 3 - Deposits and Investments

Deposits

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Washington State Treasurer's Local Government Investment Pool (LGIP). 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 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.

Investments in Local Government Investment Pool (LGIP)

The College is a participant in the Local Government Investment Pool as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

As of June 30, 2019, the carrying amount of the College's cash and equivalents was $8,302,268 as represented in the table below.

Cash and Cash Equivalents		June 30, 2019
Petty Cash and Change Funds	$	5,300
Bank Demand and Time Deposits		6,293,875
Local Government Investment Pool		1,398,551
Deposits in Transit		4,250
Total Cash and Cash Equivalents	**$**	**7,701,976**
Cash restricted for retainage held		123,486
Cash restricted for supplemental financial aid		476,806
Total Restricted Cash	**$**	**600,292**

Custodial Credit Risks—Deposits

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

Investments

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 $14,404,758 with maturities ranging from 1 -5 years.

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, 2019 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

Investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2019 were $738.

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, 2019, accounts receivable was as follows:

Accounts Receivable	Amount
Student Tuition and Fees	$ 2,001,978
Due from the Federal Government	296,084
Due from Other State Agencies	5,157,451
Auxiliary Enterprises	587,559
Interest Receivable	-
Other	6,230
Subtotal	8,049,302
Less Allowance for Uncollectible Accounts	(473,131)
Accounts Receivable, net	**$ 7,576,171**

Note 5 – Inventories

Inventories, stated at cost using first in, first out method, consisted of consumable inventories in the amount of $132,247 as of June 30, 2019.

Note 6 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2019 is presented as follows. The current year depreciation expense was $4,878,536.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Capital assets, non-depreciable				
Land	$ 8,558,859	$ -	$ -	$ 8,558,859
Construction in progress	346,930	258,550	346,930	258,550
Total capital assets, non-depreciable	8,905,789	258,550	346,930	8,817,409
Capital assets, depreciable				
Buildings	179,236,301	395,000	-	179,631,301
Other improvements and infrastructure	1,136,839	-	-	1,136,839
Equipment	10,288,405	455,287	192,239	10,551,453
Library resources	506,145	73,338	69,324	510,159
Total capital assets, depreciable	191,167,690	923,625	261,563	191,829,752
Less accumulated depreciation				
Buildings	50,428,343	3,923,547	-	54,351,890
Other improvements and infrastructure	365,367	37,895	-	403,262
Equipment	7,560,543	844,310	187,362	8,217,491
Library resources	275,176	72,784	69,324	278,636
Total accumulated depreciation	58,629,429	4,878,536	256,686	63,251,279
Total capital assets, depreciable, net	132,538,261	(3,954,911)	4,877	128,578,473
Capital assets, net	**$141,444,050**	**$ (3,696,361)**	**$ 351,807**	**$137,395,882**

Note 7 - Accrued Liabilities

Accrued liabilities as of June 30, 2019, were as follows:

Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,916,826
Amounts Held for Others and Retainage	2,111,515
Total	**$ 4,028,341**

Note 8 - Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 3,178,080
Housing and Other Deposits	438,031
Total Unearned Revenue	$ 3,616,111

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, 2018 through June 30, 2019, were $118,556.

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 $1,768,275and accrued sick leave totaled $2,914,027 at June 30, 2019.

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 has entered into leases for office/program space, residence halls, and office equipment with various vendors. These leases are classified as operating leases.

As of June 30, 2019, the minimum lease payments under operating leases consist of the following:

Fiscal year	Operating Leases	
2020	$	2,938,567
2021		2,884,788
2022		2,841,642
2023		2,548,555
2024		2,406,504
2025-2029		10,881,113
2030-2034		10,697,100
2035-2039		5,446,764
Total minimum lease payments	**$**	**40,645,032**

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 was approximately 4.463%. In June 2019, the college refinanced this COP through the Washington Office of State Treasurer for a lower interest rate of 1.682%. The COP has ten years remaining and the college saved almost $2 million dollars on this refinance that will be amortized through the life of the COP.

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.

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%.

In January 2019, The Board of Trustees authorized the College President to enter into negotiations to purchase a property adjacent to the campus, estimated at approximately $3.9 million. The negotiations fell through and the property was not purchased. We are still in the process of looking for extra property that is within close proximity to the campus and within the size and price that the college is looking for. 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 for up to $10 million by the State Board for Community and Technical Colleges (SBCTC) and the Legislature. The COP funding has been yet to be used but is still authorized up until June 30th of 2021.

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

Note 13 - Annual Debt Service Requirements

Future debt service requirements at June 30, 2019 are as follows:

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2020	$ 999,101	$ 645,650	$ 1,644,751
2021	$ 1,047,355	$ 602,669	$ 1,650,023
2022	$ 1,096,473	$ 550,301	$ 1,646,773
2023	$ 1,149,656	$ 495,477	$ 1,645,133
2024	$ 1,213,411	$ 437,994	$ 1,651,406
2025-2029	$ 7,038,477	$ 1,218,871	$ 8,257,348
2030-2034	$ 750,000	$ 60,800	$ 810,800
2035-2039	$ -	$ -	$ -
2040-2044	$ -	$ -	$ -
Total	**$ 13,294,472**	**$ 4,011,763**	**$ 17,306,235**

Note 14 - Schedule of Long-Term Liabilities

	Balance outstanding 6/30/18	Additions	Reductions	Balance outstanding 6/30/19	Current portion
Certificates of Participation	$16,375,000	$0	$3,080,527	$13,294,473	$999,101
Compensation absences	$4,482,030	$2,126,681	$1,926,410	$4,682,301	$1,752,298
Net pension liability	$9,067,012	$2,363,200	$4,629,106	$6,801,107	$0
Total pension liability	$3,759,207	$2,437,074	$1,365,883	$4,830,398	$99,229
OPEB liability	$29,653,478	$7,360,586	$10,561,141	$26,452,923	$485,705
Unamortized premium on refunding	$0	$1,940,533	$0	$1,940,533	
Total	$63,336,727	$14,287,541	$21,563,066	$58,001,735	$3,336,333

Note 15 - Retirement Plans

A. General

The College offers three contributory pension plans: the Washington State Public Employees' Retirement System (PERS), the Washington State Teachers' Retirement System (TRS), and the State Board Retirement Plan (SBRP). PERS and TRS are cost sharing multiple-employer defined-benefit pension plans administered by the Washington State Department of Retirement Systems (DRS). The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. The 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.

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, 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. The College has elected to use the current fiscal year end as the measurement date for reporting pension liabilities for the Higher Education Supplemental Retirement Plan.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for the College, for fiscal year 2019:

Aggregate Pension Amounts - All Plans

Pension Liabilities	$	(11,631,494)
Deferred outflows of resources related to pensions	$	3,153,686
Deferred inflows of resources related to pensions	$	(3,794,667)
Pension Expense	$	717,288

Department of Retirement Systems

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The Governor appoints the director of the DRS.

The DRS administered systems are comprised of 12 defined benefit pension plans and 3 defined benefit/ defined contribution plans. Below are the DRS plans that the College participates in:

- Public Employees' Retirement System (PERS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution
- Teachers' Retirement System (TRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS and TRS plans is funded by an employer rate of 0.18 percent of employee salaries.

Pursuant to RCW 41.50.770, the College offers its employees that elect to participate a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, WA 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report.

Higher Education
As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (funded on a pay-as-you-go basis) which is administered by the state.

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

PERS
Plan Description. The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

PERS participants joining the system on or after March 1, 2002 have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Benefits Provided. PERS plans provide retirement, disability, and death benefits to eligible members.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. PERS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44. PERS Plan 3 members have the option to retire early with reduced benefits. PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS covered employment.

TRS

Plan Description. The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public-school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees.

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3. Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided. TRS plans provide retirement, disability, and death benefits to eligible members.
TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a

maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. TRS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months. TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44. TRS Plan 3 members have the option to retire early with reduced benefits.

TRS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions

PERS and TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS or TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS or TRS-covered employment.

The employer contribution rates (expressed as a percentage of covered payroll) and actual contributions for the year ended June 30, 2019 were as follows:

	PERS 1	PERS 2/3*	TRS 1	TRS 2/3*
Contribution Rate	12.70%	12.70%	15.20%	15.20%
Actual Contributions	$711,474	$1,001,291	$54,450	$51,773

* Plan 2/3 employer rate includes a component to address the Plan 1 unfunded actuarial accrued liability

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to the June 30, 2018, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

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 (OSA) applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2017, valuation was based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of the WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The Office of the State Actuary (OSA) selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by the WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Fixed Income	20%	1.7%
Tangible Assets	7%	4.9%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
Total	**100%**	

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

There were no material changes in assumptions, benefit terms, or methods for the reporting period.

Discount rate

The discount rate used to measure the total pension liability was 7.40 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 7.50 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 7.40 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 PERS Plan 2/3 and TRS Plan 2/3 employers whose rates include a component for the PERS 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 7.40 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 7.40 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 (6.40 percent) or 1-percentage-point higher (8.40 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Pension Plan	**-6.40%**	**-7.40%**	**-8.40%**
PERS Plan 1	5,396,271	4,391,005	3,520,241
PERS Plan 2/3	9,451,814	2,066,411	(3,988,794)
TRS Plan 1	377,710	302,194	236,818
TRS Plan 2/3	258,661	41,501	(134,910)
	15,484,456	6,801,110	(366,645)

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

Pension Liabilities. At June 30, 2019, the College reported a total pension liability of $6,801,107 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$ (4,391,006)
PERS 2/3	(2,066,408)
TRS 1	(302,194)
TRS 2/3	(41,500)

The College's proportionate share of pension liabilities for fiscal years ending June 30, 2018 and June 30, 2019 for each retirement plan are listed below:

	2017	2018	Change
PERS 1	0.09637%	0.09832%	0.00195%
PERS 2/3	0.11832%	0.12103%	0.00271%
TRS 1	0.01034%	0.01035%	0.00001%
TRS 2/3	0.00763%	0.00922%	0.00159%

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.

Pension Expense. For the year ended June 30, 2019 the College recognized pension expense as follows:

	Pension Expense
PERS 1	$485,373
PERS 2/3	$11,745
TRS 1	$32,781
TRS 2/3	$28,701
TOTAL	$558,600

Deferred Outflows of Resources and Deferred Inflows of Resources. 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, 2019:

	PERS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	174,496
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	710,236	-
Totals	**$ 710,236**	**$ 174,496**

	PERS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	253,288	361,791
Difference between expected and actual earnings of pension plan investments	-	1,268,046
Changes of assumptions	24,174	588,084
Changes in College's proportionate share of pension liabilities	114,200	42,903
Contributions subsequent to the measurement date	1,001,291	-
Totals	**$ 1,392,953**	**$ 2,260,824**

	TRS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	12,923
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	54,450	-
Totals	**$ 54,450**	**$ 12,923**

	TRS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	19,502	3,064
Difference between expected and actual earnings of pension plan investments	-	35,098
Changes of assumptions	706	16,678
Changes in College's proportionate share of pension liabilities	38,907	5,272
Contributions subsequent to the measurement date	51,773	-
Totals	**$ 110,888**	**$ 60,112**

The $1,817,751 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, 2020.

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

2020	7,634	(184,278)	1,293	7,445
2021	(38,146)	(408,178)	(2,675)	(3,466)
2022	(114,465)	(764,598)	(9,190)	(16,201)
2023	(29,519)	(275,856)	(2,351)	(1,597)
2024		(94,821)	-	3,342
Thereafter		(141,430)	-	9,479
Total	**$ (174,496)**	**$ (1,869,161)**	**$ (12,923)**	**$ (998)**

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. The 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, 2019 were each $2,193,557

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, 2019, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of $2,970,937. The College's share of this amount was $ 130,007 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 2019, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $127,624. 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, 2019, the Community and Technical College system accounted for $19,733,342 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to the June 30, 2019, 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%-6.50%

*Measurement reflects actual investment returns through June 30, 2018

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, 2018 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 decrease from 3.87 percent to 3.50 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 3.50 percent for the June 30, 2019, measurement date.

Pension Expense. Pension expense for the fiscal year ending June 30, 2019 was $158,688

Proportionate Share (%)		4.37594%
Service Cost	$	124,777
Interest		150,931
Amortization of Differences Between Expected and Actual Experience		(164,327)
Amortization of Changes of Assumptions		18,626
Changes of Benefit Terms		-
Administrative Expenses		-
Other Changes in Fiduciary Net Position		-
Proportionate Share of Collective Pension Expense		**130,007**
Amortization of the Change in Proportionate Share of TPL		28,682
Total Pension Expense	**$**	**158,688**

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2019 was 4.37594%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

Proportionate Share (%) 2018	4.31%
Proportionate Share (%) 2019	**4.38%**
Total Pension Liability - Ending 2018	$ 3,759,207
Total Pension Liability - Beginning 2019	3,814,641
Total Pension Liability - Change in Proportion	55,434
Total Deferred Inflow/Outflows - 2018	1,520,363
Total Deferred Inflow/Outflows - 2019	1,542,783
Total Deferred Inflows/Outflows - Change in Proportion	22,420
Total Change in Proportion	**$ 77,854**

Plan Membership. Membership in the State Board Supplemental Retirement Plan consisted of the following as of June 30, 2018, the most recent actuarial valuation date:

Plan	Number of Participating Members Inactive Members or Beneficiaries Currently Receiving Benefits	Inactive Members Entitled to But Not Yet Receiving Benefits	Active Members	Total Members
SRP	4	17	202	223

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, 2019:

Schedule of Changes in Total Pension Liability	
	Amount
Service Cost	$ 124,777
Interest	150,931
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	284,559
Changes in Assumptions	535,050
Benefit Payments	(79,570)
Change in Proportionate Share of TPL	55,435
Other	-
Net Change in Total Pension Liability	1,071,182
Total Pension Liability - Beginning	3,759,207
Total Pension Liability - Ending	**$ 4,830,389**

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 3.50 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 (2.50 percent) or 1 percentage point higher (4.50 percent) than the current rate:

1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
$ 5,519,422	$ 4,830,386	$ 4,258,231

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

At June 30, 2019, the State Board Supplemental Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 246,105	$ 1,012,447
Changes of Assumptions	462,746	$ 273,865
Changes in College's proportionate share of pension liability	176,300	$ -
Transactions Subsequent to the Measurement Date	-	-
Total	**$ 885,150**	**$ 1,286,312**

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	
2020	(117,019)
2021	(117,019)
2022	(117,019)
2023	(117,019)
2024	(44,893)
Thereafter	111,808

Note 16 - Other Post-Employment Benefits

Plan Description. In addition to pension benefits as described in Note 16, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan. 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. The PEBB OPEB plan has no assets and 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 College consisted of the following:

Summary of Plan Participants
As of June 30, 2018

Active Employees*	635
Retirees Receiving Benefits**	161
Retirees Not Receiving Benefits***	31
Total Active Employees and Retirees	827

*Reflects active employees eligible for PEBB program participation as of June 30, 2018.
**Headcounts exclude spouses of retirees that are participating in a PEBB program as a dependent.
***This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. No benefits are allowed to them unless they choose to join in the future. In order to do so, they must show proof of continuous medical coverage since their separation of employment with the State of Washington that meets the requirements set forth in Washington Administrative Code 182-12-205.

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 2017, the average weighted implicit subsidy was valued at $327 per adult unit per month, and in calendar year 2018, the average weighted implicit subsidy was valued at $347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be $368 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 2017, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar years 2018. This was increased in calendar year 2019 up to $168 per member per month. It is projected to increase to $183 per member per month in calendar year 2020.

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.

The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium*

Medical	$	1,092
Dental		79
Life		4
Long-term Disability		2
Total		1,177
Employer contribution		1,017
Employee contribution		160
Total	$	1,177

*Per 2019 PEBB Financial Projection Model 7.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2019 which includes projected claims cost at the time of this reporting.

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

Total OPEB Liability

As of June 30, 2019, the state reported a total OPEB liability of $5.08 billion. The College's proportionate share of the total OPEB liability is $26,452,922. This liability was determined based on a measurement date of June 30, 2018.

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 June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	2.75%
Projected Salary Changes	3.50% Plus Service-Based Salary Increases
Health Care Trend Rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 8%, reaching an ultimate rate of approximately 4.5% in 2080
Post-Retirement Participation Percen	65%
Percentage with Spouse Coverage	45%

In projecting the growth of the explicit subsidy, after 2020 when the cap is $183, it is assumed to grow at the health care trend rates. The Legislature determines the value of the 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 2017 Economic Experience Study.

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

Actuarial Valuation Date	6/30/2018
Actuarial Measurement Date	6/30/2018
Actuarial Cost Method	Entry Age
Amortization Method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset Valuation Method	N/A - No Assets

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 3.58 percent for the June 30, 2017 measurement date and 3.87 percent for the June 30, 2018 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, 2019, 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		
Proportionate Share (%)		**0.5208669290%**
Service Cost	$	1,653,878
Interest Cost		1,137,032
Differences Between Expected and Actual Experien		1,037,889
Changes in Assumptions*		(7,240,433)
Changes of Benefit Terms		-
Benefit Payments		(480,225)
Changes in Proportionate Share		691,305
Other		-
Net Change in Total OPEB Liability		(3,200,556)
Total OPEB Liability - Beginning		29,653,478
Total OPEB Liability - Ending	**$**	**26,452,922**

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

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 3.87 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 (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

Discount Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 31,896,005	$ 26,452,922	$ 22,206,139

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 8.00 percent decreasing to 4.50 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 (7.00 percent decreasing to 3.50 percent) or 1 percentage point higher (9.0 percent decreasing to 5.50 percent) than the current rate:

Health Care Cost Trend Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 21,715,285	$ 26,452,922	$ 32,753,080

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

For the year ending June 30, 2019, the College will recognize OPEB expense of $1,723,977. OPEB expense consists of the following elements:

Everett Community College

Proportionate Share (%)	**0.5208669290%**
Service Cost	$ 1,653,878
Interest Cost	1,137,032
Amortization of Differences Between Expected and Actual Experience	115,321
Amortization of Changes in Assumptions	(1,326,766)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	144,513
Administrative Expenses	-
Total OPEB Expense	**$ 1,723,977**

As of June 30, 2019, the deferred inflows and deferred outflows of resources for the College are as follows:

Everett Community College		
Proportionate Share (%)	**0.5208669290%**	
Deferred Inflows/Outflows of Resources	**Deferred Inflows**	**Deferred Outflows**
Difference between expected and actual experience	$ -	$ 922,568
Changes in assumptions	10,091,856	-
Transactions subsequent to the measurement date	-	485,705
Changes in proportion	-	1,097,768
Total Deferred Inflows/Outflows	**$ 10,091,856**	**$ 2,506,041**

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, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

Proportionate Share (%)	**0.5208669290%**
2020	$ (1,066,932)
2021	$ (1,066,932)
2022	$ (1,066,932)
2023	$ (1,066,932)
2024	$ (1,066,932)
Thereafter	$ (2,736,860)

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

Proportionate Share (%) 2017		**0.5090007214%**
Proportionate Share (%) 2018		**0.5208669290%**
Total OPEB Liability - Ending 2016	$	29,653,477
Total OPEB Liability - Beginning 2017		30,344,783
Total OPEB Liability Change in Proportion		691,305
Total Deferred Inflows/Outflows - 2016		(3,613,718)
Total Deferred Inflows/Outflows - 2017		(3,697,963)
Total Deferred Inflows/Outflows Change in Proportion		(84,246)
Total Change in Proportion	**$**	**775,551**

Note 17 - Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2019.

Expenses by Functional Classification

Instruction	$	39,960,164
Academic Support Services		4,914,690
Student Services		8,423,698
Institutional Support		11,529,516
Operations and Maintenance of Plant		7,982,651
Scholarships and Other Student Financial Aid		4,849,594
Auxiliary enterprises		5,934,696
Depreciation		4,878,536
Total operating expenses	**$**	**88,473,545**

Note 18 - Commitments and Contingencies

The College has commitments of $256,549.51 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

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

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Everett Community College's Proportionate Share of the Net Pension Liability

Schedule of Everett Community College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.096618%	$ 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	0.098320%	$ 4,391,005	$ 12,767,148	34.39%	63.22%
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

Schedule of Everett Community College's Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 2/3

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.119316%	$ 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	0.121026%	$ 2,066,410	$ 12,548,428	16.47%	95.77%
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

Schedule of Everett Community College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.013539%	$ 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	0.010347%	$ 302,194	$ 565,610	53.43%	66.52%
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

Schedule of Everett Community College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.003654%	$ 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	0.009220%	$ 41,501	$ 529,353	7.84%	96.88%
2019					
2020					
2021					
2022					
2023					

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

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 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	$ 711,474	$ 711,474	$ -	$13,566,713	5.24%
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Emplyees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 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	$ 1,001,291	$ 1,001,291	$ -	$13,325,209	7.51%
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 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	$ 54,450	$ 54,450	$ -	$ 698,448	7.80%
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 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	$ 51,773	$ 51,773	$ -	$ 661,216	7.83%
2020					
2021					
2022					
2023					

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

Required Supplementary Information

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, 2019 *(expressed in thousands)*			
	2017	2018	2019
Total Pension Liability			
Service Cost	$ 227	$ 165	$ 125
Interest	147	152	151
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(1,062)	(449)	285
Changes of assumptions	(251)	(152)	535
Benefit Payments	(38)	(56)	(80)
Change in Proportionate Share			55
Other	-	-	-
Net Change in Total Pension Liability	**(977)**	**(340)**	**1,071**
Total Pension Liability - Beginning	**4,962**	**3,985**	**3,759**
Total Pension Liability - Ending	**$ 3,985**	**$ 3,759**	**$ 4,830**
College's Proportion of the Pension Liability	4.190000%	4.310000%	4.380000%
Covered-employee payroll	$ 23,390	$ 24,469	$ 25,522
Total Pension Liability as a percentage of covered-employee payroll	0.170371954	0.153622951	0.189255623

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.

Required Supplementary Information

Other Postemployment Benefits Information

Schedule of Changes in Total OPEB Liability and Related Ratios Measurement Date of June 30*				
Total OPEB Liability		**2019**		**2018**
Service cost	$	1,653,878	$	2,010,325
Interest cost		1,137,032		941,649
Difference between expected and actual experience		1,037,889		-
Changes in assumptions		(7,240,435)		(4,593,379)
Changes in benefit terms		-		-
Benefit payments		(480,225)		(479,879)
Changes in proportionate share		691,305		533,122
Other		-		-
Net Changes in Total OPEB Liability	$	(3,200,556)	$	(1,588,162)
Total OPEB Liability - Beginning	$	29,653,478	$	31,241,640
Total OPEB Liability - Ending	$	26,452,922	$	29,653,478
College's proportion of the Total OPEB Liability (%)		0.52086693%		0.50900072%
Covered-employee payroll	$	44,335,349	$	42,615,420
Total OPEB Liability as a percentage of covered-employee payroll		59.665533%		69.583917%

*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.