Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Edmonds Community College

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

Published March 21, 2019

Report No. 1023319

Office of the Washington State Auditor
Pat McCarthy

March 21, 2019

Board of Trustees
Edmonds Community College
Lynnwood, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Edmonds Community College
July 1, 2017 through June 30, 2018

Board of Trustees
Edmonds Community College
Lynnwood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Edmonds Community College, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 21, 2019. As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, the College implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

February 21, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Edmonds Community College
July 1, 2017 through June 30, 2018

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, 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 Edmonds Community College, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

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

As discussed in Note 1, the financial statements of the Edmonds 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, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2019 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 21, 2019

FINANCIAL SECTION

Edmonds Community College
July 1, 2017 through June 30, 2018

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Management’s Discussion and Analysis

Edmonds Community College

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

Reporting Entity

Edmonds Community College is one of thirty public community and technical college districts in the state of Washington that provides comprehensive, open-door academic programs, workforce education, basic skills, and community service educational programs to approximately 18,000 students annually. The College confers a baccalaureate degree as well as associate degrees, certificates, and high school diplomas. The College was established in 1967 and its mission is Teaching | Learning | Community.

The College’s main campus is located in Lynnwood, Washington, a community of about 38,000 residents. The College also has operations at the Monroe Correctional Complex in Monroe, WA, the Washington Aerospace Training & Research Center in Everett, WA, and eight Head Start facilities in Snohomish County, WA. The College is governed by a six member Board of Trustees appointed by the governor of the state with the consent of the state Senate. In accordance with Washington State law governing technical colleges, the College’s board includes one member from business and one member from labor. In addition, the College has a Governor-appointed student trustee who is prohibited from voting on personnel or collective bargaining matters. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, the Edmonds Community College Foundation. The College’s financial statements include:

- The Statement of Net Position
- The Statement of Revenues, Expenses, and Changes in Net Position
- The Statement of Cash Flows

The Statement of Net Position provides information about the College at a moment in time, as of June 30, 2018. The Statement of Revenue, Expenses, and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the College’s financial health.

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

During 2018, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting for defined-benefit other postemployment benefits (OPEB) and defined contribution OPEB that are provided to employees of state and local government employers. The Statement replaces requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans for OPEB*. As a result of implementing GASB 75, the College is required to record its proportionate share of the state's actuarially determined OPEB liability, deferred inflows and deferred outflows of resources, and benefit expense. The change in accounting principle resulted in $35,225,311 in postemployment benefit liability. See Notes to the Financial Statements, Note 2: Accounting and Reporting Changes, for additional details.

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 as of the end of the fiscal year. A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	FY 2018	FY 2017 (Prior to GASB 75)
Assets		
Current Assets	20,168,585	19,434,905
Capital Assets, net	93,266,091	94,858,723
Other Assets, non-current	17,151,797	18,761,736
Total Assets	**130,586,473**	**133,055,364**
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	2,555,150	3,138,459
Deferred Outflows Related to OPEB	557,463	0
Total Deferred Outflows of Resources	**3,112,613**	**3,138,459**
Liabilities		
Current Liabilities	13,883,421	10,099,418
Other Liabilities, non-current	54,762,774	28,343,278
Total Liabilities	**68,646,195**	**38,442,696**

(continued)

Condensed Statement of Net Position (continued) As of June 30th	FY 2018	FY 2017 (Prior to GASB 75)
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	3,769,303	1,659,672
Deferred Inflows Related to OPEB	6,323,156	0
Total Deferred Inflows of Resources	**10,092,459**	**1,659,672**
Net Position		
Net Investment in Capital Assets	86,818,245	87,375,450
Restricted	80,560	79,044
Unrestricted (Deficit)	(31,938,373)	8,636,961
Total Net Position	**54,960,432**	**96,091,455**

Current assets consist primarily of cash, investments, and various accounts receivable. The primary increase of current assets in FY 2018 can be attributed to year-end accruals of state appropriations, offset by a decrease in cash on-hand maintained as contingency funds. In FY 2017, the College had increased its available contingency funds due to delays by the state legislature in passing the budget for the biennium beginning July 1, 2017. Once the budget was enacted, these additional funds were invested in US agency bonds.

Net capital assets decreased by $1.6M from FY 2017 to FY 2018. The decrease is primarily the result of current depreciation expense of $4.7M, offset, in part, by ongoing acquisitions of capitalized equipment and construction in progress related to the College's new Science, Engineering, and Technology (SET) building to be completed in 2020.

Non-current assets consist primarily of long-term investments. Long-term investments at June 30, 2018 reflect investments purchased in FY 2018 totaling around $4.7M offset by approximately $5.8M of investments purchased in prior years that were reclassified to short-term as they became due within one year.

Deferred outflows of resources and deferred inflows of resources represent deferrals in pension and postemployment benefits associated with the implementation of GASB 68 in FY 2015, GASB 73 in FY 2017, and GASB 75 in FY 2018. The change in deferred outflows reflects the College's proportionate share of the change 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 $3,112,613 in FY 2018 and $3,138,459 in FY 2017 of pension and postemployment-related deferred outflows. The minor increase reflects the recognition of deferred outflows as a result of the implementation of GASB 75 offset by the changes in the College's proportionate shares related to pension plans.

Similarly, the increase in deferred inflows in FY 2018 reflects the recognition of deferred inflows as a result of the implementation of GASB 75 in addition to an increase in the difference between actual and projected investment earnings on the state's pension plans.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others, and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements. The increase in current liabilities in FY 2018 is primarily due to the recognition of the $3.5M current portion of the OPEB liability upon implementation of GASB 75. In addition, the estimate for compensated absences payable within one year increased by $0.5M based on a slight revision in estimation methods. These increases were slightly offset by a reduction in the current portion of COP debt as a result of paying off the Mill Creek Hall COP in FY 2018 as well as a minor decrease in unearned revenue consistent with the decrease in tuition in general.

Non-current liabilities primarily consist of the long-term portion of vacation and sick leave earned but not yet used by employees, the long-term portion of COP debt, and the long-term pension and OPEB liabilities. The College's non-current liabilities increased due to the implementation of GASB 75, reflecting the College's proportionate share of the net postemployment benefit liability for state's OPEB. However, the College's proportionate share of pension liabilities decreased by $4.2M. The College's non-current liabilities associated with COPs decreased by $1M paid in FY 2018 and will continue to decrease as the College pays down the principal owed for buildings, energy projects, and equipment.

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 - This represents 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 - A donor or external party has imposed the restriction that the corpus or principal is not available for spending but for investment purposes only. All non-expendable restricted funds are directed to the Edmonds Community College's Foundation. As a result, the college is not reporting any balance in this category.

Expendable - The College is legally or contractually obligated to spend these resources in accordance with restrictions placed by a donor or external parties who have placed time or purpose restrictions on the use of the assets. The primary restricted expendable funds for the College are for Institutional Financial Aid.

Unrestricted - This includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees. The College has a board-approved $3.2M reserved for emergencies and other purposes, which is maintained in the Debt Service Reserve account. At June 30, 2018, the College also had approximately $6.7M in uncommitted unrestricted funds held as working capital for several locally funded projects, principally the Science, Engineering, and Technology building (SET).

As discussed earlier in this section, the College's net position was adjusted by $38,832,218 to reflect the implementation of GASB 75.

Condensed Net Position, as of June 30th	FY 2018	FY 2017 (Prior to GASB 75)
Net Investment in Capital Assets	86,818,245	87,375,450
Restricted - Expendable	80,560	79,044
Unrestricted	6,893,845	14,477,249
Cumulative effect of change in accounting principle due to implementation of GASB 73	0	(5,840,288)
Cumulative effect of change in accounting principle due to implementation of GASB 75	(38,832,218)	0
Total Net Position	**54,960,432**	**96,091,455**

Statement of Revenues, Expenses, and Changes in Net Position

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

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition is included in this category, as are all grants and contracts which support educational operations. In contrast, non-operating revenues include monies the college receives from other government agencies without directly giving equal value to those agencies 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 Statement of Revenues, Expense and Changes in Net Position for the fiscal years ended June 30, 2018 and 2017 is presented as follows.

Condensed Statement of Revenue, Expenses & Changes in Net Position, as of June 30th	FY 2018	FY 2017 (Prior to GASB 75)
Operating Revenues		
Student tuition and fees, net	36,726,587	39,375,021
Auxiliary enterprise sales	3,995,772	4,044,636
State and local grants and contracts	16,067,779	15,155,973
Federal grants and contracts	10,168,353	9,688,291
Other operating revenues	1,733,361	1,523,499
Total operating revenues	68,691,852	69,787,420
Operating Expenses		
Salaries and wages	47,805,889	46,739,525
Benefits	17,358,466	16,191,030
Scholarships, net of discounts	10,875,941	10,811,360
Depreciation	4,700,253	4,382,558
Other operating expenses	25,272,365	28,991,908
Total operating expenses	106,012,914	107,116,381
Net Operating Loss	**(37,321,062)**	**(37,328,961)**
Non-Operating Revenues		
State appropriations	28,731,425	29,636,527
Federal Pell grant revenue	5,949,193	5,906,546
Investment income, net	67,021	116,503
Non-Operating Expenses	(2,193,937)	(2,373,685)
Net non-operating revenues (expense)	32,553,702	33,285,891
Income (loss) before capital contributions	**(4,767,360)**	**(4,043,070)**
Capital Appropriations and Contributions	2,468,555	4,486,478
Change in Net Position	**(2,298,805)**	**443,408**
Net Position, Beginning of Year	96,091,455	101,488,335
Cumulative effect of change in accounting principle due to implementation of GASB 73	0	(5,840,288)
Cumulative effect of change in accounting principle due to implementation of GASB 75	(38,832,218)	0
Net Position, Beginning of Year, as restated	57,259,237	95,648,047
Net Position, End of Year	**54,960,432**	**96,091,455**

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 amounts to each college. In FY 2018, the SBCTC allocated funds to each of the 34 colleges based on 3-year average full-time equivalent (FTE) actuals. Additionally, the Supplemental Budget also reduced the general fund by the amount set aside specifically for Pension Stabilization. This method of allocation will continue in FY 2019. The net result of these and other measures was a decrease in the College's allocation of approximately $0.9M compared to FY 2017. Allocations do not carry forward to future years.

There were no tuition rate changes in FY 2017, but a 2.2% increase in tuition was approved for FY 2018.

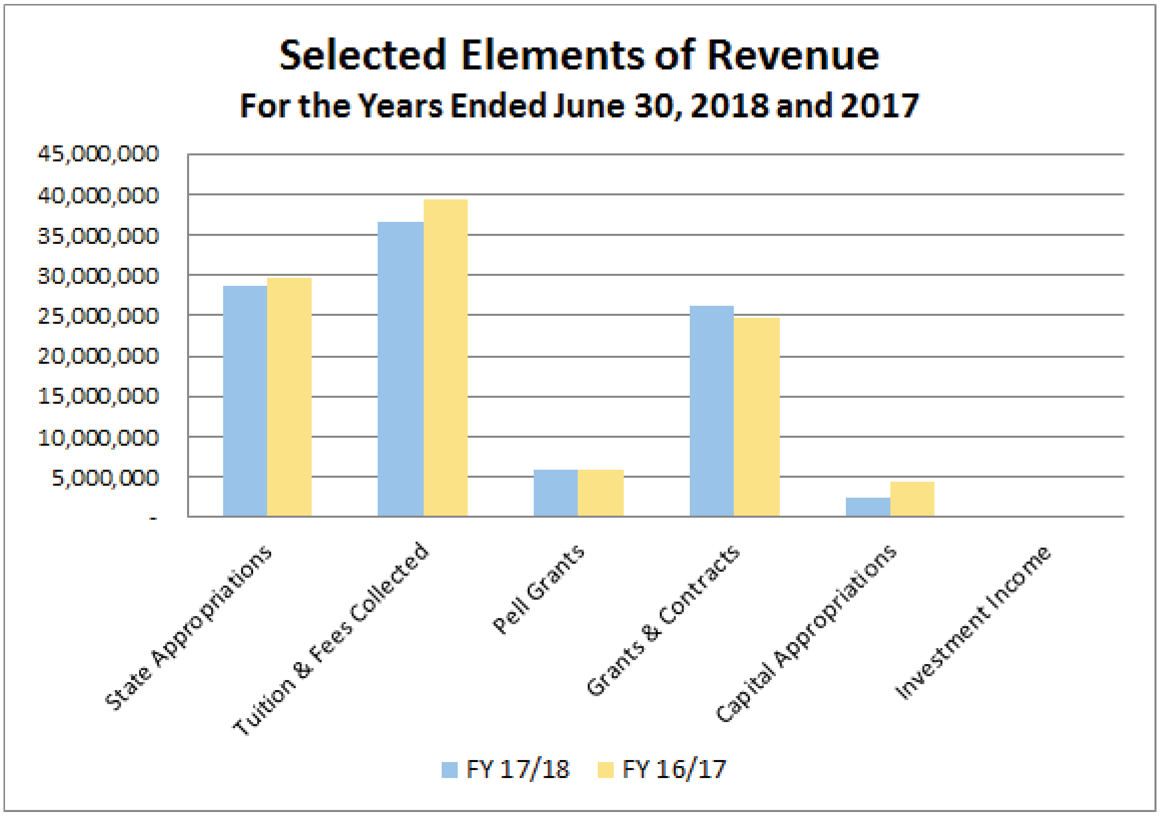
Tuition revenue also decreased as enrollments decreased in FY 2017 and FY 2018, which resulted in the College falling short of its state target by 641 FTEs. Strained by various national and global political, economic, and social pressures, the College's international program was among one of the hardest hit by lower enrollment, losing about 90 contract FTEs in FY 2018. Other contracted, community service, Running Start, and other miscellaneous categories gained about 67 FTEs, primarily from increased enrollments of students through eLearning, Running Start, and Corrections programs. Overall, in FY 2018 the total number of FTEs decreased by 193.

Pell grant revenues generally follow enrollment trends. The marginal increase in Pell grant revenue in FY 2018, despite decreased enrollment, is the result of a change in the mix of students; in other words, more students applied and qualified for Pell grants in FY 2018. For FY 2018, the College attempted to hold other fees as stable as possible, resulting in only small changes in revenues from other fees. In addition, the College offers some programs on a fee-only basis as allowed by law. Examples include the Creative Retirement Institute and Intensive English as a Second Language.

The overall revenue in grant-funded programs and activities has increased in FY 2018. State-supported grants and contracts show an increase of $900K when compared with FY 2017, and federal revenues increased by $480K during these same two years. The College continues to manage more grant and contract dollars than any other single community college in the state. 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 as mentioned above.

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.

The chart below shows the dollar amount for selected elements of revenue for FY 2018 and FY 2017.



Note: for the purpose of this chart, tuition and fees reflect the amounts collected and may include amounts students paid with PELL Grant proceeds.

Expenses

Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Overall, the college has kept expense growth to less than 1% year to year and in fact reduced total operating expenses by 1% from FY 2017 to FY 2018. This is largely due to efforts to decrease spending and services as well as various state spending freezes and employee salary reductions. More recently, in FY 2018, salary and benefit costs increased as result of the 2.0% salary increase and salary schedule adjustments enacted by the legislature, negotiated increases for classified staff, and additional staff needed to support the ctcLink project. These increases were mitigated in part by staff turnover and replacement position savings, and because of the need for fewer part time faculty due to declining enrollment.

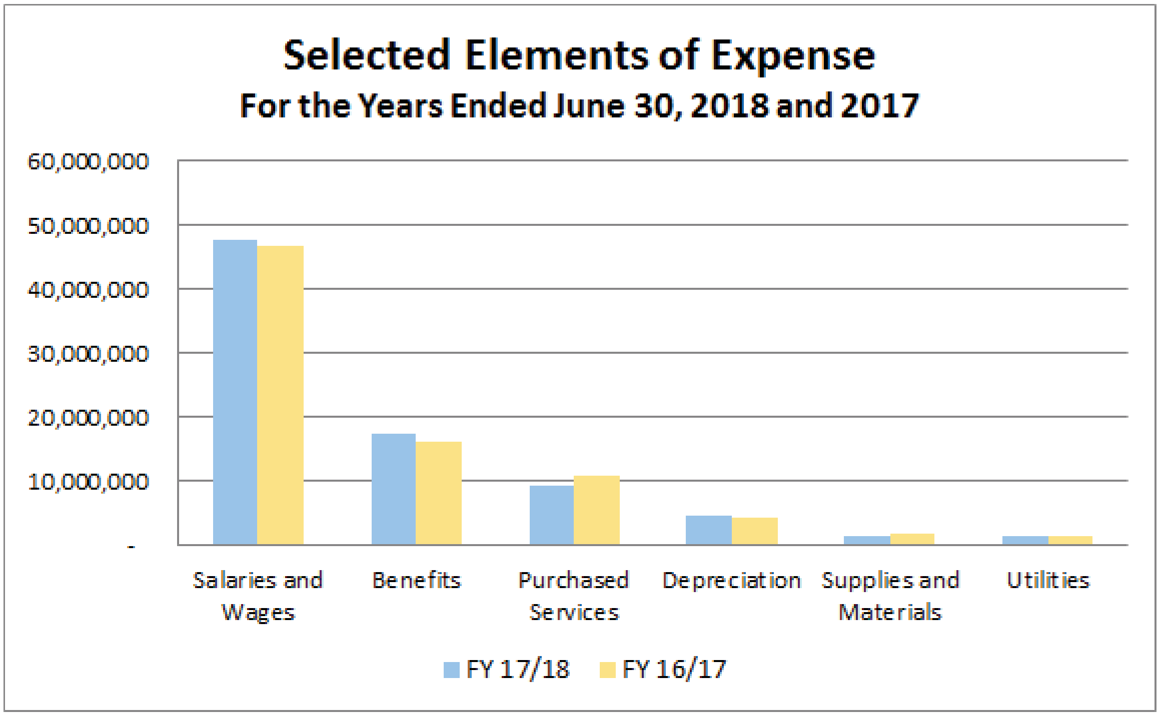
Utility costs increased only slightly for electricity, heating, fuel, container hauling, and water/sewage, due to rate increases, but this has been mitigated by the College's efforts to reduce utility usage with the help of several energy-saving projects supported by grants, local funds, and state capital allocation. As utility rates continue to increase, however, utility expenses are expected to continue growing.

Supplies and materials and purchased services decreased by over $1.6M due primarily to reduced capital spending. Certain capital project costs do not meet accounting criteria for capitalization and are instead recognized as supplies and materials or purchased services costs; these fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when large depreciable assets are placed in service.

All other costs are reported as other operating expenses. Examples include short-term lease and other rental payments, repairs and maintenance, professional development dues and fees, non-capitalized furniture and equipment, and some costs related to grant/contract or auxiliary activities.

Comparison of Selected Operating Expenses by Function

The chart below shows the dollar amount for selected functional areas of operating expenses for FY 2018 and FY 2017.



Capital Assets and Long-Term Debt Activities

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

At June 30, 2018, the College had invested $93,266,091 in capital assets, net of accumulated depreciation. This represents a decrease of $1,592,632 from last year, as shown in the table below.

Asset Type	June 30, 2018	June 30, 2017	Change
Land	6,326,372	6,326,372	0
Construction in Progress	5,683,420	3,153,337	2,530,083
Buildings, net	73,648,536	76,782,128	(3,133,592)
Other Improvements/Infrastructure, net	4,975,451	5,558,628	(583,177)
Equipment, net	2,543,350	2,938,080	(394,730)
Library Resources, net	88,962	100,178	(11,216)
Total Capital Assets, Net	**93,266,091**	**94,858,723**	**(1,592,632)**

The decrease in net capital assets can be attributed to depreciation of $4.7M, offset by the ongoing acquisition of equipment and library resources and continued work on construction in progress. The two projects in construction include the Science, Engineering, and Technology (SET) building at $4,950,888 and the student center remodel at $732,532. Land and Construction in Progress are never depreciated.

At June 30, 2018, the College had $6,447,846 in outstanding debt compared to $7,483,273 at June 30, 2017. The decrease is due to the short-term debt service payment of $1,035,427. The College has no other capital leases at this time. Additional information of notes payable, long term debt and debt service schedules can be found in Notes 11 and 12 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

In FY 2017, the 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 the decrease in enrollment, it is estimated that the College will likely see a decrease in state operating appropriations in future years. The new model resulted in a roughly $1.9m decrease in the College's allocation, to be phased in over a four-year period.

The legislators failed to timely pass the capital budget for the biennium beginning July 1, 2017. As a result, many projects across the state, including the College's Science, Engineering, and Technology (SET) building, were delayed. The delay resulted in ongoing escalation cost increases which were not fully funded in the capital budget approved in the winter of 2018. The College expects to fund the shortage locally through reserves and a Foundation capital campaign.

Despite these challenges, the College has made significant progress in creating additional opportunities for students. Most notably, the College's first four-year degree program, the Bachelor of Applied Science in Child, Youth, and Family Studies, commenced fall quarter of 2017. Statewide growth in demand for such programs bodes well for future enrollment. Furthermore, the College's new President, Dr. Amit Singh, started in June, 2018. His new perspective, experience, and vision for the College have been a welcome addition. Similarly, various changes to the leadership team have created opportunities for strategic alignment across departments and functions. All in all, the College is positioned well for the future.

Edmonds Community College
Statement of Net Position
June 30, 2018

Assets	
Current assets	
Cash and cash equivalents	7,434,361
Cash and cash equivalents - restricted	80,560
Short-term investments	6,996,510
Accounts receivable, net	5,618,322
Interest receivable	38,832
Total current assets	20,168,585
Non-Current Assets	
Long-term investments	17,151,797
Capital assets, non-depreciable	12,009,792
Capital assets, net of depreciation	81,256,299
Total non-current assets	110,417,888
Total Assets	**130,586,473**
Deferred Outflows of Resources	
Deferred Outflows of Resources Related to Pensions	2,555,150
Deferred Outflows of Resources Related to OPEB	557,463
Total Deferred Outflows of Resources	**3,112,613**
Liabilities	
Current Liabilities	
Accounts payable	796,271
Accrued liabilities	3,084,393
Unearned revenue	3,420,892
Compensated absences	2,314,740
Certificates of participation payable	729,254
Pension liability, short term	80,038
OPEB liability, short term	3,457,833
Total current liabilities	13,883,421
Non-Current Liabilities	
Compensated absences	3,005,748
Pension liabilty	14,270,956
OPEB liability	31,767,478
Certificates of participation payable	5,718,592
Total non-current liabilities	54,762,774
Total Liabilities	**68,646,195**
Deferred Inflows of Resources	
Deferred Inflows of Resources Related to Pensions	3,769,303
Deferred Inflows of Resources Related to OPEB	6,323,156
Total Deferred Inflows of Resources	**10,092,459**
Net Position	
Net Investment in Capital Assets	86,818,245
Restricted for:	
Institutional financial aid	80,560
Unrestricted (Deficit)	(31,938,373)
Total Net Position	**54,960,432**

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

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

Operating Revenues	
Student tuition and fees, net	36,726,587
Auxiliary enterprise sales, net	3,995,772
State and local grants and contracts	16,067,779
Federal grants and contracts	10,168,353
Other operating revenues	1,733,361
Total operating revenue	68,691,852
Operating Expenses	
Salaries and wages	47,805,889
Benefits	17,358,466
Scholarships and fellowships	10,875,941
Purchased services	9,395,776
Depreciation	4,700,253
Operating leases	3,412,873
Furniture & equipment (non-capital)	1,981,974
Supplies and materials	1,591,425
Utilities	1,334,588
Other operating expenses	7,555,729
Total operating expenses	106,012,914
Operating income (loss)	(37,321,062)
Non-Operating Revenues (Expenses)	
State appropriations	28,731,425
Federal Pell grant revenue	5,949,193
Investment income, gains and losses	67,021
Building fee remittance	(1,472,630)
Innovation fund remittance	(368,118)
Interest on indebtedness	(353,189)
Net non-operating revenues (expenses)	32,553,702
Income or (loss) before capital appropriations	(4,767,360)
Capital appropriations	2,468,555
Increase (decrease) in net position	**(2,298,805)**
Net Position	
Net position, beginning of year	96,091,455
Cumulative effect of change in accounting principle (Note 2)	(38,832,218)
Adjusted net position, beginning of year	57,259,237
Net position, end of year	**54,960,432**

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

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

Cash Flow from Operating Activities	
Student tuition and fees	36,666,894
Grants and contracts	25,182,489
Payments to vendors	(23,621,652)
Payments for utilities	(1,495,756)
Payments to employees	(47,617,837)
Payments for benefits	(16,612,616)
Auxiliary enterprise sales	3,997,150
Payments for scholarships and fellowships	(10,875,941)
Other receipts	1,736,485
Net cash used by operating activities	(32,640,784)
Cash Flow from Noncapital Financing Activities	
State appropriations	27,472,308
Pell grants	5,949,193
Building fee remittance	(1,464,962)
Innovation fund remittance	(366,245)
Net cash provided by noncapital financing activities	31,590,294
Cash Flow from Capital and Related Financing Activities	
Capital appropriations	2,623,837
Purchases of capital assets	(3,107,621)
Principal paid on capital debt	(1,035,427)
Interest paid	(353,189)
Net cash used by capital and related financing activities	(1,872,400)
Cash Flow From Investing Activities	
Purchases of investments	(3,002,633)
Income from investments	316,902
Net cash used by investing activities	(2,685,731)
Decrease in Cash and Cash Equivalents	(5,608,621)
Cash and Cash Equivalents at the Beginning of the Year	13,123,542
Cash and Cash Equivalents at the End of the Year	**7,514,921**
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	(37,321,062)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities	
Depreciation expense	4,700,253
Changes in assets and liabilities	
Receivables, net	(909,925)
Accounts payable	220,481
Accrued liabilities	34,167
Unearned revenue	(198,909)
Compensated absences	101,146
Pension liability adjustment	(1,425,722)
OPEB liability adjustment	2,158,786
Net cash used by operating activities	**(32,640,785)**
Noncash Financing, Capital, and Investing Activities	
Net decrease in fair value of investments	(252,679)

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

Edmonds Community College Foundation
Statement of Financial Position
June 30, 2018

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 255,538
Short-term investment	20,081
Receivables, net	90,385
Prepaid expenses	33,985
TOTAL CURRENT ASSETS	399,989
OTHER ASSETS:	
Other assets	5,816
Long-term investments	4,924,976
Property and equipment, net	556
Cash and cash equivalents restricted for Title III grant	0
Title III grant investments	820,347
Split-interest agreements	813,746
TOTAL OTHER ASSETS	6,565,441
	$ 6,965,430

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 45,476
Advance sponsorships	0
TOTAL CURRENT LIABILITIES	45,476
NET ASSETS:	
Unrestricted:	
Designated for endowments	706,581
Undesignated	300,264
Total unrestricted net assets	1,006,845
Temporarily restricted	2,092,141
Permanently restricted	3,820,968
TOTAL NET ASSETS	6,919,954
	$ 6,965,430

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

Edmonds Community College Foundation
Statement of Activities
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Contributions	$ 128,902	$ 199,307	$ 38,153	$ 366,362
In-kind contributions	211,236	73,728	0	284,964
Special events revenue	401,232	36,450	0	437,682
Investment income	23,001	46,747	0	69,748
Net realized and unrealized gain on investments	36,429	254,015	0	290,444
Change in value of split-interest agreements	0	0	50,109	50,109
Net assets released from restrictions	352,186	(352,186)	0	0
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,152,986	258,061	88,262	1,499,309
EXPENSES:				
College program support	311,653	0	0	311,653
Scholarships	402,265	0	0	402,265
Total program support	713,918	0	0	713,918
Administration	170,432	0	0	170,432
Fundraising	342,200	0	0	342,200
Total support services	512,632	0	0	512,632
TOTAL EXPENSES	1,226,550	0	0	1,226,550
CHANGE IN NET ASSETS	(73,564)	258,061	88,262	272,759
BEGINNING NET ASSETS	1,080,409	1,834,080	3,732,706	6,647,195
ENDING NET ASSETS	$1,006,845	$2,092,141	$ 3,820,968	$ 6,919,954

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

Edmonds Community College Foundation

Statement of Cash Flows

For the Year Ended June 30, 2018

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:	
Change in net assets	$ 272,759
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Change in allowance for uncollectible receivables	0
Contributions restricted for endowments	(38,153)
Net realized and unrealized gain on investments	(290,444)
Depreciation and amortization	(75)
Change in value of split-interest agreements	(50,109)
Reinvested interest on certificate of deposit	(81)
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Receivables	65,409
Prepaid expenses and other assets	44,428
Increase (decrease) in liabilities:	
Accounts payable and advance sponsorships	(26,065)
Total adjustments and changes	(295,090)
	(22,331)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:	
Investment of assets restricted for endowments	(38,153)
Proceeds from sale of investments	1,199,299
Payments for purchases of investments	(1,109,732)
Proceeds from sale of Title III grant investments	157,451
Payments for purchases of Title III grant investments	(198,331)
Net decrease in cash and cash equivalents restricted for Title III grant	19,985
	30,519
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:	
Contributions restricted for endowments	38,153
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,341
BEGINNING CASH AND CASH EQUIVALENTS	209,197
ENDING CASH AND CASH EQUIVALENTS	$ 255,538

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

Notes to the Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Edmonds 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 degrees, certificates, and high school diplomas in addition to a new applied baccalaureate degree. It is governed by a five-member Board of Trustees and one student Trustee, all 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 Edmonds Community College Foundation (the Foundation) is a separate but affiliated non-profit entity incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's mission is to support access, success, and excellence for students, faculty, and staff at the College. Visit the Foundation's home page at http://www.edcc.edu/foundation/. 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 Statements of Financial Position, Activities, and Cash Flows are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2018 ("FY 2018"), the Foundation distributed approximately $713,918 to the College for restricted and unrestricted purposes. The Foundation statements used in this report have been audited by an independent accounting firm. A copy of the Foundation's complete audited financial report may be obtained from the Foundation's Administrative Offices by calling 425-640-1274 or emailing foundation@edcc.edu.

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 bank demand deposits, petty cash held at the College, inter-agency deposits-in-transit, and liquid asset investments. 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. The College records all investments at fair market value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is distributed annually to contributing funds with the remainder allocated for general operating needs of the College. The internal investment pool is comprised of cash, cash equivalents, and U.S. Treasury and Agency securities.

Accounts Receivable

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

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, infrastructure, 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 15 to 50 years for buildings and building improvements, 10 to 50 years for improvements other than buildings, 7 years for library resources and 4 to 13 years for most equipment.

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

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but relate to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer quarter tuition and fees and advanced grant proceeds 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 in fiscal year 2017 ("FY 2017"), the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB Statement No. 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 the current fiscal year-end as the measurement date for reporting the pension liabilities.

OPEB Liability

In FY 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 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 who 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 property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets.

- *Restricted.* Resources in this category are those the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties. The primary restricted expendable funds for the College are for the Institutional Financial Aid fund. All non-expendable restricted funds are directed to the Edmonds Community College's Foundation.

- *Unrestricted*. This 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. These resources are 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 restricted resources and then towards unrestricted 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 College. Examples include a contract with OSPI to offer Running Start. The College also receives Adult Basic Education grants that support the primary educational mission of the College.

- *Operating Expenses.* Operating expenses include salaries and wages, fringe benefits, student financial aid, purchased services, depreciation, operating lease expense, non-capital furniture & equipment, supplies and materials, utilities, and other expenses that are directly related to principal operations of the College.

- *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 remittances related to the building fee and the innovation fee along with interest incurred on the Certificate of Participation (COP) 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 charges 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 FY 2018, were $4,931,080.

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 Statement of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance
Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The building fee portion of tuition charged to students is an amount established by the legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system-wide basis using a competitive biennial allocation process. The building fee is remitted on the 35th day of each quarter.

The innovation fee was established in order to fund the SBCTC's Strategic Technology Plan called "ctcLink." The use of the fund is to implement new Enterprise Resource Planning software across the entire system. On a monthly basis, the College remits the portion of tuition collected for the innovation fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the Statement of Revenues, Expenses, and Changes in Net Position.

2. Accounting and Reporting Changes

Reporting Changes

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

Due to the implementation of GASB 75, the College has a deficit unrestricted net position of $31,938,373. This new accounting standard requires the College to recognize its portion of the state's total OPEB liability, reducing net position by a substantial amount. Additional information regarding GASB 75 can be found in Note 14.

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

Cumulative Effect of a Change in Accounting Principle

Beginning net position was restated by $38,832,218 in FY 2018 as a result of implementing GASB 75.

Accounting Standard Impacting the Future

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

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

3. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College, inter-agency deposits-in-transit, and liquid asset investments. 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.

As of June 30, 2018, the carrying amount of the College's cash and equivalents was $7,514,921 as represented in the table below. The decrease in FY 2018 is due to the continued effort to convert liquid investments into long-term investments. Additionally, in FY 2018, the College decreased its bank demand and time deposits after having maintained increased levels of available contingency funds in FY 2017 in response to delays by the state legislature in passing the budget for the biennium beginning July 1, 2017.

Cash and Cash Equivalents	June 30, 2018	June 30, 2017
Petty Cash and Change Funds	13,700	14,875
Inter-agency Deposits in Transit	19,416	40,536
Bank Demand and Time Deposits	256,088	2,996,636
Liquid Asset Accounts	7,145,157	9,992,451
Liquid Asset Accounts - Restricted	80,560	79,044
Total Cash and Cash Equivalents	**7,514,921**	**13,123,542**

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College may not recover its deposits. The College's Cash and Investment Management Policy states that investments will be handled in a manner which provides maximum security with the highest investment return while meeting the daily cash flow demands of the College and conforming to all state laws governing the investment of public funds. The College's demand deposits are with U.S. Bank of Washington. 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 (WPDPC).

Investments Measured at Fair Value

General College investments consist of U.S. Treasury and Agency securities safeguarded by a registered financial institution.

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Unrealized gains and losses are included in the Statement of Revenues, Expenses, and Changes in Net Position.

As of June 30, 2018, the College had the following investments and maturities measured at fair value:

Investment Maturities	Total	One Year or Less	1-5 Years	6-10 Years	10 or More Years
Investments at Fair Value (Level 1):					
U.S. Government Treasury	1,005,721	1,005,721	0	0	0
U.S. Agency Obligations	23,142,586	5,990,789	17,151,797	0	0
Total Investments	**24,148,307**	**6,996,510**	**17,151,797**	**0**	**0**

U.S. Treasury and Agency obligations are reported at fair market value listed by the financial institution (Level 1 inputs).

Interest Rate Risk—Investments
Interest rate risk is the risk the College may face should interest rate variances affect the fair value of investments. The College manages its exposure to changes in interest rates by staggering portfolio maturity dates. Unless matched to a specific grant, the college will not directly invest in securities maturing more than four years from the date of purchase.

Credit Risk—Investments
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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. The College's operating fund investments are held by U.S. Bank of Washington as the agent for the College. At June 30, 2018, investments totaling $24,148,307 were exposed to custodial credit risk.

Concentration of Credit Risk—Investments
Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. College policy does not limit the amount the College may invest in any one issuer. 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.

Foreign Currency Risk
The College has no foreign currency risk.

Investment Expenses
Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The College incurred no investment expenses for FY 2018.

4. Accounts Receivable

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

Accounts Receivable	Amount
Student Tuition and Fees	509,196
Due from the Federal Government	230,082
Due from Other State Agencies	2,058,766
Auxiliary Enterprises	144,789
Other	2,848,641
Subtotal	**5,791,474**
Less Allowance for Uncollectable Accounts	(173,152)
Total Accounts Receivable, net	**5,618,322**

5. Capital Assets

A summary of the changes in capital assets for FY 2018 is presented as follows. Depreciation expense for FY 2018 was $4,700,253.

Capital Assets	Beginning Balance	Additions / Transfers	Retirements	Ending Balance
Capital Assets, Non-depreciable:				
Land	6,326,372	0	0	6,326,372
Construction in Progress	3,153,337	2,530,083	0	5,683,420
Total Capital Assets, Non-depreciable	**9,479,709**	**2,530,083**	**0**	**12,009,792**
Capital Assets, Depreciable:				
Buildings	123,290,208	0	0	123,290,208
Other Improvements & Infrastructure	24,257,840	0	0	24,257,840
Equipment	8,589,152	536,976	(342,580)	8,783,548
Library Resources	302,796	40,562	(51,438)	291,920
Subtotal Capital Assets, Depreciable	**156,439,996**	**577,538**	**(394,018)**	**156,623,516**

(continued)

Capital Assets (continued)	Beginning Balance	Additions / Transfers	Retirements	Ending Balance
Subtotal Capital Assets, Depreciable	**156,439,996**	**577,538**	**(394,018)**	**156,623,516**
Less Accumulated Depreciation:				
Buildings	46,508,080	3,133,592	0	49,641,672
Other Improvements & Infrastructure	18,699,212	583,177	0	19,282,389
Equipment	5,651,072	931,706	(342,580)	6,240,198
Library Resources	202,618	51,778	(51,438)	202,958
Total Accumulated Depreciation	**71,060,982**	**4,700,253**	**(394,018)**	**75,367,217**
Total Capital Assets, Depreciable, net	**85,379,014**	**(4,122,715)**	**0**	**81,256,299**
Total Capital Assets, net of Accumulated Depreciation	**94,858,723**	**(1,592,632)**	**0**	**93,266,091**

6. Accounts Payable and Accrued Liabilities

At June 30, 2018, accrued liabilities were as follows:

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	1,510,655
Accounts Payable	796,271
Amounts Held for Others	1,573,738
Total Accounts Payable and Accrued Liabilities	**3,880,664**

7. Unearned Revenue

Unearned revenue as of June 30, 2018, is comprised of receipts which have not yet met revenue recognition criteria, as follows:

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	1,302,751
Advance Grant Fees & Other Deposits	2,118,141
Total Unearned Revenue	**3,420,892**

8. 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.

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 damage 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. The College finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees, except student employees. Liabilities for claims from July 1, 2017, through June 30, 2018, were $127,752. Cash reserves for unemployment compensation for all employees at June 30, 2018, were $232,491.

9. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire receive 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. Exempt employees also receive their accumulated vacation time credited to their VEBA account. 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.

An estimated amount, based on a two-year average payout, is accrued as a current liability. The remaining amount of accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

The balances of accrued compensated absences at June 30, 2018, were as follows:

Compensated Absences	Current	Non-Current	Total
Accrued Sick Leave	1,391,159	1,806,908	3,198,067
Accrued Vacation	923,000	1,198,840	2,121,840
Accrued Compensatory Leave	581	0	581
Total Compensated Absences	**2,314,740**	**3,005,748**	**5,320,488**

10. Leases Payable

Capital Leases

The College finances some capital asset purchases and energy improvements through the Washington State Treasurer's leasing program. These are commonly called Certificates of Participation (COP) and are classified as capital leases.

The assets acquired through COPs are pledged as collateral under their respective lease/finance agreements. Nonpayment, whether due to qualified termination events or default, would result in relinquishing the secured assets and may impact the College's ability to secure financing in the future. The College does not foresee any such events. Assets subject to COP agreements as of June 30, 2018 in the table below are reported at full cost and depreciation thereon, which includes the amounts funded by proceeds from COPs as well as additional costs incurred by the College and capitalized in accordance with State and College policy.

Assets Acquired through Capital Leases	Amount
Machinery & Equipment	436,455
Buildings & Improvements	14,426,452
Less: Accumulated Depreciation	(4,301,655)
Total Assets Acquired through Capital Leases, Net	**10,561,252**

Expense resulting from amortization of assets recorded under capital leases is included with depreciation expense.

As of June 30, 2018, the outstanding COPs included:

Certificates of Participation	Interest Rate	Lease End Date	Original or Refunded Amount	FY 2018 Payment
Energy Improvements	2.89066%	6/1/2020	1,600,000	171,856
Compactor	2.19828%	6/1/2025	40,888	3,571
Black Box Theatre	2.11666%	6/1/2027	1,700,000	130,000
Brier Hall	2.12005%	6/1/2027	5,320,000	400,000

Nearly all COP debt service payments are funded by the College's Debt Service Reserve (DSR). The exceptions to this are the Brier Hall COP, which is funded by a dedicated fee assessed by the students to pay principal and interest costs, and the industrial compactor, which is funded by the general operating budget. With Board approval, the College initiated a Debt Service Reserve for COP debt service payments in the fiscal year ended June 30, 2010. The following year, the board approved transferring the Reserve Fund Balance ($3.2M) to the DSR. The initial Board approval also included the availability of inter-fund borrowing. The ending balance of the DSR at June 30, 2018, was $6,791,576. Debt payments from this reserve totaled $889,333 for FY 2018. Additions to the DSR in FY 2018 included $1.4M in transfers from uncommitted funds in order to cover future debt service payments.

Operating Leases
The College also has leases for office/program space, residence halls, parking, and office equipment with various vendors. These leases are classified as operating leases. Terms range from month-to-month arrangements up to 10-year contracts and may contain renewal options. Total cost for such leases was $3,412,873 in FY 2018.

The College's operating leases and debt service requirements for capital leases, as of June 30, 2018, are listed in Note 11.

11. Annual Debt Service and Operating Lease Requirements

Future debt service and operating lease requirements at June 30, 2018, are as follows.

Annual Debt Service and Operating Lease Requirements				
	Certificates of Participation			Operating Leases
Fiscal Year	Principal	Interest	Total	Total
2019	729,254	313,576	1,042,830	3,191,155
2020	760,605	280,802	1,041,407	3,191,155
2021	614,149	247,899	862,048	3,191,155
2022	644,362	217,192	861,554	0
2023	674,586	184,974	859,560	0
2024-2028	3,024,890	386,998	3,411,888	0
Total Requirements	**6,447,846**	**1,631,441**	**8,079,287**	**9,573,465**

12. Schedule of Long Term Liabilities

Long term liabilities reported as of June 30, 2018, consist of the following:

	Beginning Balance 6/30/2017	Additions	Reductions	Ending Balance 6/30/2018	Current Portion
Compensated Absences*	5,219,342	2,399,225	(2,298,079)	5,320,488	2,314,740
OPEB Liability**	39,427,675	3,506,644	(7,709,008)	35,225,311	3,457,833
Pension Liability	18,469,655	2,244,429	(6,363,090)	14,350,994	80,038
Certificates of Participation	7,483,273	0	(1,035,427)	6,447,846	729,254
Total Long Term Liabilities	**70,599,945**	**8,150,298**	**(17,405,604)**	**61,344,639**	**6,581,865**

* The ending balance in the FY 2017 Annual Financial Report, $38,832,218, contained long-term sick and vacation leave only. Compensatory leave is always categorized as a short-term current liability and was excluded from this schedule. See Note 9. To simplify reconciliation to the Statement of Net Position, the beginning balance has been restated by $1,452 to include compensatory time in the total balance of compensated absences. Accordingly, the balance of compensatory time is also included in the current portion.

** There was no ending balance of OPEB Liability in the FY 2017 Annual Financial Report. This has been restated to reflect the liability resulting from the implementation of GASB 75.

13. Pension Liability

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

Pension Plan	Pension Liability by Plan
PERS 1	4,808,235
PERS 2/3	4,431,510
TRS 1	580,407
TRS 2/3	161,026
SRP	4,369,816
Total Pension Liabilities	**14,350,994**

14. Retirement Plans

A. General

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

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

Covered Payroll by Plan	Amount
PERS	13,502,621
TRS	1,065,961
SBRP	27,990,181
Total Covered Payroll by Plan	**42,558,763**

Basis of Accounting

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

In accordance with GASB 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 and 73 for Edmonds Community College for FY 2018:

Aggregate Pension Amounts - All Plans	Amount
Pension liabilities	14,350,994
Deferred outflows of resources related to pensions	2,555,150
Deferred inflows of resources related to pensions	3,769,303
Pension expense	498,790

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

PERS and TRS

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

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

The college also has one faculty member with pre-existing eligibility who continues to participate in TRS Plan 1.

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

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

The College and the employees made 100% of required contributions

Contribution Rates and Required Contributions. The College's contribution rates, expressed as a percentage of current year covered payroll, and required contributions for the above retirement plans for the fiscal years ended June 30, 2018, 2017, and 2016, are as follows.

Contribution Rates at June 30th						
	FY 2016		FY 2017		FY 2018	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	11.18%	6.00%	11.18%	6.00%	12.70%
Plan 2	6.12%	11.18%	6.12%	11.18%	7.38%	12.70%
Plan 3	5-15%	11.18%	5-15%	11.18%	5-15%	12.70%
TRS						
Plan 1	6.00%	13.13%	6.00%	13.13%	6.00%	15.20%
Plan 3	5-15%	13.13%	5-15%	13.13%	5-15%	15.20%

Required Contributions						
	FY 2016		FY 2017		FY 2018	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	8,924	625,128	7,278	609,534	8,605	690,653
Plan 2	578,629	585,838	562,951	569,218	697,474	707,613
Plan 3	235,427	207,747	233,367	209,801	265,217	294,040
TRS						
Plan 1	7,298	50,988	3,548	67,183	2,868	79,598
Plan 3	63,513	65,333	80,754	64,285	81,709	78,970

Investments

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

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

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

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

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

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

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

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

Pension Expense

Pension expense is included as part of "Employee Benefits" expense in the Statement of Revenues, Expenses, and Changes in Net Position. The table below shows the components of each pension plan's expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	300,130	616,196	37,316	57,893	**1,011,535**
Amortization of change in proportionate share of liability	(466,042)	(89,828)	(58,615)	15,556	**(598,929)**
Total Pension Expense	**(165,912)**	**526,368**	**(21,299)**	**73,449**	**412,606**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from FY 2016 to FY 2017 for each retirement plan are listed below:

Pension Plans	FY 2016	FY 2017	Change
PERS 1	0.110233%	0.101331%	-0.008902%
PERS 2/3	0.137467%	0.127543%	-0.009924%
TRS 1	0.020971%	0.019198%	-0.001773%
TRS 2/3	0.016111%	0.017447%	0.001336%

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

Actuarial Assumptions

The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' *Comprehensive Annual Financial Report (CAFR)*. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov. These assumptions reflect the results of Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2015 Economic Experience Study.

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

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

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

Changes in methods and assumptions since the last valuation include:

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

Discount Rate

The discount rate used to measure the net pension liability was 7.50%, 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 7.70% long-term discount rate to determine funding liabilities for calculating future contributions rate requirements.

Consistent with the long-term expected rate of return, a 7.50% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50% on pension plan investments was applied to determine the TPL.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS 1	5,857,349	4,808,235	3,899,477
PERS 2/3	11,938,951	4,431,510	(1,719,725)
TRS 1	721,723	580,407	458,088
TRS 2/3	546,902	161,026	(152,378)

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

The following represent the components of the College deferred outflows and inflows of resources as reflected on the Statement of Net Position for FY 2018:

Deferred Outflows and Inflows By Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 1		
Difference between expected and actual experience	0	0
Difference between expected and actual earnings of pension plan investments	0	179,430
Changes of assumptions	0	0
Changes in College's proportionate share of pension liabilities	0	0
Contributions subsequent to the measurement date	696,208	0
Total PERS Plan 1	**696,208**	**179,430**
PERS Plan 2/3		
Difference between expected and actual experience	449,016	145,745
Difference between expected and actual earnings of pension plan investments	0	1,181,334
Changes of assumptions	47,071	0
Changes in College's proportionate share of pension liabilities	16,056	402,189
Contributions subsequent to the measurement date	1,004,228	0
Total PERS Plan 2/3	**1,516,371**	**1,729,268**

Deferred Outflows and Inflows By Pension Plan (Continued)	Deferred Outflows of Resources	Deferred Inflows of Resources
TRS Plan 1		
Difference between expected and actual experience	0	0
Difference between expected and actual earnings of pension plan investments	0	24,589
Changes of assumptions	0	0
Changes in College's proportionate share of pension liabilities	0	0
Contributions subsequent to the measurement date	80,046	0
Total TRS Plan 1	**80,046**	**24,589**
TRS Plan 2/3		
Difference between expected and actual experience	40,154	8,215
Difference between expected and actual earnings of pension plan investments	0	58,275
Changes of assumptions	1,898	0
Changes in College's proportionate share of pension liabilities	58,710	2,210
Contributions subsequent to the measurement date	78,857	0
Total TRS Plan 3	**179,619**	**68,700**
Grand Total of Deferred Outflows and Inflow of Resources	**2,472,244**	**2,001,987**

The deferred outflows of resources from contributions the College made after the measurement date, in the amount of $1,859,339, will be recognized as a reduction of the net pension liability for FY 2019.

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

Fiscal Year Ending June 30	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2019	(121,283)	(550,593)	(18,061)	(7,277)
2020	38,291	67,327	6,762	23,886
2021	(8,891)	(159,221)	(601)	10,007
2022	(87,547)	(533,115)	(12,689)	(16,573)
2023	0	(18,054)	0	4,587
Thereafter	0	(23,469)	0	17,432
Total Net Deferred (Inflows) Outflows	**(179,430)**	**(1,217,125)**	**(24,589)**	**32,062**

C. College Participation in Plans Administered by the SBCTC

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

Plan Description. The State Board Retirement Plan is a privately administered single-employer defined contribution plan 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. The plan covers faculty and other positions as designated by each participating employer. The SBCTC 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 FY 2018 totaled $2,441,676 and $2,443,519, respectively.

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. Plan members have the option to retire early with reduced benefits. The supplemental benefit is a lifetime benefit equal to the amount by which a member's goal income exceeds their assumed income. The monthly goal income is 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.

The SRP pension benefits are unfunded. For the year ended June 30, 2018, supplemental benefits were paid by the SBCTC on behalf of the College System in the amount of $1,300,000. The College's share of this amount was $65,167. 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 FY 2018, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $139,951. This amount was not used as a part of GASB 73 calculations; its status as an asset has not been determined by the legislature. As of June 30, 2018, the Community and Technical College system accounted for $16,351,270 of the fund balance.

Actuarial Assumptions

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

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

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The 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.

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

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

Discount Rate

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

Pension Expense

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

Pension Expense - SRP	
Proportionate Share (%)	**5.0128%**
Service Cost	191,840
Interest Cost	176,301
Amortization of Differences Between Expected and Actual Experience	(232,294)
Amortization of Changes in Assumptions	(61,507)
Changes of Benefit Terms	0
Administrative Expenses	0
Other Changes in Fiduciary Net Position	0
Proportionate Share of Collective Pension Expense	74,340
Amortization of Change in Proportionate Share of TPL	11,844
Total Pension Expense	**86,184**

Proportionate Share of Pension Liabilities

The College's proportionate share of pension liabilities for FY 2018 was 5.0128%. The College's proportion of the TPL 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 Colleges. The College's change in proportionate share of the TPL and deferred inflows and deferred outflows of resources are represented in the following table:

Change in Proportionate Share	
Proportionate Share (%) 2017	**4.9353%**
Proportionate Share (%) 2018	**5.0128%**
Total Pension Liability - Ending 2017	4,691,004
Total Pension Liability - Beginning 2018	4,764,675
Total Pension Liability - Change in Proportion	73,671
Total Deferred Inflows/Outflows 2017	1,342,205
Total Deferred Inflows/Outflows 2018 (change in proportion)	1,363,284
Total Deferred Inflows/Outflows - Change in Proportion	21,079
Total Change in Proportion	**94,750**

Plan Membership

Membership of the SRP consisted of the following at June 30, 2016, the most recent actuarial valuation date:

Number of Participating Members				
Pension Plan	**Inactive Members (Or Beneficiaries) Currently Receiving Benefits**	**Inactive Members Entitled To But Not Yet Receiving Benefits**	**Active Members**	**Total Members**
SRP	0	0	321	321

Change in Total Pension Liability

The following table presents the change in the TPL of the SRP at June 30, 2018, the latest measurement date for the plan:

Change in Total Pension Liability	
Total Pension Liability	**Amount**
Service Cost	191,840
Interest Cost	176,301
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	(521,432)
Changes in Assumptions	(176,401)
Benefit Payments	(65,167)
Changes in Proportionate Share	73,671
Other	0
Net Change in Total Pension Liability	(321,188)
Total Pension Liability – Beginning	4,691,004
Total Pension Liability – Ending	**4,369,816**

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following table presents the TPL, calculated using the discount rate of 3.87%, as well as what the employers' TPL would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

Pension Plan	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
SRP	4,984,136	4,369,816	3,858,861

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

At June 30, 2018, the SRP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows and Inflows - SRP	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	0	1,392,107
Changes of assumptions	0	375,209
Transactions subsequent to the measurement date	0	0
Changes in proportion	82,906	0
Total Deferred Outflows and Inflows of Resources - SRP	**82,906**	**1,767,316**

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

Fiscal Year Ending June 30	Amount
2019	(281,957)
2020	(281,957)
2021	(281,957)
2022	(281,957)
2023	(281,957)
Thereafter	(274,625)

D. <u>Defined Contribution Plans</u>

Public Employees' Retirement System Plan 3

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

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

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

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

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to Note 14.B for TRS Plan descriptions.

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

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

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

Washington State Deferred Compensation Program

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

15. Other Postemployment Benefits

The College implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions for FY 2018 financial reporting. In addition to pension benefits as described in Note 14, the College, through the Health Care Authority (HCA), administers a single-employer defined benefit other postemployment benefit (OPEB) plan.

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

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

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

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

Summary of Plan Participants As of June 30, 2017	
Active Employees	123,379
Retirees Receiving Benefits *	46,180
Retirees Not Receiving Benefits **	6,000
Total Active Employees and Retirees	**175,559**

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

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

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

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

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

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

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

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

Required Premium *	
Medical	1,025
Dental	79
Life	4
Long-term Disability	2
Total Premium	**1,110**
Employer Contribution	959
Employee Contribution	151
Total Premium	**1,110**

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

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

Total OPEB Liability

As of June 30, 2018, the state reported a total OPEB liability of $5.83 billion. The College's proportionate share of the total OPEB liability is $35,225,311. This liability was determined based on a measurement date of June 30, 2017.

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

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

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

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The Legislature determines the value of 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 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.

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

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

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

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

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

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

Changes in Total OPEB Liability

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

OPEB Liability	
Proportionate Share (%)	**0.6046409843%**
Service Cost	2,388,061
Interest Cost	1,118,583
Differences Between Expected and Actual Experience	0
Changes in Assumptions *	(5,456,465)
Changes of Benefit Terms	0
Benefit Payments	(570,047)
Changes in Proportionate Share	(1,682,496)
Other	0
Net Change in Total OPEB Liability	(4,202,364)
Total OPEB Liability - Beginning	39,427,675
Total OPEB Liability - Ending	**35,225,311**

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

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

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

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
OPEB Liability	42,979,227	35,225,311	29,225,023

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the College, calculated using the health care trend rates of 7% decreasing to 5%, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are one percentage point lower (6% decreasing to 4%) or one percentage point higher (8% decreasing to 6%) than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
OPEB Liability	28,457,203	35,225,311	44,308,714

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

For the year ending June 30, 2018, the College will recognize OPEB expense of $2,158,786. OPEB expense consists of the following elements:

OPEB Expense	
Proportionate Share (%)	**0.6046409843%**
Service Cost	2,388,061
Interest Cost	1,118,583
Amortization of Differences Between Expected and Actual Experience	0
Amortization of Changes in Assumptions	(606,274)
Changes of Benefit Terms	0
Amortization of Changes in Proportion	(184,121)
Administrative Expenses	0
Total OPEB Expense	**2,716,249**

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

Proportionate Share (%)		0.6046409843%
Deferred Outflows and Inflows - OPEB	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**
Difference between expected and actual experience	0	0
Changes of assumptions	4,850,191	0
Transactions subsequent to the measurement date	0	557,463
Changes in proportion	1,472,965	0
Total Deferred Outflows and Inflows of Resources - OPEB	**6,323,156**	**557,463**

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2019. Other 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 (%)	0.6046409843%
Fiscal Year Ending June 30	**Amount**
2019	(790,395)
2020	(790,395)
2021	(790,395)
2022	(790,395)
2023	(790,395)
Thereafter	(2,371,181)

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

OPEB Change in Proportion	
Proportionate Share (%) 2016	**0.6315929255%**
Proportionate Share (%) 2017	**0.6046409843%**
Total OPEB Liability - Ending 2016	39,427,675
Total OPEB Liability - Beginning 2017 (change in proportion)	37,745,179
Total OPEB Liability Change in Proportion	(1,682,496)
Total Deferred Inflows/Outflows 2016	595,457
Total Deferred Inflows/Outflows 2017 (change in proportion)	570,047
Total Deferred Inflows/Outflows Change in Proportion	(25,410)
Total Change in Proportion	**(1,657,086)**

16. Operating Expenses by Program

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

Functional Classification of Operating Expenses	Amount
Instruction	38,265,331
Academic Support Services	8,721,526
Student Services	15,800,396
Institutional Support	12,854,742
Operations & Maintenance of Plant	5,924,398
Auxiliary Services	8,763,624
Student Financial Aid	10,982,644
Public Service	0
Research	0
Depreciation	4,700,253
Total Operating Expenses	**106,012,914**

17. Commitments and Contingencies

The College has commitments of $49.4M for various capital improvement projects that include $1.7M for new construction, renovations of existing buildings, infrastructure and energy projects, and $47.7M in construction funding for the Science, Engineering, and Technology (SET) building.

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.

18. Subsequent Events

Management is not aware of any subsequent events requiring disclosure or adjustments in the financial statements.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Proportionate Share of the Net Pension Liability
Measurement Date of June 30*

Pension Plan	College's proportion of the net pension liability	College's proportionate share of the net pension liability	College's 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
PERS Plan 1					
2014	0.117045%	$ 5,896,196	$ 12,338,181	47.79%	61.19%
2015	0.110928%	$ 5,802,566	$ 12,390,671	46.83%	59.10%
2016	0.110233%	$ 5,920,030	$ 12,979,683	45.61%	57.03%
2017	0.101331%	$ 4,808,235	$ 12,629,259	38.07%	61.24%
2018					
2019					
2020					
2021					
2022					
2023					
PERS Plan 2/3					
2014	0.138764%	$ 2,804,922	$ 11,877,166	23.62%	93.29%
2015	0.136727%	$ 4,885,335	$ 12,130,874	40.27%	89.20%
2016	0.137467%	$ 6,921,361	$ 12,825,420	53.97%	85.82%
2017	0.127543%	$ 4,431,510	$ 12,510,787	35.42%	90.97%
2018					
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Proportionate Share of the Net Pension Liability
Measurement Date of June 30*

Pension Plan	College's proportion of the net pension liability	College's proportionate share of the net pension liability	College's 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
TRS Plan 1					
2014	0.016377%	$ 483,032	$ 574,573	84.07%	68.77%
2015	0.014887%	$ 471,641	$ 582,543	80.96%	65.70%
2016	0.020971%	$ 716,015	$ 913,462	78.38%	62.07%
2017	0.019198%	$ 580,407	$ 1,016,963	57.07%	65.58%
2018					
2019					
2020					
2021					
2022					
2023					
TRS Plan 2/3					
2014	0.010302%	$ 33,274	$ 438,998	7.58%	96.81%
2015	0.009845%	$ 83,072	$ 459,312	18.09%	92.48%
2016	0.016111%	$ 221,245	$ 791,872	27.94%	88.72%
2017	0.017447%	$ 161,026	$ 957,853	16.81%	93.14%
2018					
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information
Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Schedule of Contributions
Fiscal Year Ended June 30

Pension Plan	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency or (excess)	Covered payroll	Contributions as a percentage of covered payroll
PERS Plan 1					
2014	$ 518,078	$ 518,078	$ 0	$ 12,338,181	4.20%
2015	$ 509,826	$ 509,826	$ 0	$ 12,390,671	4.11%
2016	$ 625,128	$ 625,128	$ 0	$ 12,979,683	4.82%
2017	$ 609,534	$ 609,534	$ 0	$ 12,629,259	4.83%
2018	$ 690,653	$ 690,653	$ 0	$ 13,517,308	5.11%
2019					
2020					
2021					
2022					
2023					
PERS Plan 2/3					
2014	$ 586,192	$ 586,192	$ 0	$ 11,877,166	4.94%
2015	$ 609,052	$ 609,052	$ 0	$ 12,130,874	5.02%
2016	$ 793,585	$ 793,585	$ 0	$ 12,825,420	6.19%
2017	$ 779,019	$ 779,019	$ 0	$ 12,510,787	6.23%
2018	$1,001,653	$1,001,653	$ 0	$ 13,373,889	7.49%
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information
Pension Plan Information

Cost Sharing Employer Plans for Edmonds Community College
Schedule of Contributions
Fiscal Year Ended June 30

Pension Plan	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency or (excess)	Covered payroll	Contributions as a percentage of covered payroll
TRS Plan 1					
2014	$ 32,386	$ 32,386	$ 0	$ 574,573	5.64%
2015	$ 33,314	$ 33,314	$ 0	$ 582,543	5.72%
2016	$ 50,988	$ 50,988	$ 0	$ 913,462	5.58%
2017	$ 67,183	$ 67,183	$ 0	$ 1,016,963	6.61%
2018	$ 79,598	$ 79,598	$ 0	$ 1,069,270	7.44%
2019					
2020					
2021					
2022					
2023					
TRS Plan 2/3					
2014	$ 25,279	$ 25,279	$ 0	$ 438,998	5.76%
2015	$ 26,164	$ 26,164	$ 0	$ 459,312	5.70%
2016	$ 65,333	$ 65,333	$ 0	$ 791,872	8.25%
2017	$ 64,285	$ 64,285	$ 0	$ 957,853	6.71%
2018	$ 78,970	$ 78,970	$ 0	$ 1,021,470	7.73%
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information
Pension Plan Information

State Board Supplemental Retirement Plan
Schedule of Changes in Total Pension Liability and Related Ratios
Fiscal Year Ended June 30*

Total Pension Liability (TPL)	2018	2017
Changes in Total Pension Liability		
Service Cost	191,840	267,345
Interest	176,301	173,426
Changes of Benefit Terms	0	0
Differences Between Expected and Actual Experience	(521,432)	(1,250,408)
Changes in Assumptions	(176,401)	(295,131)
Benefit Payments	(65,167)	(44,516)
Change in Proportionate Share of TPL	73,671	0
Other	0	0
Net Change in Total Pension Liability	(321,188)	(1,149,284)
Total Pension Liability – Beginning	4,691,004	5,840,288
Total Pension Liability – Ending	**4,369,816**	**4,691,004**
College's Proportion of the Pension Liability	5.012810%	4.935302%
Covered-Employee Payroll	27,990,181	27,200,979
Total Pension Liability as a Percentage of Covered-Employee Payroll	15.611960%	17.245718%

* This schedule is to be built prospectively until it contains 10 years of data.

Notes to Required Supplementary Information

The State Board Supplemental Retirement Plans are financed on a pay-as-you-go basis. State institutions of higher education make 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 Benefit Plan Information

Schedule of Changes in Total OPEB Liability and Related Ratios
Fiscal Year Ended June 30*

Total OPEB Liability	**2018**
Changes in Total OPEB Liability	
Service Cost	2,388,061
Interest	1,118,583
Differences Between Expected and Actual Experience	0
Changes in Assumptions	(5,456,465)
Changes of Benefit Terms	0
Benefit Payments	(570,047)
Change in Proportionate Share	(1,682,496)
Other	0
Net Change in Total OPEB Liability	(4,202,364)
Total OPEB Liability – Beginning	39,427,675
Total OPEB Liability – Ending	**35,225,311**
College's proportion of the Total OPEB Liability (%)	0.604641%
Covered-Employee Payroll	39,614,231
Total OPEB Liability as a Percentage of Covered-Employee Payroll	88.920850%

* This schedule is to be built prospectively until it contains 10 years of data.

Notes to Required Supplementary Information

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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