Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

# Seattle Colleges

**For the period July 1, 2018 through June 30, 2019**

**Published March 30, 2020**

**Report No. 1025995**

# Office of the Washington State Auditor
# Pat McCarthy

March 30, 2020

Board of Trustees
Seattle Colleges
Seattle, Washington

## Report on Financial Statements

Please find attached our report on the Seattle Colleges 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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# TABLE OF CONTENTS

SEATTLE COLLEGES
Central · North · South · SVI

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# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

## Seattle Colleges
## July 1, 2018 through June 30, 2019

This schedule presents the status of findings reported in prior audit periods.

<table>
<tr><td>Audit Period:<br>July 1, 2017 – June 30, 2018</td><td>Report Ref. No.:<br>1023488</td><td>Finding Ref. No.:<br>2018-001</td></tr>
<tr><td colspan="3">Finding Caption:<br>The College did not include all foundation information, which resulted in an incomplete set of financial statements in accordance with governmental accounting standards.</td></tr>
<tr><td colspan="3">Background:<br>The College works with four separate nonprofit organizations (foundations) that engage in fundraising activities on its behalf. Due to their size the foundations are considered significant component units of the College and accounting standards require their financial information to be included in the College’s financial statements.<br><br>Our audit found the College did not include financial information for two of the four foundations in its financial statements.</td></tr>
<tr><td colspan="3">Status of Corrective Action: (check one)<br>☒ Fully Corrected   ☐ Partially Corrected   ☐ Not Corrected   ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="3">Corrective Action Taken:<br>During fiscal year 2019, the foundations of North and Central merged with the Seattle Colleges Foundation that launched in 2018. South’s foundation is independent of Seattle Colleges but continues to support students and programs at South. As of June 30, 2019, the College works with these three separate foundations that engage in fundraising activities on its behalf. Due to their size the foundations are considered significant component units of the College.<br><br>The College will include financial information for all three of the foundations in its financial statements.</td></tr>
</table>

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

**Seattle Colleges**
**July 1, 2018 through June 30, 2019**

Board of Trustees
Seattle Colleges
Seattle, 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 Seattle Colleges (the College), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 26, 2020.

Our report includes a reference to other auditors who audited the financial statements of the Seattle Colleges Foundation, the Foundation for the Seattle Colleges, and the South Seattle College Foundation (the Foundations) 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 Foundations 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 Foundations.

As discussed in Note 1, Note 18 and Note 19 to the financial statements, the Seattle Colleges Foundation was formed in 2018 and began operation in 2019. In 2019, the North Seattle College Education Fund and the Seattle Central College Foundation transferred their assets and liabilities to the Seattle Colleges Foundation and subsequently dissolved. As a result, in 2019, the College discontinued reporting the North Seattle College Education Fund and the Seattle Central College Foundation and began reporting the Seattle Colleges Foundation as part of its reporting entity.

As discussed in Note 20 to the financial statements, in February 2020, a state of emergency was declared that could have a financial effect on the College.

The financial statements of the Seattle Colleges, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## 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*. However, we noted certain matters that we will report to the management of the College in a separate special investigation report.

## 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

Pat McCarthy

State Auditor

Olympia, WA

March 26, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Seattle Colleges**
**July 1, 2018 through June 30, 2019**

Board of Trustees
Seattle Colleges
Seattle, 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 Seattle Colleges (the College), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 12.

### 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 Seattle Colleges Foundation, the Foundation for Seattle Colleges, or the South Seattle College Foundation (the Foundations), which in aggregate represent 100 percent of the assets, net position and revenues of the aggregately discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundations, is based solely on the reports 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 Foundations were not audited in accordance with *Government Auditing Standards.*

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

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

## Opinions

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

## Matters of Emphasis

As discussed in Note 1, Note 18 and Note 19 to the financial statements, the Seattle Colleges Foundation was formed in 2018 and began operation in 2019. In 2019, the North Seattle College Education Fund and the Seattle Central College Foundation transferred their assets and liabilities to the Seattle Colleges Foundation and subsequently dissolved. As a result, in 2019, the College discontinued reporting the North Seattle College Education Fund and the Seattle Central College Foundation and began reporting the Seattle Colleges Foundation as part of its reporting entity. Our opinion is not modified with respect to this matter.

As discussed in Note 20 to the financial statements, in February 2020 a state of emergency was declared that could have a financial impact on the College. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Seattle Colleges, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2020 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

March 26, 2020

# FINANCIAL SECTION

**Seattle Colleges**
**July 1, 2018 through June 30, 2019**

## REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

## BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019
Statement of Revenues, Expenses and Changes in Net Position – 2019
Statement of Cash Flows – 2019
Seattle Colleges Foundation Statement of Financial Position – 2019
Seattle Colleges Foundation Statement of Activities – 2019
Foundation for the Seattle Colleges Consolidated Statement of Financial Position – 2018
Foundation for the Seattle Colleges Consolidated Statement of Activities – 2018
South Seattle College Foundation Statement of Financial Position – 2018
South Seattle College Foundation Statement of Activities – 2018
Notes to Financial Statements – 2019

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Seattle Colleges' Share of the Net Pension Liability – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2019
Schedule of Contributions – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2019
Schedule of Changes in the Total Pension Liability and Related Ratios – State Board Supplemental Retirement Plans – 2019
Schedule of Changes in Total OPEB Liability and Related Ratios – 2019

# Management's Discussion and Analysis

## Seattle Colleges

The following discussion and analysis provides an overview of the financial position and activities of Seattle Colleges for the fiscal year ended June 30, 2019 (FY 2019). This overview provides readers with an objective and easily readable analysis of the Colleges' 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 Colleges' financial statements and accompanying note disclosures.

**Using the Financial Statements**

The financial statements presented in this report encompass the entirety of Seattle Colleges. The Colleges' financial statements include; the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the Colleges as of June 30, 2019. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the Colleges' financial condition.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are considered regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the Colleges' 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 Colleges' 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 Colleges implemented GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB).* This Statement requires the Colleges to recognize its proportionate share of the state's actuarially determined OPEB liability with a one-year lag measurement date similar to GASB Statement No. 68. The change in accounting principle resulted in an adjustment to beginning net position in the amount of $85,879,924.

**Statement of Net Position**

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

| Seattle Colleges<br>Condensed Statement of Net Position<br>As of June 30, 2019 and 2018 | | |
|---|---|---|
| | **2019** | **2018** |
| **Assets** | | |
| Current Assets | $ 74,337,935 | $ 66,504,268 |
| Capital Assets, net | 208,738,617 | 216,984,486 |
| Other Assets, non-current | 27,504,105 | 39,188,184 |
| **Total Assets** | **310,580,657** | **322,676,938** |
| **Deferred Outflows of Resources** | **9,838,579** | **6,840,667** |
| **Liabilities** | | |
| Current Liabilities | 24,509,756 | 33,621,517 |
| Other Liabilities, non-current | 102,111,504 | 114,058,164 |
| **Total Liabilities** | **126,621,260** | **147,679,681** |
| **Deferred Inflows of Resources** | **43,302,092** | **23,033,220** |
| **Net Position** | | |
| Net Investment in Capital Assets | 201,758,617 | 210,394,486 |
| Restricted | 2,782,954 | 1,738,629 |
| Unrestricted | (54,045,688) | (53,328,412) |
| **Total Net Position** | **$ 150,495,883** | **$ 158,804,703** |

Current assets consist primarily of cash, investments and various accounts receivable. The significant increase in FY 2019 can be attributed to the reclassification of certain bond investments. Bonds with maturities less than one year are considered short-term.

Net capital assets decreased by $8,245,869 from FY 2018 to FY 2019. The decrease is primarily the result of current depreciation expense of $9,425,384 combined with the disposal of certain assets. This decrease was partially offset by ongoing acquisitions of capitalizable equipment.

Non-current assets consist primarily of the long-term portion of certain investments. Bonds with maturities greater than one year are considered long-term.

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

The increase in deferred outflows reflect the Colleges' proportionate share of an increase in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $6,840,667 in FY 2018 and $9,838,579 in FY 2019 of pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

The increase in deferred inflows in 2019 largely reflects the changes in assumptions for other post-employment benefits. Inflows are also slightly increased by 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, unearned revenue and the current portion of OPEB liability. 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.

Net position represents the value of the Colleges' assets and deferred outflows after liabilities and deferred inflows are deducted. Accounting standards require the Colleges to report net position in four categories:

> ***Net Investment in Capital Assets* –** The Colleges' total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.
>
> ***Restricted:***
>
> > ***Nonexpendable* –** consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for spending except for investment purposes only. Historically, donors interested in establishing such funds to benefit the Colleges or its students have chosen to do so through the Foundation. As a result, the Colleges are not reporting any balance in this category.
> >
> > ***Expendable* –** resources that the Colleges are legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the Colleges are institutional financial aid funds.
>
> ***Unrestricted* –** Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.
>
> As stated earlier in this section, the Colleges' FY 2018 net position was adjusted by $85,879,924 due to the implementation of GASB 75.

| Net Position<br>As of June 30th | FY 2019 | FY 2018 |
|---|---|---|
| Net investment in capital assets | 201,758,617 | 210,394,486 |
| Restricted | | |
| Expendable | 2,782,954 | 1,738,629 |
| Student Loans | - | - |
| Unrestricted | (54,045,688) | (53,328,412) |
| **Total Net Position** | **$150,495,883** | **$158,804,703** |

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

The Statement of Revenues, Expenses and Changes in Net Position accounts for the Colleges' changes in total net position during FY 2019. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the Colleges, along with any other revenue, expenses, gains and losses of the Colleges.

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

Operating expenses are expenses incurred in the normal operation of the Colleges, including depreciation on property and equipment assets. When operating revenues excluding state appropriations and Pell Grants are measured against operating expenses, the Colleges show 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 Colleges' revenues, expense and changes in net position for the years ended June 30, 2019 and 2018 is presented below.

## Seattle Colleges
## Condensed Statement of Revenues, Expenses, and Changes in Net Position
## For the Year Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Operating Revenues** | | |
| Student tuition and fees, net | $ 64,035,273 | $ 68,060,692 |
| Auxiliary enterprise sales | 8,953,978 | 10,837,208 |
| Grants and contracts | 42,923,065 | 40,791,383 |
| Other operating revenues | 3,044,971 | 2,446,721 |
| **Total operating revenues** | **118,957,287** | **122,136,004** |
| **Non-Operating Revenues** | | |
| State appropriations | 73,532,124 | 73,075,391 |
| Federal Pell grant revenue | 12,407,630 | 13,598,321 |
| Other non-operating revenues | 2,415,265 | 1,630,996 |
| **Total non-operating revenues** | 88,355,019 | 88,304,708 |
| **Total revenues** | **207,312,306** | **210,440,712** |
| **Operating Expenses** | | |
| Salaries and Benefits | 139,677,179 | 148,091,033 |
| Scholarships | 31,097,809 | 34,093,900 |
| Depreciation | 9,425,384 | 7,895,688 |
| Other operating expenses | 38,908,956 | 34,616,682 |
| **Total operating expenses** | **219,109,328** | **224,697,303** |
| **Non-Operating Expenses** | | |
| Building fee remittance | 3,944,008 | 3,744,973 |
| Other non-operating expenses | 4,330,646 | 1,698,694 |
| **Total non-operating expenses** | **8,274,654** | **5,443,667** |
| **Total expenses** | 227,383,982 | 230,140,970 |
| **Excess (deficiency) before capital contributions** | **(20,071,676)** | **(19,700,258)** |
| **Capital appropriations and contributions** | **11,762,856** | **9,157,284** |
| **Change in Net position** | **(8,308,820)** | **(10,542,974)** |
| **Net Position** | | |
| Net position, beginning of year | 158,804,703 | 255,227,601 |
| Prior period adjustments or Cumulative effect of a change in accounting principle | - | (85,879,924) |
| Net position, beginning of year, as restated | - | 169,347,677 |
| **Net position, end of year** | **$ 150,495,883** | **$ 158,804,703** |

**Revenues**
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2019, the SBCTC allocated funds to each of the 34 colleges based in part on a three-year average of FTE actuals. Additionally, during FY 2019, the legislature designated some general funds as Pension Stabilization funds which did not result in any change in the Colleges' funding or expenses. This new designation will continue in FY20.

Pell grant revenue generally follows enrollment trends. As the College's enrollment softened during FY 2019, so did the Colleges' Pell Grant revenue. For FY 2019, the Colleges slightly increased certain class fees that resulted in a small change in these revenues.

In FY 2019, federal grant and contract revenues decreased primarily due to reduction in Department of Labor and Department of Education when compared with FY 2018. State grants increased due to pass-through funding from the State Board for certain grants. The Colleges continued to serve students under contracted programs like Running Start in which students earn both high school and college credit. Running Start enrollments have continued to increase in FY 2020. The Colleges include international student fees in grants and contracts revenue.

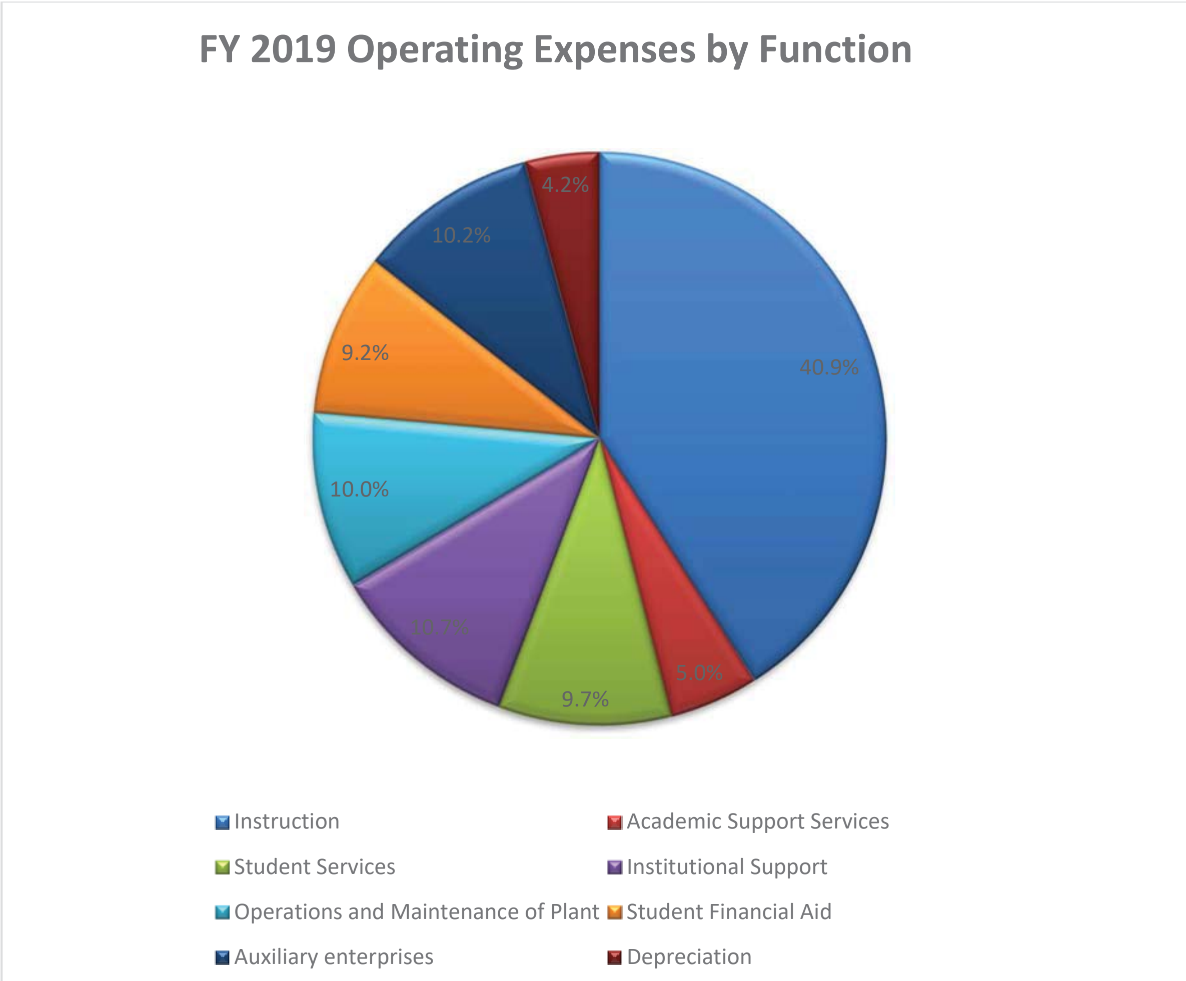
The Colleges receive capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenses from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenses that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

**Expenses**
As state allocations fail to cover increasing costs, the Colleges have continuously sought opportunities to identify savings and efficiencies. The Colleges have reduced some low-enrollment programs and limited some services to ensure revenues and expenditures align.

In FY 2019, salary and benefit costs decreased as a result of position vacancies offset slightly by legislative COLAs.

Variations in other operating expenses between FY 2018 and FY 2019 are generally due to end of biennium allotment spending for capital repairs and maintenance.

**Operating Expenses by Function**
The chart below shows the percentage of each functional area of operating expenses for FY 2019.




**Capital Assets and Long-Term Debt Activities**

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. State funding priorities have not included increasing funding for the community and technical college capital projects at levels previously funded. There is no indication that this will significantly change in the near future. Seattle Colleges has benefited by having two of a small group of community college projects funded by a Certificate of Participation (COP) supported by system–wide building fees.

At June 30, 2019, the Colleges had invested $208,738,616 in capital assets, net of accumulated depreciation. This represents a decrease of $8,245,870 from last year, as shown in the table below.

| Asset Type | June 30, 2019 | June 30, 2018 | Change |
|---|---|---|---|
| Land | 7,508,685 | 7,508,685 | - |
| Construction in Progress | 2,860,750 | 1,407,624 | 1,453,126 |
| Buildings, net | 192,645,132 | 198,994,713 | (6,349,581) |
| Other Improvements and Infrastructure, net | 787,641 | 865,807 | (78,166) |
| Equipment, net | 4,415,919 | 7,660,907 | (3,244,988) |
| Library Resources, net | 520,489 | 546,750 | (26,261) |
| **Total Capital Assets, Net** | **208,738,616** | **216,984,486** | **(8,245,870)** |

The decrease in net capital assets can be attributed to the fact that additions to assets were lower than depreciation and disposals for the year. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

At June 30, 2019, the Colleges had $6,980,000 in outstanding debt. This represents an addition of $880,000 for an energy efficiency project at the Broadway Edison building and reduction by payment of $490,000.

| | June 30, 2019 | June 20, 2018 | Change |
|---|---|---|---|
| Certificates of Participation | 6,980,000 | 6,590,000 | 390,000 |
| **Total** | **$ 6,980,000** | **$ 6,590,000** | **$ 390,000** |

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

## Economic Factors That May Affect the Future

The Seattle area continues to experience strong economic growth. The growing economy has attracted many people from outside the area who have moved into the city. A significant number of these new residents arrive having already attained a college degree and sometimes additional post-graduate degrees. The population growth in Seattle, along with economic growth has pushed up the cost of housing for both renters and owners beyond the means of many of our traditional community college students.

The lack of affordable housing in Seattle continues to result in a smaller pool of potential students in the area. Seattle Colleges, along with colleges across the country, has relied on international students to grow enrollments. However, in the last four years, international student enrollment has declined due to political and other factors. Seattle Colleges is responding by eliminating overlap in support functions and scaling operational expenses in relation to international enrollment declines. International Programs continues to focus on strategic marketing and recruitment efforts.

In general, enrollments state-wide have declined. In Seattle, we see that our enrollments continue to decline but we see declines somewhat leveling. We have increased our strategic enrollment management efforts, focusing on pathway work to make it easier for students to enroll and succeed at Seattle Colleges. Seattle Pathway work will result in lower barriers and improved student success. Some enrollment growth has shifted to increases in Running Start enrollment which provides free tuition to students in their junior and senior year of high school.

Enrollments have also increased from area high schools due to a city-wide free college program called Seattle Promise. Seattle Colleges will continue to benefit from Seattle Promise for the next 7 years with a levy passed by voters in November of 2018 which provides $40.7M in funding for Seattle high school graduates to attend Seattle Colleges.

Last year, the State Board and legislature acknowledged differences in the cost of living among colleges in the State and provided a regional cost of living adjustment for Seattle Colleges, along with other colleges in King County. However, there is a potential for the legislature to fail to approve further COLAs on regional pay adjustments which could result in local funding challenges for Seattle Colleges. The college is in support of fully funding COLAs on the regional pay differential, and additional regional pay increases as a way to retain and attract excellent faculty and staff.

Seattle Colleges
Statement of Net Position
June 30, 2019

| | | | |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ | 18,677,463 |
| Restricted cash | | | 2,907,464 |
| Short-term investments | | | 26,242,908 |
| Accounts receivable | | | 26,422,116 |
| Prepaid expenses | | | 87,984 |
| **Total current assets** | | | 74,337,935 |
| **Non-Current Assets** | | | |
| Long-term investments | | | 27,504,105 |
| Non-depreciable capital assets | | | 10,369,435 |
| Capital assets, net of depreciation | | | 198,369,181 |
| **Total non-current assets** | | | 236,242,721 |
| | **Total assets** | | **310,580,656** |
| **Deferred Outflows of Resources** | | | |
| Deferred outflows related to pensions | | | 6,505,376 |
| Deferred outflows related to OPEB | | | 3,333,203 |
| | **Total deferred outflows of resources** | | 9,838,579 |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Accounts payable | | | 2,197,601 |
| Accrued liabilities | | | 6,821,402 |
| Compensated absences, current portion | | | 4,010,764 |
| Deposits payable | | | 674,867 |
| Unearned revenue | | | 8,927,121 |
| Certificates of participation payable, current portion | | | 520,000 |
| Total pension liability, current portion | | | 208,399 |
| OPEB liability, current portion | | | 1,149,602 |
| **Total current liabilities** | | | 24,509,756 |
| **Non-Current Liabilities** | | | |
| Compensated absences | | | 8,406,486 |
| Long-term liabilities | | | 6,460,000 |
| Net pension liability | | | 15,847,636 |
| Total pension liability | | | 9,936,275 |
| OPEB liability | | | 61,461,107 |
| **Total non-current liabilities** | | | 102,111,504 |
| | **Total liabilities** | | **126,621,260** |
| **Deferred Inflows of Resources** | | | |
| Deferred inflows related to pensions | | | 10,758,507 |
| Deferred inflows related to OPEB | | | 32,543,585 |
| | **Total deferred inflows of resources** | | 43,302,092 |
| **Net Position** | | | |
| Net Investment in Capital Assets | | | 201,758,617 |
| Restricted for: | | | |
| Expendable | | | 2,782,954 |
| Unrestricted (deficit) | | | (54,045,688) |
| | **Total Net Position** | $ | **150,495,883** |

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

Seattle Colleges
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

| | | | |
|---|---|---|---|
| **Operating Revenues** | | | |
| Student tuition and fees, net of scholarship discounts and allowances | | $ | 64,035,273 |
| Auxiliary enterprise sales | | | 8,953,978 |
| State and local grants and contracts | | | 36,285,457 |
| Federal grants and contracts | | | 6,637,608 |
| Other operating revenues | | | 3,044,971 |
| | **Total operating revenue** | | 118,957,287 |
| **Operating Expenses** | | | |
| Salaries and wages | | | 107,193,236 |
| Benefits | | | 32,483,943 |
| Scholarships and fellowships | | | 31,097,809 |
| Supplies and materials | | | 6,569,686 |
| Depreciation | | | 9,425,384 |
| Purchased services | | | 5,806,063 |
| Utilities | | | 700,893 |
| Other operating expenses | | | 25,832,314 |
| | **Total operating expenses** | | 219,109,328 |
| | **Operating loss** | | (100,152,041) |
| **Non-Operating Revenues (Expenses)** | | | |
| State appropriations | | | 73,532,124 |
| Federal Pell grant revenue | | | 12,407,630 |
| Investment income, gains and losses | | | 2,415,264 |
| Building fee remittance | | | (3,944,008) |
| Loss on disposal of equipment | | | (3,046,405) |
| Innovation fund remittance | | | (980,895) |
| Interest on indebtedness | | | (303,345) |
| | **Net non-operating revenue** | | 80,080,365 |
| Loss before other revenues, expenses, gains, or losses | | | (20,071,676) |
| **Capital Contributions** | | | |
| Capital appropriations | | | 11,048,628 |
| Capital contribution | | | 714,228 |
| | **Decrease in net position** | | (8,308,820) |
| **Net Position** | | | |
| **Net position, beginning of year** | | | 158,804,703 |
| **Net position, end of year** | | $ | 150,495,883 |

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

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

| | |
|---|---|
| **Cash flows from operating activities** | |
| Student tuition and fees | $ 66,464,375 |
| Grants and contracts | 39,313,754 |
| Payments to vendors | (12,720,065) |
| Payments for utilities | (955,332) |
| Payments to employees | (105,975,105) |
| Payments for benefits | (30,230,473) |
| Auxiliary enterprise sales | 8,319,434 |
| Payments for scholarships and fellowships | (31,097,809) |
| Other receipts | 6,139,744 |
| Other payments | (32,204,817) |
| Net cash used by operating activities | (92,946,294) |
| | |
| **Cash flows from noncapital financing activities** | |
| State appropriations | 67,581,595 |
| Pell grants | 12,407,630 |
| Amounts for other than capital purposes | - |
| Building fee remittance | (3,738,132) |
| Innovation fund remittance | (1,207,145) |
| Net cash provided by noncapital financing activities | 75,043,948 |
| | |
| **Cash flows from capital and related financing activities** | |
| Proceeds of capital debt | (11,285) |
| Capital appropriations | 9,199,568 |
| Purchases of capital assets | (3,419,695) |
| Certificate of participations proceeds | - |
| Principal paid on capital debt | (490,000) |
| Interest paid | (303,345) |
| Net cash provided by capital and related financing activities | 4,975,243 |
| | |
| **Cash flows from investing activities** | |
| Purchase of investments | (16,731,000) |
| Proceeds from sales and maturities of investments | 16,410,000 |
| Income of investments | 1,219,446 |
| Net cash provided by investing activities | 898,446 |
| | |
| **Decrease in cash and cash equivalents** | (12,028,656) |
| | |
| **Cash and cash equivalents at the beginning of the year** | 33,613,583 |
| | |
| **Cash and cash equivalents at the end of the year** | 21,584,927 |
| | |
| Reconciliation of Operating Loss to Net Cash used by Operating Activities | |
| | |
| **Operating Loss** | (100,152,041) |
| | |
| **Adjustments to reconcile net loss to net cash used by operating activities** | |
| | |
| Depreciation expense | 9,425,384 |
| Loss on disposal of equipment | 3,046,405 |
| | |
| **Changes in assets and liabilities** | |
| | |
| Receivables, net | (6,656,649) |
| Inventories | - |
| Other assets | (1,192) |
| Accounts payable | (648,753) |
| Accrued liabilities | (568,226) |
| Unearned revenue | (1,081,388) |
| Compensated absences | 1,284,456 |
| Pension liability adjustment | 2,357,343 |
| Deposits payable | 48,368 |
| | |
| **Net cash used by operating activities** | $ (92,946,294) |
| | |
| **Significant Noncash Transactions** | |
| Increase in fair value of investments | 857,802 |
| Capital assets acquired through gifts | 714,228 |

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

**SEATTLE COLLEGES FOUNDATION**

STATEMENT OF FINANCIAL POSITION

June 30, 2019

| | | |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ | 2,269,790 |
| Investments | | 2,752,995 |
| Contributions receivable | | 481,317 |
| Prepaid expenses | | 1,562 |
| Total current assets | | 5,505,664 |
| Contributions Receivable, net of current portion | | 361,000 |
| Endowment Contributions Receivable | | 1,132,200 |
| Investments Held for Endowments | | 17,668,536 |
| Land Held for Sale - Endowment | | 577,000 |
| Total assets | $ | 25,244,400 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | $ | 17,256 |
| Scholarships payable | | 1,452,238 |
| Total current liabilities | | 1,469,494 |
| Net Assets | | |
| Without donor restrictions | | 3,260,911 |
| With donor restrictions | | 20,513,995 |
| Total net assets | | 23,774,906 |
| Total liabilities and net assets | $ | 25,244,400 |

See Notes to Financial Statements

## SEATTLE COLLEGES FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Support and Revenue | | | |
| Contributions | $ 40,030 | $ 2,331,926 | $ 2,371,956 |
| Special events | 2,500 | 446,162 | 448,662 |
| Special events, direct benefit to donor | (97,822) | | (97,822) |
| In-kind contributions | 750,044 | | 750,044 |
| Investment return | 493,139 | 1,309,923 | 1,803,062 |
| | 1,187,891 | 4,088,011 | 5,275,902 |
| Net assets released from restrictions | 1,294,586 | (1,294,586) | |
| Total support and revenue | 2,482,477 | 2,793,425 | 5,275,902 |
| Expenses | | | |
| Program services | 1,354,959 | | 1,354,959 |
| Management and general | 382,921 | | 382,921 |
| Fundraising | 344,717 | | 344,717 |
| Total expenses | 2,082,597 | | 2,082,597 |
| **Change in net assets before transfer from College Foundations** | **399,880** | **2,793,425** | **3,193,305** |
| Transfer from College Foundations | 2,711,029 | 17,720,570 | 20,431,599 |
| Net Assets, beginning of year | 150,002 | | 150,002 |
| Net Assets, end of year | $ 3,260,911 | $ 20,513,995 | $ 23,774,906 |

See Notes to Financial Statements

## FOUNDATION FOR THE SEATTLE COLLEGES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018

| ASSETS | | 2018 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ | 2,072,034 |
| Tenant accounts receivable | | 105,815 |
| Contributions receivable | | 1,260 |
| Prepaid expenses | | 107,546 |
| Total current assets | | 2,286,655 |
| Restricted Cash | | 347,710 |
| Loans Receivable | | 16,122,050 |
| Investments | | 165,227 |
| Endowment Contributions Receivable | | - |
| Endowment Investments | | 1,388 |
| Use of Facilities Contribution Receivable | | 10,261,176 |
| Property and Equipment, net | | 42,559,010 |
| Total assets | $ | 71,743,216 |

| LIABILITIES AND NET ASSETS | | |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable | $ | 230,486 |
| Grants payable | | 42,495 |
| Priority return distribution payable | | 258,490 |
| Deferred rent revenue | | 88,095 |
| Loans payable - current portion | | 212,000 |
| Total current liabilities | | 831,566 |
| Loans Payable, less current portion, net of loan costs | | 21,337,633 |
| Total liabilities | | 22,169,199 |
| **Net Assets** | | |
| Without donor restrictions | | 32,092,876 |
| Noncontrolling interest in Pacific Tower Master Tenant, LLC | | 7,219,963 |
| Total without donor restrictions | | 39,312,839 |
| With donor restrictions | | 10,261,178 |
| Total net assets | | 49,574,017 |
| Total liabilities and net assets | $ | 71,743,216 |

See Notes to Financial Statements

**FOUNDATION FOR THE SEATTLE COLLEGES**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

| | 2018 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Public Support | | | |
| Contributions | $ 17,132 | $ 67,000 | $ 84,132 |
| In-kind contributions | 891,797 | | 891,797 |
| Net assets released from restrictions | 1,975,459 | (1,975,459) | |
| Total public support | 2,884,388 | (1,908,459) | 975,929 |
| Revenue | | | |
| Rent | 2,813,869 | | 2,813,869 |
| Parking and conference room fees | 413,735 | | 413,735 |
| Other income | 70,309 | | 70,309 |
| Investment income (loss) | 147,401 | (25,207) | 122,194 |
| Total revenue | 3,445,314 | (25,207) | 3,420,107 |
| Total public support and revenue | 6,329,702 | (1,933,666) | 4,396,036 |
| Expenses | | | |
| Foundation programs | 776,864 | | 776,864 |
| Pacific Tower Project | 7,818,226 | | 7,818,226 |
| Management and general | 491,678 | | 491,678 |
| Fundraising | 275,679 | | 275,679 |
| Total expenses | 9,362,447 | - | 9,362,447 |
| **Change in net assets before Pacific Tower Project contributions and grants** | **(3,032,745)** | **(1,933,666)** | **(4,966,411)** |
| Contributions and government grants | | | - |
| Pacific Tower net assets released from restriction | 2,830,669 | (2,830,669) | - |
| **Change in net assets** | **(202,076)** | **(4,764,335)** | **(4,966,411)** |
| Noncontrolling Member Priority Return Distribution | (190,745) | | (190,745) |
| Transfer to Seattle Colleges Foundation | (1,560,034) | | (1,560,034) |
| Net Assets, beginning of year | 41,265,694 | 15,025,513 | 56,291,207 |
| Net Assets, end of year | $ 39,312,839 | $ 10,261,178 | $ 49,574,017 |

See Notes to Financial Statements

**SOUTH SEATTLE COLLEGE FOUNDATION**

STATEMENT OF FINANCIAL POSITION
December 31, 2018

| | | |
|---|---|---|
| ASSETS | | |
| Cash and Cash Equivalents | $ | 293,329 |
| Investments | | 17,666,962 |
| Promises to Give, net of allowance for uncollectible amounts | | 515,696 |
| Prepaid Expenses and Other Assets | | 6,853 |
| Total assets | $ | 18,482,840 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | $ | - |
| Net Assets | | |
| Without donor restrictions | | |
| Board-designated, endowments | | 6,026,679 |
| Board-designated, programs | | 351,227 |
| Undesignated | | 748,517 |
| | | 7,126,423 |
| With donor restrictions | | 11,356,417 |
| Total net assets | | 18,482,840 |
| Total liabilities and net assets | $ | 18,482,840 |

See Notes to Financial Statements

## SOUTH SEATTLE COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

| | 2018 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue | | | |
| Contributions | $ 53,738 | $ 647,646 | $ 701,384 |
| Interest and dividends | 230,884 | 183,558 | 414,442 |
| Net realized/unrealized gains (losses) on investments | (946,944) | (748,472) | (1,695,416) |
| Special events, net of direct expenses of $0 in 2018 | - | | |
| In-kind contributions | 16,226 | 24,272 | 40,498 |
| Total revenue | (646,096) | 107,004 | (539,092) |
| Net assets released due to satisfaction of restrictions | 1,377,320 | (1,377,320) | - |
| | 731,224 | (1,270,316) | (539,092) |
| Expenses | | | |
| Scholarships and other program expenses | 1,379,375 | | 1,379,375 |
| Fundraising | 8,415 | | 8,415 |
| Management and general | 105,723 | | 105,723 |
| Total expenses | 1,493,513 | - | 1,493,513 |
| **Change in net assets** | **(762,289)** | **(1,270,316)** | **(2,032,605)** |
| Net Assets, beginning of year | 7,888,712 | 12,626,733 | 20,515,445 |
| Net Assets, end of year | $ 7,126,423 | $ 11,356,417 | $ 18,482,840 |

See Notes to Financial Statements

# Notes to the Financial Statements

June 30, 2019

These notes form an integral part of the financial statements.

## Note 1 - Summary of Significant Accounting Policies

**Financial Reporting Entity**

Seattle Colleges is a District of three comprehensive community colleges and one technical institute offering open-door academic programs, workforce education, basic skills, and community services. The Colleges confer applied baccalaureate, associate degrees, certificates and high school diplomas. A five-member Board of Trustees appointed by the Governor and confirmed by the state Senate governs the Colleges.

The Colleges are an agency of the State of Washington. The financial activity of the colleges is included in the State's Comprehensive Annual Financial Report.

The Seattle Colleges Foundation, The Foundation for Seattle Colleges, and The South Seattle College Foundation are separate but affiliated non-profit entities incorporated under Washington law and recognized as tax-exempt 501(c) (3) charities. The Foundations' charitable purposes are to raise funds for student support. Each Foundation is a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14 because the majority of the Foundations' income and resources are restricted by donors and may only be used for the benefit of the colleges or the colleges' students. A discrete component unit is an entity that is legally separate from the Colleges; however, because the Foundations have the potential to provide significant financial benefits to the Colleges, their relationship with the Colleges is such that excluding their income and resources would cause the College's financial statements to be misleading or incomplete.

The discretely presented financial statements of Seattle Colleges Foundation, The Foundation for Seattle Colleges and The South Seattle College Foundation are included in this report. Financial Statement presentation does not eliminate intra-entity transactions and balances between the College and the Foundation. Contact the Advancement Administrative Offices for a complete copy of each of the Foundation's most recent financial statements:

Seattle Colleges

1500 Harvard Ave.

Seattle, WA 98122

advancement@seattlecolleges.edu

Attn: Traci Russell, Advancement

**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 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. Financial statement presentation eliminates Intra-agency receivables and payables and reports revenues and expenses from the College's auxiliary enterprises as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses reduce expense.

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

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

**Cash, Cash Equivalents and Investments**
Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash held in the investment portfolio is not included in cash and cash equivalents but is included in investments. Cash and cash equivalents held with the intent to fund College operations are current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool. The internal investment pool is comprised of cash, cash equivalents, and U.S. Government Bonds.

**Accounts Receivable**
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Where applicable, accounts receivable includes proceeds from Certificates of Participation receivable from the State Treasurer. Presentation of accounts receivable is net of estimated uncollectible amounts.

**Capital Assets**
In accordance with state law, the ownership of capital assets constructed with state funds remain with the State of Washington. Property titles reflect this ownership. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading.

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

The college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2019, no assets had been written down.

**Unearned Revenues**

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

**OPEB Liability**

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

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

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

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

Deferred outflows and inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the college's proportionate share of pension liabilities. The college records amortization for differences between expected and actual experience over the average expected remaining service lives of all employees provided with pensions through each pension plan. Employer transactions to pension plans made subsequent to the measurement date defer 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 not recognized in OPEB expense are 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 are deferred outflows of resources related to OPEB.

**Net Position**

The College's net position classification is as follows:

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

- Restricted for Nonexpendable. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.

- Restricted for Loans. The loan funds established for the explicit purpose of providing student support as prescribed by statute or granting authority.

- Restricted for Expendable. This consists of college resources the spending of which is restricted legally or contractually by third parties.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards 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 directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) federal, state and local grants and contracts that primarily support the operational/educational activities of the colleges.

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

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

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

**Scholarship Discounts and Allowances**

Student tuition and fee revenues and certain other revenues from students are net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs satisfy tuition, fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2019 are $8,134,827.

**State Appropriations**

The State of Washington appropriates funds to the College on both an annual and biennial basis. State appropriation revenues are included in non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position. State appropriation revenues are reimbursement for expenses incurred for the period.

**Building and Innovation Fee Remittance**

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

## Note 2 - Accounting and Reporting Changes

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

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

## Note 3 - Deposits and Investments

**Deposits**

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Washington State Treasurer's Local Government Investment Pool (LGIP). The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates. For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

**Investments in Local Government Investment Pool (LGIP)**

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

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

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

As of June 30, 2019, the carrying amount of the College's cash, cash equivalents and restricted cash was $21,584,926 as represented in the table below.

| | | June 30, 2019 |
|---|---|---|
| Petty Cash and Change Funds | $ | 22,768 |
| Bank Demand and Time Deposits | | 1,231,678 |
| Local Government Investment Pool | | 17,423,016 |
| **Total Cash and Cash Equivalents** | **$** | **18,677,462** |
| Cash restricted for retainage held | | 124,509 |
| Cash restricted for supplemental financial aid | | 2,782,955 |
| **Total Restricted Cash** | **$** | **2,907,464** |

**Custodial Credit Risks—Deposits**

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

**Investments**

Investments by the college consist of Treasury bonds and agency bonds. The college measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

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

U.S. Government T Note strips held by the College are classified as Level 1 in the fair value hierarchy. Bonds held by the College are obligations of the United States, its agencies or government sponsored entities and are classified as Level 2 in the fair value hierarchy. As of June 30, 2019, the fair value of investments was $53,747,013.

| Investment Maturities | Fair Value | One Year or Less | 1 - 5 Years | 6 - 10 Years | 10 or More Years |
|---|---|---|---|---|---|
| U.S. Government Treasury | 3,068,533 | | 3,068,533 | - | - |
| Agency Obligations | 50,678,480 | 26,242,908 | 24,435,572 | - | - |
| **Total Investments** | **53,747,013** | **26,242,908** | **27,504,105** | **-** | **-** |

**Interest Rate Risk—Investments**

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

**Concentration of Credit Risk—Investments**

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

Investments are listed by issuer in the table below. U.S. Treasury T Note Strip is a direct obligation of the U.S. Treasury. Government sponsored enterprises (GSE's) Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corp (FHLMC), Federal National Mortgage Association (FNMA), issue agency bonds. Each of these agencies has a credit rating of AAA that represents an exceptional degree of creditworthiness. Financing Corporation (FICO) is a U.S. Government agency. U.S. Treasury bonds back zero-coupon Treasury securities issued by FICO. Resolution Funding Corporation (RFCSP) securities are obligations of the U.S. Treasury.

| Issuer | | Fair Value | Rating* |
|---|---|---|---|
| U.S. Treasury T Note Strip | $ | 3,068,533 | AAA |
| FFCB | | 19,130,632 | AAA |
| FHLB | | 6,997,546 | AAA |
| FHLMC | | 5,215,927 | AAA |
| FICO | | 4,664,669 | NR AGY |
| FNMA | | 2,993,034 | AAA |
| RFCSP | | 11,676,672 | NR AGY |
| Total Investments | $ | 53,747,013 | |

*NR AGY = Non Rated U.S. Government Agency

**Custodial Credit Risk—Investments**

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2019, the College's investments held by US Bank are in the College's name and therefore not exposed to custodial credit risk.

## Note 4 - Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2019, accounts receivable are as follows:

| **Accounts Receivable** | | **Amount** |
|---|---|---|
| Student Tuition and Fees | $ | 3,424,943 |
| Due from the Federal Government | | 2,034,373 |
| Due from Other State Agencies | | 20,879,079 |
| Auxiliary Enterprises | | 661,862 |
| Other | | 24,748 |
| Subtotal | | 27,025,005 |
| Less Allowance for Uncollectible Accounts | | (602,889) |
| **Accounts Receivable, net** | **$** | **26,422,116** |

## Note 5 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2019 is presented below. The current year depreciation expense was $9,425,384.

| Capital Assets | Beginning Balance | Additions/ Transfers | Retirements | Ending Balance |
| --- | --- | --- | --- | --- |
| **Capital assets, non-depreciable** | | | | |
| Land | $ 7,508,685 | $ - | $ - | $ 7,508,685 |
| Construction in progress | 1,407,624 | 1,457,731 | (4,605) | 2,860,750 |
| **Total capital assets, non-depreciable** | 8,916,309 | 1,457,731 | (4,605) | 10,369,435 |
| **Capital assets, depreciable** | | | | |
| Buildings | 311,687,113 | 874,813 | - | 312,561,926 |
| Other improvements and infrastructure | 1,625,801 | - | - | 1,625,801 |
| Equipment | 33,880,902 | 1,778,063 | (6,059,605) | 29,599,360 |
| Library resources | 1,836,183 | 126,767 | (817,520) | 1,145,430 |
| **Total capital assets, depreciable** | 349,029,999 | 2,779,643 | (6,877,125) | 344,932,517 |
| **Less accumulated depreciation** | | | | |
| Buildings | 112,692,399 | 7,224,395 | - | 119,916,794 |
| Other improvements and infrastructure | 759,994 | 78,166 | - | 838,160 |
| Equipment | 26,219,996 | 1,969,795 | (3,006,350) | 25,183,441 |
| Library resources | 1,289,433 | 153,028 | (817,520) | 624,941 |
| **Total accumulated depreciation** | 140,961,822 | 9,425,384 | (3,823,870) | 146,563,336 |
| **Total capital assets, depreciable, net** | 208,068,177 | (6,645,741) | (3,053,255) | 198,369,181 |
| **Capital assets, net** | **$216,984,486** | **$ (5,188,010)** | **$ (3,057,860)** | **$208,738,616** |

## Note 6 - Accounts Payable and Accrued Liabilities

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

| Accounts Payable and Accrued Liabilities | Amount |
| --- | --- |
| Amounts Owed to Employees | $ 3,249,908 |
| Accounts Payable | 2,197,601 |
| Amounts Held for Others and Retainage | 3,571,493 |
| **Total** | **$ 9,019,002** |

## Note 7 - Unearned Revenue

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

| Unearned Revenue | Amount |
| --- | --- |
| Summer Quarter Tuition & Fees | $ 8,372,527 |
| Housing and Other Deposits | 554,594 |
| Total Unearned Revenue | **$ 8,927,121** |

## Note 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 for the covered risks.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and combined limit is $18.9M. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2018 through June 30, 2019, were $656,768. Cash reserves for unemployment compensation for all employees at June 30, 2019, were $381,932.

## Note 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 for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees accrues when earned. The sick leave liability is an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $5,531,669, compensated absences accrued totaled $1,551 and accrued sick leave totaled $6,884,030 as of June 30, 2019.

## Note 10 - Leases Payable

The College has leases for classroom space, housing for international students and office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2019, the minimum lease payments under operating leases consist of the following:

| **Fiscal year** | | **Operating Leases** |
|---|---|---|
| 2020 | $ | 2,183,512 |
| 2021 | | 2,011,945 |
| 2022 | | 2,018,553 |
| 2023 | | 1,876,131 |
| 2024 | | 1,356,058 |
| 2025-2029 | | 7,295,232 |
| **Total minimum lease payments** | **$** | **16,741,431** |

## Note 11 - Notes Payable

In June 2010, the College obtained financing in order to build The Opportunity Center for Employment and Education aka Employee Resource Center Building, through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $9,375,000. The interest rate charged is 4.05%.

In August 2018, the College obtained financing for Broadway Edison building energy efficiency project, through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $880,000. The interest rate charged in 2.76%.

The College's debt service requirements for these note agreements for the next five years and thereafter are as follows in Note 12.

## Note 12 - Annual Debt Service Requirements

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

| | Certificates of Participation | | |
|---|---|---|---|
| **Fiscal year** | **Principal** | **Interest** | **Total** |
| 2020 | $ 520,000 | $ 293,844 | $ 813,844 |
| 2021 | 535,000 | 274,744 | 809,744 |
| 2022 | 555,000 | 255,119 | 810,119 |
| 2023 | 580,000 | 233,494 | 813,494 |
| 2024 | 600,000 | 209,594 | 809,594 |
| 2025-2029 | 3,415,000 | 643,725 | 4,058,725 |
| 2030-2033 | 775,000 | 35,350 | 810,350 |
| Thereafter | - | - | - |
| **Total** | **$ 6,980,000** | **$ 1,945,870** | **$ 8,925,870** |

## Note 13 - Schedule of Long-Term Liabilities

| | Balance outstanding 6/30/18 | Additions | Reductions | Balance outstanding 6/30/19 | Current portion |
|---|---|---|---|---|---|
| Certificates of Participation | $ 6,590,000 | $ 880,000 | $ 490,000 | $ 6,980,000 | $ 520,000 |
| Compensation absences | 11,131,243 | 5,937,273 | 4,651,266 | 12,417,250 | 4,010,764 |
| Net pension liability | 23,196,113 | 5,436,647 | 12,785,124 | 15,847,636 | - |
| Total pension liability | 8,973,251 | 10,353,074 | 9,181,651 | 10,144,674 | 208,399 |
| OPEB liability | 76,447,423 | 17,597,679 | 31,434,393 | 62,610,709 | 1,149,602 |
| **Total** | **$ 126,338,030** | **$40,204,673** | **$58,542,434** | **$ 108,000,269** | **$ 5,888,765** |

## Note 14 - Retirement Plans

### A. General

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

**Basis of Accounting**

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

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities. The College has elected to use the current fiscal year end as the measurement date for reporting pension liabilities for the Higher Education Supplemental Retirement Plan.

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

**Aggregate Pension Amounts - All Plans**

| | | |
|---|---|---|
| Pension Liabilities | $ | (25,992,311) |
| Deferred outflows of resources related to pensions | $ | 6,505,376 |
| Deferred inflows of resources related to pensions | $ | (10,758,506) |
| Pension Expense | $ | 133,427 |

**Department of Retirement Systems**

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

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

- Public Employees' Retirement System (PERS)

  Plan 1 - defined benefit

  Plan 2 - defined benefit

  Plan 3 - defined benefit/defined contribution

- Teachers' Retirement System (TRS)

  Plan 1 - defined benefit

  Plan 2 - defined benefit

  Plan 3 - defined benefit/defined contribution

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

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

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

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

**Higher Education**

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

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

**PERS**

Plan Description. The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior

Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

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

<u>Benefits Provided.</u> PERS plans provide retirement, disability, and death benefits to eligible members.

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

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

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

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

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

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

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

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

**TRS**

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

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

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are

Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3. Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

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

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

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

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

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

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

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

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

| | PERS 1 | PERS 2/3* | TRS 1 | TRS 2/3* |
|---|---|---|---|---|
| Contribution Rate | 12.83% | 12.83% | 15.41% | 15.41% |
| Actual Contributions | $1,610,060 | $2,311,380 | $109,973 | $112,059 |

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

**Actuarial Assumptions**

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

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

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

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

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

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

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

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

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

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

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

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

**Discount rate**

The discount rate used to measure the total pension liability was 7.40 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3 and TRS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**
The following presents the net pension liability of the College calculated using the discount rate of 7.40 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40 percent) or 1-percentage-point higher (8.40 percent) than the current rate.

| | **1% Decrease (6.4%)** | **Current Discount Rate (7.4%)** | **1% Increase (8.4%)** |
|---|---|---|---|
| PERS 1 | $ 12,479,205 | $ 10,154,469 | $ 8,140,773 |
| PERS 2/3 | 22,107,025 | 4,833,159 | (9,329,466) |
| TRS 1 | 935,496 | 748,460 | 586,541 |
| TRS 2/3 | 695,244 | 111,547 | (362,617) |

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**
Pension Liabilities. At June 30, 2019, the College reported a total pension liability of $15,847,635 for its proportionate share of the net pension liabilities as follows:

| | **Liability** |
|---|---|
| PERS 1 | $ 10,154,469 |
| PERS 2/3 | 4,833,159 |
| TRS 1 | 748,460 |
| TRS 2/3 | 111,547 |

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

| | **2017** | **2018** | **Change** |
|---|---|---|---|
| PERS 1 | 0.24433% | 0.22737% | -0.01696% |
| PERS 2/3 | 0.30085% | 0.28307% | -0.01778% |
| TRS 1 | 0.03011% | 0.02563% | -0.00448% |
| TRS 2/3 | 0.02589% | 0.02478% | -0.00111% |

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

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

| | Pension Expense |
|---|---|
| PERS 1 | $ 65,921 |
| PERS 2/3 | 37,612 |
| TRS 1 | (60,664) |
| TRS 2/3 | 75,577 |
| TOTAL | 118,446 |

Deferred Outflows of Resources and Deferred Inflows of Resources. The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2019:

| | PERS 1 | |
|---|---|---|
| | **Deferred Outflows** | **Deferred Inflows** |
| Difference between expected and actual experience | - | - |
| Difference between expected and actual earnings of pension plan investments | - | 403,533 |
| Changes of assumptions | - | - |
| Changes in College's proportionate share of pension liabilities | - | - |
| Contributions subsequent to the measurement date | 1,605,057 | - |
| **Totals** | **$ 1,605,057** | **$ 403,533** |

| | PERS 2/3 | |
|---|---|---|
| | **Deferred Outflows** | **Deferred Inflows** |
| Difference between expected and actual experience | 592,420 | 846,199 |
| Difference between expected and actual earnings of pension plan investments | - | 2,965,856 |
| Changes of assumptions | 56,540 | 1,375,481 |
| Changes in College's proportionate share of pension liabilities | 127,553 | 637,982 |
| Contributions subsequent to the measurement date | 2,305,627 | - |
| **Totals** | **$ 3,082,140** | **$ 5,825,518** |

| | TRS 1 | |
|---|---|---|
| | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | - | - |
| Difference between expected and actual earnings of pension plan investments | - | 32,007 |
| Changes of assumptions | - | - |
| Changes in College's proportionate share of pension liabilities | - | - |
| Contributions subsequent to the measurement date | 110,070 | - |
| **Totals** | **$ 110,070** | **$ 32,007** |

| | TRS 2/3 | |
|---|---|---|
| | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | 52,419 | 8,237 |
| Difference between expected and actual earnings of pension plan investments | - | 94,339 |
| Changes of assumptions | 1,896 | 44,827 |
| Changes in College's proportionate share of pension liabilities | 42,363 | 27,206 |
| Contributions subsequent to the measurement date | 112,528 | - |
| **Totals** | **$ 209,206** | **$ 174,609** |

The $4,133,282 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2020.

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

| Year ended June 30: | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| 2020 | 17,655 | (463,421) | 3,202 | 16,755 |
| 2021 | (88,215) | (1,070,685) | (6,626) | (10,833) |
| 2022 | (264,707) | (1,910,895) | (22,760) | (49,807) |
| 2023 | (68,266) | (767,765) | (5,823) | (16,564) |
| 2024 | - | (344,340) | - | (3,286) |
| Thereafter | - | (491,899) | - | (14,194) |
| **Total** | **$ (403,533)** | **$ (5,049,005)** | **$ (32,007)** | **$ (77,929)** |

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2019 were each $4,608,430.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2019, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $1,818,000. The College's share of this amount was $167,112. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During fiscal year 2019, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $292,313. This amount was not used as a part of GASB73 calculations as its status as an asset has not been determined by the Legislature. As of June 30, 2019, the Community and Technical College system accounted for $19,733,342 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to the June 30, 2019, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| |
|---|
| Salary increases 3.50%-4.25% |
| Fixed Income and Variable Income Investment Returns* 4.25%-6.50% |
| **Measurement reflects actual investment returns through June 30, 2018* |

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

Most actuarial assumptions used in the June 30, 2018 valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate decrease from 3.87 percent to 3.50 percent.

Discount Rate. The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.50 percent for the June 30, 2019, measurement date.

Pension Expense. Pension expense for the fiscal year ending June 30, 2019 was $14,981.

| **Proportionate Share (%)** | | **9.19026%** |
|---|---|---|
| Service Cost | $ | 262,054 |
| Interest | | 316,981 |
| Amortization of Differences Between Expected and Actual Experience | | (345,117) |
| Amortization of Changes of Assumptions | | 39,119 |
| Changes of Benefit Terms | | - |
| Administrative Expenses | | - |
| Other Changes in Fiduciary Net Position | | - |
| **Proportionate Share of Collective Pension Expense** | | **273,037** |
| Amortization of the Change in Proportionate Share of TPL | | (258,056) |
| **Total Pension Expense** | **$** | **14,981** |

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2019 was 9.19%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

| | |
|---|---|
| **Proportionate Share (%) 2018** | **10.29%** |
| **Proportionate Share (%) 2019** | **9.19%** |
| | |
| Total Pension Liability - Ending 2018 | $ 8,973,251 |
| Total Pension Liability - Beginning 2019 | 8,011,428 |
| Total Pension Liability - Change in Proportion | (961,823) |
| | |
| Total Deferred Inflow/Outflows - 2018 | 3,629,116.22 |
| Total Deferred Inflow/Outflows - 2019 | 3,240,119.14 |
| Total Deferred Inflows/Outflows - Change in Proportion | (388,997) |
| | |
| **Total Change in Proportion** | **$ (1,350,820)** |

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

| | Number of Participating Members | | | |
|---|---|---|---|---|
| **Plan** | **Inactive Members or Beneficiaries Currently Receiving Benefits** | **Inactive Members Entitled to But Not Yet Receiving Benefits** | **Active Members** | **Total Members** |
| SRP | 13 | 55 | 516 | 584 |

Change in Total Pension Liability. The following table presents the change in total pension liability of the State Board Supplemental Retirement Plan at June 30, 2019:

**Schedule of Changes in Total Pension Liability**

| | Amount |
|---|---|
| Service Cost | $ 262,054 |
| Interest | 316,981 |
| Changes of Benefit Terms | - |
| Differences Between Expected and Actual Experience | 597,624 |
| Changes in Assumptions | 1,123,700 |
| Benefit Payments | (167,112) |
| Change in Proportionate Share of TPL | (961,823) |
| Other | - |
| Net Change in Total Pension Liability | 1,171,424 |
| Total Pension Liability - Beginning | 8,973,251 |
| **Total Pension Liability - Ending** | **$ 10,144,675** |

Sensitivity of the Total Pension Liability to Changes in the Discount Rate. The following table presents the total pension liability, calculated using the discount rate of 3.50 percent, as well as what the employers' total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50 percent) or 1 percentage point higher (4.50 percent) than the current rate:

| 1% Decrease (2.50%) | Current Discount Rate (3.50%) | 1% Increase (4.50%) |
|---|---|---|
| $ 11,591,771 | $ 10,144,672 | $ 8,943,045 |

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference Between Expected and Actual Experience | $ 516,864 | $ 2,126,320 |
| Changes of Assumptions | 971,849 | $ 575,166 |
| Changes in College's proportionate share of pension liability | - | $ 1,621,354 |
| Transactions Subsequent to the Measurement Date | - | - |
| **Total** | **$ 1,488,712** | **$ 4,322,840** |

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

| | State Board Supplemental Retirement Plan |
|---|---|
| 2020 | (564,054.49) |
| 2021 | (564,054.49) |
| 2022 | (564,054.49) |
| 2023 | (564,054.49) |
| 2024 | (412,576.72) |
| Thereafter | (165,332.67) |

## Note 15 - Other Post-Employment Benefits

**Plan Description.** In addition to pension benefits as described in Note 14, the College, through the Health Care Authority (HCA), administers a single employer defined benefit through the Other Postemployment Benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

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

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

**Employees Covered by Benefit Terms.** Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units.

Additionally, there are 76 of the state's K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments not included in the state's financial reporting who participate in the PEBB plan. The plan is also available to the retirees of the remaining 227 K-12 schools, charter schools, and ESDs. Membership in the PEBB plan for the College consisted of the following:

**Summary of Plan Participants**
**As of June 30, 2018**

| | |
|---|---|
| Active Employees* | 1,496 |
| Retirees Receiving Benefits** | 492 |
| Retirees Not Receiving Benefits*** | 74 |
| Total Active Employees and Retirees | 2,062 |

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

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

**Benefits Provided**. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at $327 per adult unit per month, and in calendar year 2018, the average weighted implicit subsidy was valued at $347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be $368 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2017, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar year 2018. This was increased in calendar year 2019 up to $168 per member per month. It is projected to increase to $183 per member per month in calendar year 2020.

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

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

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

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

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

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

**Total OPEB Liability**

As of June 30, 2019, the state reported a total OPEB liability of $5.08 billion. The College's proportionate share of the total OPEB liability is $62,610,708. This liability was determined based on a measurement date of June 30, 2018.

**Actuarial Assumptions.** Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

In projecting the growth of the explicit subsidy, after 2020 when the cap is $183, it is assumed to grow at the health care trend rates. The Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

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

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

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

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

**Discount Rate.** Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017 measurement date and 3.87 percent for the June 30, 2018 measurement date.

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

**Changes in Total OPEB Liability**

As of June 30, 2019, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

| Seattle Colleges | | |
|---|---|---|
| **Proportionate Share (%)** | | **1.2328259047%** |
| Service Cost | $ | 3,914,518 |
| Interest Cost | | 2,691,209 |
| Differences Between Expected and Actual Experienc | | 2,456,551 |
| Changes in Assumptions* | | (17,137,186) |
| Changes of Benefit Terms | | - |
| Benefit Payments | | (1,136,632) |
| Changes in Proportionate Share | | (4,625,174) |
| Other | | - |
| Net Change in Total OPEB Liability | | (13,836,714) |
| Total OPEB Liability - Beginning | | 76,447,422 |
| **Total OPEB Liability - Ending** | **$** | **62,610,708** |

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

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

| **1% Decrease** | **Current Discount Rate** | **1% Increase** |
|---|---|---|
| $ 75,493,794 | $ 62,610,708 | $ 52,559,112 |

**Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates.** The following represents the total OPEB liability of the College, calculated using the health care trend rates of 8.00 percent decreasing to 4.50 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (7.00 percent decreasing to 3.50 percent) or 1 percentage point higher (9.0 percent decreasing to 5.50 percent) than the current rate:

**Health Care Cost Trend Rate Sensitivity**

| 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|
| $ 51,397,324 | $ 62,610,708 | $ 77,522,382 |

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

For the year ending June 30, 2019, the College will recognize OPEB expense of $2,583,976. OPEB expense consists of the following elements:

**Seattle Colleges**

| **Proportionate Share (%)** | | **1.2328259047%** |
|---|---|---|
| Service Cost | $ | 3,914,518 |
| Interest Cost | | 2,691,209 |
| Amortization of Differences Between Expected and Actual Experience | | 272,950 |
| Amortization of Changes in Assumptions | | (3,140,286) |
| Changes of Benefit Terms | | - |
| Amortization of Changes in Proportion | | (1,154,415) |
| Administrative Expenses | | - |
| **Total OPEB Expense** | **$** | **2,583,976** |

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

| Seattle Colleges | | | | |
|---|---|---|---|---|
| **Proportionate Share (%)** | **1.2328259047%** | | | |
| **Deferred Inflows/Outflows of Resources** | **Deferred Inflows** | | **Deferred Outflows** | |
| Difference between expected and actual experience | $ | - | $ | 2,183,601 |
| Changes in assumptions | | 23,886,142 | | - |
| Transactions subsequent to the measurement date | | - | | 1,149,602 |
| Changes in proportion | | 8,657,443 | | - |
| **Total Deferred Inflows/Outflows** | **$** | **32,543,585** | **$** | **3,333,203** |

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

| **Proportionate Share (%)** | **1.2328259047%** | |
|---|---|---|
| 2020 | $ | (4,021,752) |
| 2021 | $ | (4,021,752) |
| 2022 | $ | (4,021,752) |
| 2023 | $ | (4,021,752) |
| 2024 | $ | (4,021,752) |
| Thereafter | $ | (10,251,224) |

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

| | | |
|---|---|---|
| **Proportionate Share (%) 2017** | | **1.3122168278%** |
| **Proportionate Share (%) 2018** | | **1.2328259047%** |
| Total OPEB Liability - Ending 2017 | $ | 76,447,422 |
| Total OPEB Liability - Beginning 2018 | | 71,822,248 |
| Total OPEB Liability Change in Proportion | | (4,625,174) |
| Total Deferred Inflows/Outflows - 2017 | | (9,316,256) |
| Total Deferred Inflows/Outflows - 2018 | | (8,752,611) |
| Total Deferred Inflows/Outflows Change in Proportion | | 563,645 |
| **Total Change in Proportion** | **$** | **(5,188,819)** |

## Note 16 - Operating Expenses by Program

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

**Expenses by Functional Classification**

| | | |
|---|---|---|
| Instruction | $ | 89,668,343 |
| Academic Support Services | | 11,053,538 |
| Student Services | | 21,355,832 |
| Institutional Support | | 23,552,492 |
| Operations and Maintenance of Plant | | 21,837,749 |
| Auxiliary enterprises | | 22,244,730 |
| Student Financial Aid | | 20,179,830 |
| Depreciation | | 9,216,814 |
| **Total operating expenses** | **$** | **219,109,328** |

## Note 17 - Commitments and Contingencies

The College has commitments of $2,363,569 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

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

## Note 18 – Foundation Update

During fiscal year 2019, the foundations of North and Central merged with the Seattle Colleges Foundation that launched in 2018. South's foundation is independent of Seattle Colleges but continues to support students and programs at South. Also, during fiscal year 2019, the district's existing Foundation for Seattle Colleges transferred donor assets to Seattle Colleges Foundation. The Foundation for Seattle Colleges continues to manage the Pacific Tower project only.

## Note 19 – Discreetly Presented Component Unit Disclosures

### A. Organization and Significant Accounting Policies

*Seattle Colleges Foundation*

<u>Organization</u>

The Seattle Colleges Foundation ("the Foundation"), is a nonprofit organization organized in April 2018, and located in Seattle, Washington.

The Foundation advances the mission, work, and impact of the District of Seattle Colleges ("the District"), by engaging our community to transform lives, promote equity, and increase access to quality, affordable education. While the Foundation's Board of Directors is separate and distinct from the District's Board of Trustees, the District's Vice Chancellor for Advancement acts as the Chief Executive Officer of the Foundation, subject to the oversight of the Foundation's Board of Directors. Operational costs are primarily supported by in-kind contributions from the District, and by private philanthropy.

The Foundation's primary activities include raising funds for a range of purposes, including scholarships, capital improvements, and academic programs with the goal of promoting student success and strengthening the Seattle community. These activities include soliciting and receiving contributions and grants in the name of and on behalf of the District and the three colleges within the District – North Seattle College, Seattle Central College, and South Seattle College.

Transfer from College Foundations

Prior to July 2018, the Foundation received contributions without donor restrictions of $50,000 each from the Foundation for Seattle Colleges, North Seattle College Education Fund, and Seattle Central College Foundation ("the College Foundations"), in order to cover operational costs prior to the start of its primary activities as described above. The Foundation for Seattle Colleges acted in a role similar to the Foundation prior to the formation of the Foundation. South Seattle College Foundation did not transfer any funding to the Foundation as part of the Foundation being formed. In December 2018 and January 2019, the College Foundations transferred their endowments, and certain other assets and liabilities, to the Foundation as listed below (certain assets and liabilities of the Foundation for Seattle Colleges were not transferred, in order to continue certain contractual obligations). North Seattle College Education Fund and Seattle Central College Foundation subsequently ceased all operations and were dissolved. All existing restrictions from donors have been maintained by the Foundation.

Assets and liabilities transferred to the Foundation from the College Foundations were as follows during the year ended June 30, 2019:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 1,808,614 |
| Contributions receivable | | 293,425 |
| Investments | | 18,802,263 |
| Land held for sale | | 577,000 |
| Accounts payable | | (5,394) |
| Scholarships payable | | (1,044,309) |
| | $ | 20,431,599 |

*Foundation for Seattle Colleges*

Principles of Consolidation

The financial statements consolidate the assets, liabilities, and activities of the Foundation's wholly owned subsidiary, Seattle Colleges Pacific Tower LLC, a Washington limited liability company ("Pacific Tower, LLC"), and Pacific Tower, LLC's consolidated subsidiaries, Pacific Tower QALICB, LLC ("the QALICB") and Pacific Tower Master Tenant, LLC ("the Master Tenant"), both Washington limited liability companies. The Pacific Tower, LLC is the managing member of the QALICB and the Master Tenant.

The Foundation, Pacific Tower, LLC, the QALICB, and the Master Tenant are collectively referred to as the Foundation in these consolidated financial statements. All significant inter-entity transactions have been eliminated in consolidation.

The noncontrolling interest presented in the consolidated financial statements represents the ownership interest of U.S. Bancorp Community Development Corporation ("U.S. Bank") in the Master Tenant.

The Pacific Tower, LLC, the QALICB, and the Master Tenant are limited liability companies (or "LLCs"), and as LLCs, the liability of the members is generally limited to the amounts invested. The LLCs have perpetual lives unless dissolved sooner.

Transfer to the Seattle Colleges Foundation

In December 2018, the Foundation transferred its endowment and other assets held for grantmaking into the control of the newly formed Seattle Colleges Foundation. The Foundation granted a total of $1,560,034 in 2018, made up of $1,399,443 of investments held for the endowment and $160,591 of cash and cash equivalents. All existing restrictions from donors on these grants have been maintained by the Seattle Colleges Foundation. The Seattle Colleges Foundation maintains a separate board of directors and neither foundation exists exclusively to benefit the other. Any future contributions received by the Foundation are anticipated to be granted to the Seattle Colleges Foundation, although such grants are at the discretion of the Board of Directors of the Foundation (and subject to any donor-imposed restrictions).

Subsequent to this grant, the Foundation ceased its primary operations as a fundraising and grantmaking organization and will continue general operations related to the coordination of the Pacific Tower Rehabilitation Project (discussed below) for an indefinite time period.

Pacific Tower Rehabilitation Project

In November 2013, the State of Washington Department of Commerce ("Commerce") entered into a master lease with the Pacific Hospital Preservation and Development Authority ("the lessor") for certain space within the Pacific Tower, a historic landmark building located at 1200 12th Avenue South, Seattle, Washington. Commerce sought supplemental funding to remodel the Pacific Tower, including the use of federal tax credits (see below). Only a for-profit developer, however, can take advantage of those credits, and as a result, Commerce wanted to finance the remodel through a sale to a third party of the earned credits. Commerce, therefore, approached the District and the Foundation to facilitate a tax credit financing component for the Pacific Tower remodeling. In August 2015, the Foundation entered into a sublease with Commerce for all space within the Pacific Tower to be rehabilitated into a new satellite campus:  The Pacific Tower Health and Education Innovation Center ("the Rehabilitation Project").

In December 2014, the Foundation created the Pacific Tower, LLC to be its agent in the Rehabilitation Project. The Foundation took responsibility for aggregating all resources for the Rehabilitation Project, which was completed in June 2016.

The QALICB was formed in December 2014 to hold a sublease interest in and coordinated most of the actual development for the Rehabilitation Project. Pacific Tower, LLC has an ownership interest of 70% in the QALICB and is the managing member. The remaining 30% ownership interest is held by the Master Tenant, the investor member.

The Master Tenant was formed in January 2015 to lease the Pacific Tower space from the QALICB and manage its tenants. Pacific Tower, LLC has an ownership interest of 1% in the Master Tenant and is the managing member. The remaining 99% ownership interest is held by U.S. Bank, the noncontrolling/investor member.

The QALICB has received an allocation of New Markets Tax Credits ("NMTCs") under Section 45 and historic rehabilitation tax credits ("HTCs") under Section 47 of the Internal Revenue Code. All HTCs generated in the QALICB's rehabilitation of the Pacific Tower are to be passed through to the Master Tenant, and proportionately in accordance with ownership percentages to its members (Pacific Tower, LLC and U.S. Bank). In order to avoid tax credit recapture to U.S. Bank (the NMTC and HTC tax credit investor and 99% owner of the Master Tenant), the Master Tenant must remain the subtenant of the QALICB under the Master Lease, the QALICB must remain the subtenant of the leased premises from the Foundation for the compliance periods, and the Pacific Tower is to be developed and used as an urban educational and health services center during the compliance periods. The NMTC recapture and compliance period is the seven years ending August 2022. The HTC recapture and compliance period is the five-year period ending in June 2021.

Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value at the time of the donation, if donated. The Foundation capitalizes all items with a useful life of more than one year. Depreciation of furniture, fixtures, and equipment is provided using the straight-line method over the estimated useful lives of the assets (5 to 15 years). Amortization of leasehold improvements is computed by the straight-line method over the shorter of the improvement's life or the estimated lease term (27.5 years). Maintenance and repair costs that do not increase the value of the assets or materially extend asset lives are charged to operating expense in the year the expense is incurred. Property and equipment consist of the following at December 31, 2018:

| | |
|---|---|
| Leasehold improvements | $ 46,860,732 |
| Furniture, fixtures, and equipment | 1,506,221 |
| Less: accumulated depreciation and amortization | (5,807,943) |
| | $ 42,559,010 |

## B. Investments

*Seattle Colleges Foundation*

Investments debt and equity securities are reported at fair value using quoted prices in an active market (Level 1 inputs). Investment return is reported in the statement of activities and consists of interest and dividend income, and realized and unrealized gains and losses, less investment expenses.

Investments consist of the following at June 30, 2019:

| | |
|---|---|
| Cash and cash equivalents | $ 710,052 |
| Government and agency securities | 701,148 |
| Municipal bonds | 432,433 |
| Corporate bonds | 964,519 |
| Bond mutual funds | |
| Short-term | 1,721,386 |
| Intermediate-term | 3,067,136 |
| Equity mutual funds | |
| Large blend | 4,954,901 |
| Foreign large blend | 2,471,949 |
| Large value | 2,366,688 |
| Small-cap | 1,206,908 |
| Mid-cap blend | 651,869 |
| Mid-cap value | 619,906 |
| Diversified emerging markets | 552,636 |
| | $ 20,421,531 |

The Foundation classifies its investments as based on its reserve policies or if the investments are held for endowments as noncurrent assets. Investments are presented in the statements of financial position as follows at June 30, 2019:

| | |
|---|---|
| Investments | $ 2,752,995 |
| Investments held for endowments | 17,668,536 |
| | $ 20,421,531 |

*South Seattle Colleges Foundation*

Investments consist of a series of common stock and debt and equity mutual funds, and are stated at fair value using Level 1 market inputs determined by quoted market prices on national exchanges. Investment income and gains and losses on investments are recorded as unrestricted revenue unless a donor or law temporarily or permanently restricts their use.

The Foundation's investments consist primarily of mutual funds and common stock as follows at December 31, 2018:

| | |
|---|---|
| Common stock | |
| Domestic | $ 398,642 |
| Exchange-Traded Funds | |
| Diversified emerging markets | 997,679 |
| Large growth | 315,493 |
| Infrastructure | 203,398 |
| Foreign large blend | 174,218 |
| Large blend | 167,446 |
| | 1,858,234 |
| Mutual funds | |
| Equity | |
| Large cap blend | 3,523,210 |
| Foreign large blend | 1,541,215 |
| Mid cap blend | 648,234 |
| Small cap blend | 613,863 |
| Natural resources | 586,332 |
| Foreign large growth | 503,667 |
| Foreign large value | 488,075 |
| Global real estate | 381,135 |
| Foreign small/mid blend | 340,772 |
| Large growth | 304,882 |
| Large value | 297,316 |
| Diversified emerging markets | 192,070 |
| | 9,420,771 |
| Fixed income | |
| Intermediate-term bond | 2,516,650 |
| Ultrashort bond | 1,301,391 |
| High-yield bond | 1,174,446 |
| Short-term bond | 685,584 |
| Inflation-protected bond | 311,244 |
| | 5,989,315 |
| | $ 17,666,962 |

## C. Loans Receivable

*Foundation for Seattle Colleges*

In August 2015, the Foundation loaned $14,122,050 ("Loan A") and $2,000,000 ("Loan B") (collectively, "the Leverage Loans") to Twain Investment Fund 69, LLC ("the Fund"). The Fund is 99.99% owned by U.S. Bank. The Fund used the loan proceeds, through other intermediary entities, to make NMTC loans to the QALICB (see Note 7). The Leverage Loans bear fixed interest at 1.36% and require quarterly interest-only payments through December 15, 2029. Beginning March 15, 2030, annual principal and interest payments are due in the amount necessary to repay the outstanding principal and unpaid interest of the Leverage Loans by June 30, 2045 (maturity). The loan is effectively secured by the capital investments of QALICB. The Foundation and U.S. Bank have entered into a put/call agreement whereby the Foundation can acquire U.S. Bank's interest in the Fund at the end of the NMTC compliance period. See F. Purchase Price Option and Unwind.

## D. Purchase Price Option and Unwind

*Foundation for Seattle Colleges*

**Master Tenant**

The Foundation (acting as the sole member of Pacific Tower, LLC) and U.S. Bank, under the Master Tenant Operating Agreement, have entered into a put option agreement to take place at the end of the five-year HTC recapture and compliance period (June 2021). Under the *Foundation for Seattle Colleges*

Loans payable consisted of the following at December 31, 2018:

**NMTC Loans**

In August 2015, the Foundation borrowed a total of $22,500,000 from Seattle Subsidiary Investment Fund VII, LLC (Loans A1 and B1), Consortium America LX, LLC (Loans A2 and B2), and URP Subsidiary CDE XXIII, LLC (Loans A3 and B3) for the purpose of investing in the Rehabilitation Project. The lenders were created solely for the purpose of obtaining the benefits of NMTCs. The NMTC investor/lender is U.S. Bank (through the Fund).

The financing arrangement consists of six loans as follows as of December 31, 2018:

| | |
|---|---|
| Loan A1 | $ 6,648,083 |
| Loan B1 | 2,951,917 |
| Loan A2 | 3,575,083 |
| Loan B2 | 1,324,917 |
| Loan A3 | 5,898,884 |
| Loan B3 | 2,101,116 |
| | 22,500,000 |
| Less: unamortized debt issuance costs | (2,272,745) |
| Total NMTC loans, net | $ 20,227,255 |

All six loans bear interest at an annual rate of 1% and mature on December 31, 2049. Quarterly interest-only payments are due and payable through December 2029. Starting in March 2030 through the maturity date, payments of interest and principal, amortized over a 20-year term, shall be payable in quarterly installments due and payable on the fifth day of March, June, September, and December. All remaining principal and accrued and unpaid interest shall be due and payable on the maturity date (in 2049). During the year ended December 31, 2018, the Foundation incurred $225,000 in interest expense under loans payable.

Additionally, under the terms of the loan agreements discussed above, the Foundation pays to certain lenders annual asset management fees, administration fees, and other operating and administrative expenditures. These fees totaled $87,892 in 2018, which were expensed.

All loans are secured by collateral as defined by the Loan and Security Agreement, including all leasehold improvements, intangibles, assignment of rents, and restricted cash accounts.

**WSHFC Loan**

Also, in August 2015, the Foundation borrowed $2,000,000 from the Washington State Housing and Finance Commission for the purpose of investing in the Rehabilitation Project. The loan bears interest at a fixed rate of 1% and requires annual principal and interest payments, with all outstanding interest and principal due at maturity in February 2022. The loan is secured by Loan B (loan receivable). See C. Loans Receivable.

At December 31, 2018 the WSHFC loan has an outstanding principal balance of $1,331,865. At December 31, 2018 the loan has unamortized debt issuance costs of $9,487 which reduce the noncurrent portion of the loan payable on the consolidated statements of financial position.

Principal maturities on loans payable discussed above are as follows for the year ending December 31:

| | |
|---|---|
| 2019 | $ 212,000 |
| 2020 | 247,000 |
| 2021 | 266,000 |
| 2022 | 606,865 |
| 2023 | |
| 2014-2028 | |
| 2029-2033 | 4,147,813 |
| 2034-2038 | 5,423,308 |
| 2037-2043 | 5,701,014 |
| 2044-2048 | 5,992,939 |
| 2049 | 1,234,926 |
| | 23,831,865 |
| Less: total unamortized debt issuance costs | (2,282,232) |
| | $ 21,549,633 |

Interest has not been imputed on any of the above loans payable that carry below-market rate interest as they carry certain restrictions. The restrictions require the Foundation to use the property as defined by the loan regulatory agreements.

## E. Future Rental Revenue

*Foundation for Seattle Colleges*

Upon the execution of the Sublease, the Foundation entered various assignments and subleases of the space, effectively subleasing the space to the Master Tenant, which leases the space to various commercial tenants under noncancelable agreements. Terms of leases are generally up to 15 years with options to extend for up to 10 years. Most commercial leases include annual fixed escalation clauses of 3%, and additional rent is required to cover certain operating expenses of the Pacific Tower. Future minimum rentals to be received, excluding options to extend and operating expenses (as these costs are based on actual costs incurred), but including fixed escalation clauses, are as follows for the year ending December 31:

| | |
|---|---|
| 2019 | $ 2,289,379 |
| 2020 | 2,228,954 |
| 2021 | 2,110,352 |
| 2022 | 2,160,166 |
| 2023 | 2,140,563 |
| Thereafter | 10,907,378 |
| | $ 21,836,792 |

## F. Purchase Price Option and Unwind

*Foundation for Seattle Colleges*

**Master Tenant**

The Foundation (acting as the sole member of Pacific Tower, LLC) and U.S. Bank, under the Master Tenant Operating Agreement, have entered into a put option agreement to take place at the end of the five-year HTC recapture and compliance period (June 2021). Under the agreement, U.S. Bank may exercise a put option to sell its interest in the Master Tenant. The purchase price for U.S. Bank's interest is defined as the lesser of the following:

- the appraised fair value of U.S. Bank's interest; or

- the sum of 5% of the aggregate amount of U.S. Bank's capital contributions, plus an amount equal to U.S. Bank's state and local transfer taxes in connection with the exercising of the put option, plus the amount of all outstanding obligations due to U.S. Bank.

Certain disclosures in these financial statements may be significantly impacted in the event the put option is exercised.

**<u>Twain Investment Fund 69, LLC</u>**

The Foundation (acting as the sole member of Pacific Tower, LLC) and U.S. Bank have entered into a put/call option agreement to take place at the end of the seven-year NMTC compliance period. Under the agreement, U.S. Bank can exercise a put option to sell its interest in the Fund (U.S. Bank owns 100% and is the tax credit investor/lender) for $1,000 to the Foundation. The Fund holds a 99.99% ownership of each of the NMTC lending funds (described in Note 7). If U.S. Bank does not exercise the put option within six months of the end of the seven-year period (August 2022), the Foundation has an additional six months in which it can exercise a call option to purchase the interest of the Fund at an appraised fair market value.

Under the Funding and Restoration Agreement with Commerce, in the event the put option of the Master Tenant and put/call option for the Fund are exercised, the following will occur:

- The sublease from Commerce will terminate;
- The subleases held by the Master Tenant with occupying tenants, will be assigned to Commerce; and
- The Property Management Agreement with Barrientos Ryan will terminate and all management of the Pacific Tower will revert to Commerce.

Certain other disclosures in these consolidated financial statements may be significantly impacted in the event the Master Tenant put option or the Fund put/call option and following unwind is exercised.

## G. Company Profits and Losses and Distributions

*Foundation for Seattle Colleges*

**<u>Master Tenant</u>**

All profits and losses are allocated 1% to Pacific Tower, LLC and 99% to U.S. Bank. Net Cash Flow, as defined by the Master Tenant Operating Agreement, is to be distributed in accordance with the Master Tenant Operating Agreement.

Also, under the Master Tenant Operating Agreement, U.S. Bank earns an annual 2% Priority Return on cumulative capital contributions made to the Master Tenant. Priority Return payments are made based on available Net Cash Flow and are payable by January 31 of the following calendar year. Unpaid Priority Returns will continue to accrue until Net Cash Flow is available. As of December31, 2018, the Foundation had $258,490 of Priority Returns payable outstanding.

Net Cash Flows of approximately $321,000 were available for distribution at December 31, 2018. This amount available is expected to pay the $258,490 priority returns payable outstanding at December 31, 2018, as well as additional priority returns incurred in 2019.

**QALICB**

All profits and losses are allocated 70% to Pacific Tower, LLC and 30% to the Master Tenant. Net Cash Flow, as defined by the QALICB Operating Agreement, is to be distributed in accordance with the QALICB Operating Agreement. There were no Net Cash Flows available for distribution to its members at December 31, 2018.

## Note 20 – Subsequent Event

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a potentially deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

The potential financial impact on Seattle Colleges is unknown at this time. Management will prepare plans to address the situation as it unfolds.

The length of time these measures will be in place, and the full extent of the financial impact on Seattle Colleges in unknown at this time.

## Required Supplementary Information

### Pension Plan Information

### Cost Sharing Employer Plans

Schedules of Seattle Colleges' Proportionate Share of the Net Pension Liability

**Schedule of Seattle Colleges' Share of the Net Pension Liability**
**Public Employees' Retirement System (PERS) Plan 1**
Measurement Date of June 30

| Fiscal Year | College's proportion of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |
|---|---|---|---|---|---|
| 2014 | 0.236912% | $ 11,934,553 | $ 24,019,544 | 49.69% | 61.19% |
| 2015 | 0.243765% | $ 12,751,176 | $ 26,975,186 | 47.27% | 59.10% |
| 2016 | 0.249531% | $ 13,400,990 | $ 28,902,416 | 46.37% | 57.03% |
| 2017 | 0.244331% | $ 11,593,699 | $ 29,375,810 | 39.47% | 61.24% |
| 2018 | 0.227371% | $ 10,154,469 | $ 31,050,479 | 32.70% | 63.22% |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

**Cost Sharing Employer Plans**

Schedules of Seattle Colleges' Proportionate Share of the Net Pension Liability

| Schedule of Seattle Colleges' Share of the Net Pension Liability<br>Public Employees' Retirement System (PERS) Plan 2/3<br>Measurement Date of June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | College's proportion of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |
| 2014 | 0.282041% | $ 5,701,068 | $ 23,171,384 | 24.60% | 93.29% |
| 2015 | 0.294144% | $ 10,509,935 | $ 26,169,995 | 40.16% | 89.20% |
| 2016 | 0.301052% | $ 15,157,730 | $ 28,146,998 | 53.85% | 85.82% |
| 2017 | 0.300851% | $ 10,453,128 | $ 29,496,393 | 35.44% | 90.97% |
| 2018 | 0.283070% | $ 4,833,159 | $ 30,753,777 | 15.72% | 95.77% |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

**Cost Sharing Employer Plans**

Schedules of Seattle Colleges' Proportionate Share of the Net Pension Liability

| Schedule of Seattle Colleges' Share of the Net Pension Liability<br>Teachers' Retirement System (TRS) Plan 1<br>Measurement Date of June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | College's proportion of the net pension liability | | College proportionate share of the net pension liability | | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |
| 2014 | 0.025445% | $ | 750,488 | $ | 904,477 | 82.97% | 68.77% |
| 2015 | 0.029606% | $ | 937,960 | $ | 1,258,555 | 74.53% | 65.70% |
| 2016 | 0.032263% | $ | 1,101,535 | $ | 1,500,096 | 73.43% | 62.07% |
| 2017 | 0.030111% | $ | 910,336 | $ | 1,550,219 | 58.72% | 65.58% |
| 2018 | 0.025627% | $ | 748,460 | $ | 1,415,183 | 52.89% | 66.52% |
| 2019 | | | | | | | |
| 2020 | | | | | | | |
| 2021 | | | | | | | |
| 2022 | | | | | | | |
| 2023 | | | | | | | |

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

## Cost Sharing Employer Plans

Schedules of Seattle Colleges' Proportionate Share of the Net Pension Liability

| Schedule of Seattle Colleges' Share of the Net Pension Liability<br>Teachers' Retirement System (TRS) Plan 2/3<br>Measurement Date of June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | College's proportion of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability |
| 2014 | 0.017490% | $ 56,513 | $ 725,181 | 7.79% | 96.81% |
| 2015 | 0.023049% | $ 194,488 | $ 1,090,532 | 17.83% | 92.48% |
| 2016 | 0.027799% | $ 381,763 | $ 1,377,445 | 27.72% | 88.72% |
| 2017 | 0.025890% | $ 238,950 | $ 1,419,701 | 16.83% | 93.14% |
| 2018 | 0.024782% | $ 111,547 | $ 1,386,360 | 8.05% | 96.88% |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

## Pension Plan Information

## Cost Sharing Employer Plans

Schedules of Contributions

| Schedule of Contributions<br>Public Employees' Retirement System (PERS) Plan 1<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
| 2014 | $ 1,015,017 | $ 1,015,017 | $ - | $24,019,544 | 4.23% |
| 2015 | $ 1,121,180 | $ 1,121,180 | $ - | $26,975,186 | 4.16% |
| 2016 | $ 1,415,082 | $ 1,415,082 | $ - | $28,902,416 | 4.90% |
| 2017 | $ 1,469,711 | $ 1,469,711 | $ - | $30,067,061 | 4.89% |
| 2018 | $ 1,474,272 | $ 1,474,272 | $ - | $29,375,810 | 5.02% |
| 2019 | $ 1,610,060 | $ 1,610,060 | $ - | $31,050,479 | 5.19% |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

**Cost Sharing Employer Plans**
Schedules of Contributions

| Schedule of Contributions<br>Public Emplyees' Retirement System (PERS) Plan 2/3<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
| 2014 | $ 1,153,123 | $ 1,153,123 | $ - | $23,171,384 | 4.98% |
| 2015 | $ 1,313,520 | $ 1,313,520 | $ - | $26,169,995 | 5.02% |
| 2016 | $ 1,737,946 | $ 1,737,946 | $ - | $28,146,998 | 6.17% |
| 2017 | $ 1,837,568 | $ 1,837,568 | $ - | $29,496,393 | 6.23% |
| 2018 | $ 2,184,202 | $ 2,184,202 | $ - | $29,375,810 | 7.44% |
| 2019 | $ 2,311,380 | $ 2,311,380 | $ - | $30,753,777 | 7.52% |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

**Cost Sharing Employer Plans**
Schedules of Contributions

| Schedule of Contributions<br>Teachers' Retirement System (TRS) Plan 1<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
| 2014 | $ 48,359 | $ 48,359 | $ - | $ 904,477 | 5.35% |
| 2015 | $ 66,409 | $ 66,409 | $ - | $ 1,258,555 | 5.28% |
| 2016 | $ 98,053 | $ 98,053 | $ - | $ 1,500,096 | 6.54% |
| 2017 | $ 105,368 | $ 105,368 | $ - | $ 1,550,219 | 6.80% |
| 2018 | $ 106,582 | $ 106,582 | $ - | $ 1,467,085 | 7.26% |
| 2019 | $ 109,973 | $ 109,973 | $ - | $ 1,459,969 | 7.53% |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

## Cost Sharing Employer Plans

Schedules of Contributions

| Schedule of Contributions<br>Teachers' Retirement System (TRS) Plan 2/3<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
| 2014 | $ 41,146 | $ 41,146 | $ - | $ 725,181 | 5.67% |
| 2015 | $ 62,089 | $ 62,089 | $ - | $ 1,090,532 | 5.69% |
| 2016 | $ 90,738 | $ 90,738 | $ - | $ 1,377,445 | 6.59% |
| 2017 | $ 95,392 | $ 95,392 | $ - | $ 1,419,701 | 6.72% |
| 2018 | $ 110,176 | $ 110,176 | $ - | $ 1,428,031 | 7.72% |
| 2019 | $ 112,059 | $ 112,059 | $ - | $ 1,431,146 | 7.83% |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

## State Board Supplemental Defined Benefit Plans

**Schedule of Changes in the Total Pension Liability and Related Ratios**
**Seattle Colleges**
Fiscal Year Ended June 30, 2019
*(expressed in thousands)*

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| **Total Pension Liability** | | | |
| Service Cost | $ 584 | $ 394 | $ 262 |
| Interest | 379 | 362 | 317 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | (2,733) | (1,071) | 597 |
| Changes of assumptions | (645) | (362) | 1,124 |
| Benefit Payments | (97) | (134) | (167) |
| Change in Proportionate Share | - | (470) | (962) |
| Other | - | - | - |
| **Net Change in Total Pension Liability** | **(2,512)** | **(1,281)** | **1,171** |
| **Total Pension Liability - Beginning** | **12,766** | **10,254** | **8,973** |
| **Total Pension Liability - Ending** | **$ 10,254** | **$ 8,973** | **$ 10,144** |
| **College's Proportion of the Pension Liability** | 10.79% | 10.29% | 9.19% |
| **Covered-employee payroll** | $ 59,921 | $ 58,155 | $ 59,289 |
| **Total Pension Liability as a percentage of covered-employee payroll** | 17.11% | 15.43% | 17.11% |

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

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

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

## Required Supplementary Information

# Other Postemployment Benefits Information

| Schedule of Changes in Total OPEB Liability and Related Ratios<br>Measurement Date of June 30 | | |
|---|---|---|
| **Total OPEB Liability** | **2018** | **2017** |
| Service cost | $ 3,914,518 | $ 5,182,669 |
| Interest cost | 2,691,209 | 2,427,594 |
| Difference between expected and actual experience | 2,456,551 | - |
| Changes in assumptions | (17,137,186) | (11,841,846) |
| Changes in benefit terms | - | - |
| Benefit payments | (1,136,632) | (1,237,141) |
| Changes in proportionate share | (4,625,174) | (5,280,670) |
| Other | - | - |
| **Net Changes in Total OPEB Liability** | $ (13,836,714) | $ (10,749,394) |
| **Total OPEB Liability - Beginning** | $ 76,447,422 | $ 87,196,816 |
| **Total OPEB Liability - Ending** | $ 62,610,708 | $ 76,447,422 |
| **College's proportion of the Total OPEB Liability (%)** | 1.23282590% | 1.31221780% |
| **Covered-employee payroll** | $ 106,011,911 | $ 104,219,715 |
| **Total OPEB Liability as a percentage of covered-employee payroll** | 59.060069% | 73.352170% |

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

### Notes to Required Supplementary Information

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

| Contact information for the State Auditor's Office | |
|---|---|
| **Public Records requests** | PublicRecords@sao.wa.gov |
| **Main telephone** | (564) 999-0950 |
| **Toll-free Citizen Hotline** | (866) 902-3900 |
| **Website** | www.sao.wa.gov |