



the
evergreen
state college

RESIDENTIAL &
DINING SERVICES

2020 ANNUAL FINANCIAL REPORT

FOR JUNE 30, 2020



RESIDENTIAL & DINING SERVICES

Working together to be a...

PURPOSEFUL COMMUNITY

where students, staff, and faculty share a passion for learning and collaborate to enhance student growth.

JUST COMMUNITY

where the individual is honored, our interdependence is acknowledged, diversity is pursued, freedom of expression is protected, and civility is affirmed.

SUSTAINABLE COMMUNITY

that values, cultivates, and maintains its human, natural, and physical resources.



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state college

RESIDENTIAL & DINING SERVICES ANNUAL FINANCIAL REPORT FOR JUNE 30, 2020

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ANNUAL FINANCIAL REPORT FOR JUNE 30, 2020

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Office of the Washington State Auditor Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Trustees
Evergreen State College Residential Services
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Evergreen State College Residential Services, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

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 Residential Services' 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 Residential Services' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Evergreen State College Residential Services, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Evergreen State College Residential Services, a department of The Evergreen State College, 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 Evergreen State College that is attributable to the transactions of the Residential Services. They do not purport to, and do not, present fairly the financial position of The Evergreen State College as of June 30, 2020, 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

The Residential Services' has omitted the management's discussion and analysis information, Schedules of the Evergreen State College Residential Services' Share of Net Pension Liability – PERS 1, and PERS 2/3, Schedule of Changes in Total Pension Liability and Related Ratios – TESC Supplemental Retirement Plan, Schedules of Contributions – PERS 1, PERS 2/3, and, TESC Supplemental Retirement Plan, and Schedule of Changes in Total OPEB Liability that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Residential Services' basic financial statements as a whole. The list of the Board of Trustees and Administration is presented for purposes of additional analysis and is not a

required part of the basic financial statements of the College. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated July 29, 2021, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy". The signature is written in black ink and is positioned below the word "Sincerely,".

Pat McCarthy, State Auditor

Olympia, WA

July 29, 2021

**The Evergreen State College
Residential Services
Statement of Net Position
As of June 30, 2020**

	2020
Assets	
Current Assets	
Cash and cash equivalents	\$ 8,166,207
Accounts receivable, net	196,123
Inventories	60,968
Total Current Assets	8,423,298
Non-Current Assets	
Capital assets, net of depreciation	7,331,154
Total Non-Current Assets	7,331,154
Total assets	15,754,452
Deferred Outflows of Resources	
Related to pension (Note 11)	79,624
Related to OPEB (Note 1, 12)	56,379
Deferred outflow on refundings	17,515
Total Deferred Outflows	153,518
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	34,004
Compensated absences	58,317
Unearned revenue	150,180
Current portion, Total pension liability	1,960
Current portion, OPEB Liability (Note 12)	9,399
Current portion, long-term debt	365,000
Total Current Liabilities	618,860
Non-Current Liabilities	
Compensated absences	13,789
Net pension liability (Note 11)	134,593
Total pension liability (Note 1, 11)	124,342
Total OPEB Liability (Note 1, 12)	535,696
Long-term debt	1,935,000
Total Non-Current Liabilities	2,743,420
Total liabilities	3,362,280
Deferred Inflows of Resources	
Relating to pension (Note 11)	86,512
Relating to OPEB (Note 12)	251,032
Total Deferred Inflows	337,544
Net Position	
Net investment in capital assets	5,048,669
Unrestricted	7,159,476
Total net position	\$ 12,208,145

See Accompanying Notes to the Financial Statements

**The Evergreen State College
Residential Services
Statement of Revenue, Expenses and Changes in Net Positions
For the Year Ended June 30, 2020**

	2020
Operating Revenues	
Sales of auxiliary services	\$ 3,861,699
Total operating revenue	3,861,699
Operating Expenses	
Salaries and wages	1,542,106
Depreciation and amortization	974,380
Supplies and Materials	384,625
Utilities	277,967
Benefits	342,117
Repairs and maintenance	509,587
Total operating expenses	4,030,782
Operating income (loss)	(169,083)
Non-Operating Revenue (Expenses)	
Investment income	84,419
Interest on indebtedness	(61,341)
Net non-operating revenue (expenses)	23,078
Income (loss) before special items	(146,005)
Special Item - CIP impairment	(2,732,634)
Increase (decrease) in net assets	(2,878,639)
Net Position	
Net position, beginning of year	15,086,784
Net position, end of year	\$ 12,208,145

See Accompanying Notes to the Financial Statements

**The Evergreen State College
Residential Services
Statement of Cash Flows
For the Year Ended June 30, 2020**

	2020
Cash Flows from Operating Activities	
Sales of auxiliary services	\$ 3,762,073
Payments for employees (salary & benefits)	(1,841,829)
Payments to vendors	(1,242,114)
	678,130
 Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	-
Principal payments on long-term debt	(355,000)
Interest payments	(61,341)
	(416,341)
 Cash Flows from Investing Activities	
Investment income	84,419
	84,419
 Net Change in Cash and Cash Equivalents	346,208
 Cash and Cash Equivalents, Beginning of the Year	7,819,999
	\$ 8,166,207
	8,166,207
 Reconciliation of Operating Loss to Net Cash provided by Operating Activities	
Operating Loss	\$ (169,083)
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense	974,380
Pension and OPEB Expense	36,481
Changes in assets and liabilities	
Bond discount and issue costs	
Accounts receivable	(19,477)
Inventory	(19,868)
Accounts payable and accrued expenses	(50,067)
Accrued employee expense	5,914
Unearned revenues	(80,149)
	678,130
Net cash provided by operating activities	\$ 678,130

See Accompanying Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

Residential Services is a self-supporting auxiliary enterprise fund, and a separate department within The Evergreen State College (College), a comprehensive institution of higher education offering baccalaureate and master's degrees. The College, an agency of the State of Washington, is governed by an eight-member Board of Trustees appointed by the Governor and confirmed by the State Senate. Residential Services provides housing and other associated services for students of the College.

Financial Statement Presentation

The financial statements for the Residential Services are presented in accordance with generally accepted accounting principles and follow guidance given by GASB. These statements are special purpose reports reflecting the net position, results of operations and cash flow of Residential Services. These financial statements present only a selected portion of the activities of the College. As such, they are not intended to and do not present either the financial positions, results of operations or changes in the net position of the College.

Basis of Accounting

For financial reporting purposes, the Residential Services is considered as a special purpose government engaged in business type activities. Accordingly, the Residential Services financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents. Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool. Except for petty cash held at the College, all others are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Accounts Receivable. Accounts receivable consist primarily of Residential Services charges to students. Accounts receivable is recorded net of the estimated uncollectible amount.

Inventories. Inventories consist of consumables held by Residential Services maintenance. They are valued at lower of cost (first in, first out method) or market.

Capital Assets. Land, buildings, and equipment are stated at cost or, if donated, at their acquisition value at the date of donation. Additions, replacements, major repairs, and renovations are capitalized.

The capitalization threshold is \$100,000 or greater for buildings and infrastructure but must also meet the requirement of at least 10% of the value of the asset, and \$5,000 or greater for equipment. The purchase of land is capitalized regardless of cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, and 20 to 50 years for infrastructure and land improvements and 5 to 7 years for equipment.

Unearned Revenue. Unearned revenues occur when funds have been collected in advance of an event, such as summer quarter Residential Services rent.

Compensated Absences. Employees accrue annual leave at rates based on length of service and sick leave at the rate of one day (8 hours) per month. Both are included in non-current liabilities. Employees are entitled to either the present value of 25% of his/her/their unused sick leave balance upon retirement or 25% of his/her/their net accumulation for the year in which it exceeds 480 hours.

Deferred Outflows of resources and Deferred Inflows of resources.

The System classifies gains on retirement of debt as deferred inflows and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

Change in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflow of resources.

Net Pension Liability. Pension liabilities equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the defined benefit plans has been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high- quality municipal bond rate when plan assets are not available.

Pension expense is recognized for benefits earned during the measurement period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Operating Revenues/Expenses. Operating revenues consist of auxiliary services such as room and equipment rentals, fees, fines and washer and dryer income. Operating expenses include salaries, wages, benefits, utilities, supplies and services and depreciation. All other revenue and expenses are reported as non-operating revenues and expenses including investment income and interest expense.

Net Position

Residential Services net position is classified as follow:

Net Investment in capital assets: This represents the Residential Services total investment in capital assets, less accumulated depreciation (Note 4), and net of outstanding debt obligations related to capital assets (Note 6 and 7).

Unrestricted Net Position: The portion of the net position represents resources derived from operations and investing activities. Unrestricted net position is not subject to externally imposed restrictions but which may be designated for specific purposes by management or the Board of Trustees.

Tax Exemption. As a part of the College, the operations of Residential Services are exempt from federal income tax on related income under the provisions of Section 115(a) of the Internal Revenue Code.

Note 2. Valuation of Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool administered by the Washington State Treasurer. Except for petty cash held at the College, all others are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

In accordance with GASB Statement No. 72 assets are valued at fair market value (FMV). They consist of time certificates of deposit in addition to investments in equities, bond funds and fixed income bonds. Time certificates of deposit have repurchase agreements with the respective financial institutions; investments in equities are subject to loss of all 100% of the balance of investments. The statement provides a hierarchy of reporting between Levels 1 and 3 which are defined below:

Investments classified as level 1. Investments classified as level 1 are exchange traded equity securities whose values are based on published market prices and quotations from national security exchanges as of the New York Stock Exchange close, as of each reporting period end.

Investments classified as level 2. Investments classified as level 2 in the above table are primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Investments classified as level 3. Private equity, real assets, and other investments classified in level 3 are valued using either discounted cash flow or market comparable techniques. This category includes hedge funds, limited partnerships, and other alternative investments. The college does not have any investments in this level.

GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

As noted earlier, in the Summary of Significant Accounting Policies section, the College, through its investment policy, manages its exposure to custodial credit risk, credit risk, concentration of credit risk and interest rate risk by investing only in eligible investments authorized by State statute found in RCW 39 and 43.

Interest Rate Risk

The College manages its exposure to interest rate changes by limiting the duration of investments and structuring the maturities of investments to mature at various points in the year.

Concentration of Credit Risk

The College’s Time Certificates of Deposit are insured through either the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the PDPC.

Note 3. Accounts Receivable

Accounts receivable are primarily room and board charges to students. The receivable balance, net of the uncollectible balance, as of June 30, 2020 as follows:

	<u>2020</u>
Student receivables	\$ 213,530
Allowance for uncollectable	(17,407)
Net accounts receivable	<u>\$ 196,123</u>

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2020 is summarized as below. In FY20 the Dorm project Construction in Progress (CIP) was impaired and stoppage occurred, due to lower enrollment and financial constraints. The project expenses were made in FY17 and FY18 for designs and engineering costs and did not affect the asset value.

Capital assets	Balance June 30, 2019	Additions/ Transfers	Retirements & Adjustments	Balance June 30, 2020
Construction in progress	\$ 2,732,634	\$ -	\$ (2,732,634)	\$ -
Total non-depreciable asset	2,732,634	-	(2,732,634)	-
Infrastructure	1,214,644	-	-	1,214,644
Improvements other than buildings	475,125	-	-	475,125
Buildings	23,846,557	-	-	23,846,557
Furniture, fixtures and equipment	2,667,761	-	-	2,667,761
Total depreciable assets	28,204,087	-	-	28,204,087
Less accumulated depreciation				
Infrastructure	1,181,633	4,401	-	1,186,034
Improvements other than buildings	19,797	9,502	-	29,299
Buildings	16,376,076	893,603	-	17,269,679
Furniture, fixtures and equipment	2,324,094	63,827	-	2,387,921
Total accumulated depreciation	19,901,600	971,333	-	20,872,933
Net capital assets	\$ 11,035,121	\$971,333	\$ (2,732,634)	\$ 7,331,154

Note 5. Accrued Leave Liabilities

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by Residential Services employees are accrued when earned. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. Accrued vacation leave totaled \$58,317 and sick leave totaled \$13,789 at June 30, 2020.

Note 6. Non-Current Liabilities

The table below shows the changes in non-current accrued leave liabilities and Bonds payable for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion	Long-Term Portion
Long-Term Liabilities						
Compensated absences	\$ 66,193	\$ 58,317	\$ 52,404	\$ 72,106	\$ 58,317	\$ 13,789
Total pension liability	70,796	55,506		126,302	1,960	124,342
Net pension liability	198,711		64,118	134,593		134,593
Total OPEB liability	481,586	63,509		545,095	9,399	535,696
Bonds payable	2,655,000		355,000	2,300,000	365,000	1,935,000
Total	<u>\$ 3,472,286</u>	<u>\$ 177,332</u>	<u>\$ 471,522</u>	<u>\$ 3,178,096</u>	<u>\$ 434,676</u>	<u>\$2,743,420</u>

Note 7. Bonds Payable

On March 14, 2016, the College refinanced the 2006 series bond in order to obtain a lower finance rate. The bond was refinanced for \$4.13 million and will mature in 2026. The 2006 bonds carried interest rates ranging from 3.75% to 4.25%, the refinanced rate is 2.39%. The proceeds from the original bond, which was refinanced in 2016, were used to fund the building of housing dorms.

System revenue bonds Series 2015	Interest Rate	Original Issue	Balance June 30, 2020	Balance June 30, 2019
	2.39%	\$4,130,000	\$2,300,000	\$2,655,000

Debt Service Requirements

The scheduled maturities of system revenue bonds are as follows:

Fiscal Year	Principal	Debt Service	Interest	Total
2021	\$365,000	\$27,485	\$27,485	\$ 419,970
2022	370,000	23,123	23,123	416,246
2023	375,000	18,702	18,702	412,404
2024	385,000	14,220	14,220	413,440
2025	400,000	9,620	9,620	419,240
2026	405,000	4,840	4,840	414,681
	<u>\$ 2,300,000</u>	<u>\$ 97,990</u>	<u>\$97,990</u>	<u>\$ 2,495,980</u>

Internal Revenue Code regulations prohibit investing the proceeds from the issuance of debt, whose interest is exempt for income tax purpose at a higher rate of return than what the interest rate paid on the debt. This is known as Arbitrage, an exemption to this regulation exists for a temporary period for which proceeds are used to finance capital expenditures in accordance within a 3-year period. The Residential Services is in compliance with Arbitrage regulations as of June 30, 2020.

Note 8. Commitments

Residential Services regularly enters into contracts and purchase orders that commit fund balances for future purchases of goods and services. At June 30, 2020 commitments are \$5,828 for all funds.

Note 9. Contingencies

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the College or Residential Services.

The College is a party to various litigations and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position of the College or Residential Services.

In accordance with State policy, the College, and as a department within the College, Residential Services, self-insures unemployment compensation for all employees. The College and Residential Services are on a pay-as-you-go basis, in which claims are paid in the period incurred.

Note 10. Deferred Compensation

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

Note 11. Retirement Plans

The College offers contributory pension plans, which cover eligible faculty, staff and administrative employees: 1) The Washington State Public Employees' Retirement System (PERS 1 and PERS 2/3), 2) the Teachers Retirement System (TRS 1 and TRS 2/3), 3) the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF 2). The College also offers The Evergreen State College Retirement Plan (TESCRP), a defined contribution plan for faculty and some exempt staff, with supplemental payment, when required.

Residential Services employees in eligible positions are participants in the PERS 1 and 2/3 and TESCRP plans. PERS is a cost-sharing, multiple-employer, defined benefit, public retirement systems administered by the State of Washington, Department of Retirement Systems (DRS) as established in the Revised Code of Washington (RCW) chapter 41.50. TESCRP is a defined contribution plan for the faculty and some exempt staff, with supplemental payment, when required.

For 2020, the payroll for Residential Services' employees was \$323,002 for PERS 1 and 2/3 and \$486,861 for TESCRP. Total covered payroll for 2020 was \$809,863.

A. STATE PARTICIPATION IN PLANS ADMINISTERED BY DRS

PLAN DESCRIPTION:

Public Employees' Retirement System

PERS retirement benefit provisions are contained in chapters 41.34 and 41.40 of the Revised Code of Washington (RCW). 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 include higher education employees not participating in other higher education retirement programs.

VESTING AND BENEFITS PROVIDED:

PERS Plan 1

PERS Plan 1 provides retirement, disability, and death benefits to eligible members. This plan is closed to new entrants. All members are vested after the completion of five years of eligible service. The monthly benefit is 2.0% of the average final compensation (AFC) for each year of service credit, up to a maximum of 60.0%. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

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. 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. Other benefits include duty and nonduty disability payments and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

PERS Plan 2/3

PERS 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completing five years of eligible service. 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. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Defined Retirement benefits are determined as 2.0% of the member's AFC times the member's years of service for Plan 2 and 1.0% of the AFC times the member's years of service for Plan 3. The AFC is the average of the member's 60 highest paid consecutive months. There is no cap on years of service credit.

Members are eligible for normal retirement at the age of 65 with five years of service. Members have the option to retire early with reduced benefits. Members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. Other benefits include duty and nonduty disability payments and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

FIDUCIARY NET POSITION:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plans fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans. These 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.

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

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB- adopted investment policies for the various asset classes in which the WSIB invests. 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 system and plan was funded by an employer rate of 0.18% of employee salaries.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration/annual-report/>.

ACTUARIAL ASSUMPTIONS:

The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report located on the DRS employer-resource GASB webpage. These assumptions reflect the results of OSA's 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary Increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- **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 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 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 WSIB. Those expected returns make up one component of 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.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

The 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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
Total	100.00%	

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

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. (All plans use 7.50 percent except LEOFF Plan 2, which has assumed 7.40 percent.)

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 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.

Collective Net Pension Liability/Asset. At June 30, 2019, Residential Services reported \$ 109,653 for its proportionate share of the collective net pension liability for PERS 1 and \$24,941 for its proportionate share of the collective net pension liability for PERS 2/3. The proportions are based on Residential Services' contributions to the pension plan relative to the contributions of all participating employers.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE:

The following presents the net pension liability/asset of TESC as an employer, calculated using the discount rate of 7.40 percent, as well as what the net pension liability/asset 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.

PERS 1	
Residential Services' proportionate share of Net Pension Liability (Asset)	
1% Decrease	\$137,320
Current Discount Rate	\$109,653
1% Increase	\$85,648

PERS 2/3	
Residential Services' proportionate share of Net Pension Liability (Asset)	
1% Decrease	\$191,284
Current Discount Rate	\$24,941
1% Increase	(\$111,555)

EMPLOYER CONTRIBUTION RATES:

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates.

Required Contribution Rates

The required contribution rates (expressed as a percentage of current year covered payroll) at June 30, 2019 are as follows:

Required Contribution Rates				
	College	Employee		
PERS				
Plan 1	7.52%		6.00%	
Plan 2	7.52%		7.41%	
Plan 3	7.52%	*	5.00-15.00%	**

*Plan 3 defined benefit portion only. **Variable from 5% to 15% based on rate selected by the member.

Required Contributions

The required contributions for the year ending June 30, 2020 as follows (for the whole college):

2020				
	Employee		College	
PERS 1	\$	19,773	\$	42,380
PERS 2/3	\$	1,221,264	\$	2,104,882

AGGREGATED BALANCES:

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer’s prior fiscal year. The measurement date for the net pension liabilities recorded by the Residential Services as of June 30, 2020 was June 30, 2019 (one year in arrears.) Employer contributions received and processed by the DRS during the measurement date fiscal year have been used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in their fiscal year ended June 30 Schedules of Employer and Non-employer Allocations. Residential Services proportional share of TESC’s share from DRS of the aggregated balance of pension amounts as of June 30, 2019 is presented in the table below.

Aggregate Pension Amounts				
	DRS		TIAA	
Net Pension Liabilities	\$	(134,593)	\$	(126,303)
Deferred Outflows of Resources		51,888		27,736
Deferred Inflows of Resources		(69,758)		(16,754)
Pension Expense		(19,116)		36,205

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

For the year ended June 30, 2020, Residential Services recognized a PERS 1 pension expense of \$(23,124) and PERS 2/3 pension expense of \$4,008. At June 30, 2020, PERS 1 and PERS 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources. Note that deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year and are not amortized to pension expense.

Residential Services PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net Difference between projected and actual earnings on pension plan investments	-	7,326
Change in proportion	-	-
Contributions subsequent to the measurement date	21,272	-
Total	\$ 21,272	\$ 7,326

Residential Services PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,145	\$ (5,362)
Changes of assumptions	639	(10,464)
Net Difference between projected and actual earnings on pension plan investments	-	(36,303)
Change in proportion	839	(10,303)
Contributions subsequent to the measurement date	21,993	-
Total	\$ 30,616	\$ (62,432)

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:

PERS 1	
2020	\$ (1,617)
2021	\$ (3,831)
2022	\$ (1,367)
2023	\$ (511)
2024	-
Thereafter	-

PERS 2/3	
2020	\$ (12,660)
2021	\$ (20,236)
2022	\$ (9,867)
2023	\$ (6,026)
2024	\$ (3,780)
Thereafter	\$ (1,241)

B. PLANS ADMINISTERED BY THE EVERGREEN STATE COLLEGE

The Evergreen State College Retirement Plan (TESCRP)

PLAN DESCRIPTION:

The TESCRP is a defined contribution plan administered by the College and covers most faculty and exempt staff. Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100% vested interest in their accumulations.

Employee contribution rates, which are based on age, range from 5% to 10%. The Residential Services matches the employee contributions. Employer and employee contributions for the years ended June 30, 2020 was \$56,592. All required employee and employer contributions have been made.

The benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% contribution after age 50, the benefit goal is 1.5% for each year of full-time service for the years in which the lower contribution was selected. No significant changes were made in the faculty benefit provisions for the year ended June 30, 2020.

The plan has a supplemental payment plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The College makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component of TESCRP is financed on a pay as you go basis. Effective for new employees hired on or after July 1, 2011, State law no longer offers this supplemental component benefit of TESCRP.

ACTUARIAL ASSUMPTIONS:

Accounting requirements dictate the use of assumptions to best estimate the impact the pension obligations will have on the College's auxiliary units. The professional judgments used in determining these assumptions are important, and can significantly impact the resulting actuarial estimates. Difference between actual results compared to these assumptions could have a significant effect on Residential Services' financial statements.

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:

- Inflation: 2.75%
- Salary Increases: 3.50%
- Discount Rate: 2.21%

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

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of the June 2020 Experience Study Report.

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index.

The following presents Residential Services’ proportional share of the pension liability for the TESC RP for TESC as an employer, calculated using the discount rate of 2.21%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1.0% point lower (1.21%) or 1.0% point higher (3.21%) than the current rate.

Total Pension Liability - Interest Rate Sensitivity		
1% Decrease 1.21%	Current Discount Rate 2.21%	1% Increase 3.21%
\$ 144,327	\$ 126,303	\$ 111,348

Material assumption changes during the measurement period included first, updating the GASB Statement No. 73 discount rate from 3.50% to 2.21% (increased the TPL), and secondly, updating the two variable income investment return assumptions used in the “assumed income” calculation from 6.50% to 2.31% for the CREF component and from 4.25% to 4.12% for the TIAA component (decreased the TPL).

TOTAL PENSION LIABILITY (TPL):

Assets set aside to pay TESC RP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, Residential Services reports the total TESC RP pension liability. This is different from the DRS plans (PERS, TRS, and LEOFF2), which have trusted assets and, therefore, are reported as a net pension liability.

Schedule of Changes in Total Pension Liability As of June 30, 2019	
Beginning Balance	\$ 70,796
Service Cost	5,016
Interest	6,491
Difference between expected and actual expense (1)	13,110
Changes of assumptions	34,580
Benefit Payments	(3,690)
Ending Balance	\$ 126,303

Residential Services’ proportionate share of the TESC RP pension expense for the fiscal years ended June 30, 2020 was \$36,205.

DEFERRED INFLOWS OF RESOURCES:

The tables below summarize Residential Services’ deferred inflows of resources related to the TESC RP, together with the related future year impacts to pension expense from amortization of those deferred amounts:

Deferred Inflows of Resources	
Difference between expected and actual experience	\$ (12,792)
Change in assumptions	(3,962)
Total	\$ (16,754)

Deferred Outflows of Resources		
Difference between expected and actual experience	\$	5,763
Change in assumptions		<u>21,973</u>
Total	\$	27,736

Amortization of Deferred Inflows and Outflows of Resources		
Year		
2021	\$	299
2022	\$	299
2023	\$	2581
2024	\$	4102
2025	\$	3701
Thereafter	\$	<u>-</u>
Total	\$	10,982

Note 12. Other Post-Employment Benefits (OPEB)

PLAN DESCRIPTION:

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the State-wide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employees.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of the retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit subsidy"). For calendar years 2020, this amount is \$183 for retirees who are enrolled in parts A and B of Medicare, per member per month. This is also passed through to State agencies via active employees rates charged to the agency.

OPEB implicit and explicit subsidies as well as administrative costs are funded by required contributions made by participating employers. State agency contributions are made on behalf of all active, health care eligible employees, regardless of enrollment status. Based on the funding practice, the allocation method used to determine proportionate share is each agency's percentage of the state's total active, health care eligible employee headcount. As of June 2019, the total College and the Residential Services' headcount of active member are 621 and 13 respectively.

There is no formal State or College plan that underlies the subsidy of retiree health and life insurance. An actuarial study performed by the Washington Office of the State Actuary (OSA) calculated the total OPEB actuarial accrued liability of the State of Washington at January 1, 2019.

ACTUARIAL ASSUMPTIONS:

Accounting requirements dictate the use of assumptions to best estimate the impact the pension obligations will have on the College’s auxiliary units. The professional judgments used in determining these assumptions are important, and can significantly impact the resulting actuarial estimates. Difference between actual results compared to these assumptions could have a significant effect on Residential Services’ financial statements. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement period:

- **Inflation:** 2.75%
- **Salary Increases:** 3.50% including service-based salary increases
- **Health Care Trend Rates:** Initial rate of 8.00% adjusting to 4.50% in 2080
- **Post-retirement Participation:** 65.00%
- **Spouse Coverage:** 45.00%

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 100.0% 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 discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index. A discount rate of 3.87% was used for the June 30, 2018 measurement date and 3.50% for the June 30, 2019 measurement date.

The following presents proportional share of the total College OPEB liability, calculated using the discount rate of 3.50%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50% or 1 percentage point higher (4.50%) than the current rate

Total OPEB Liability Discount Rate Sensitivity	
1% Decrease	\$ 660,093
Current Discount Rate - 3.50%	\$ 545,095
1% Increase	\$ 455,777

The following represents the total OPEB liability of Residential Services calculated using the health care trend rates of 8.00% decreasing to 4.50%, 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% decreasing to 3.50%) or 1 percentage point higher (9.00% decreasing to 5.50%) than the current rate:

Total OPEB Liability Health Care Cost Trend Rate Sensitivity	
1% Decrease	\$ 441,172
Current Discount Rate - 8.00%	\$ 545,095
1% Increase	\$ 684,961

TOTAL OPEB LIABILITY:

As of June 30, 2020, components of the proportionate share calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for Residential Services are represented in the following table:

Schedule of Changes in Total OPEB Liability	
Total OPEB Liability	2020
Service cost	\$ 61,592
Interest	53,428
Changes of benefit terms	-
Differences between expected & actual experience	-
Changes in assumptions	99,497
Benefit payments	(24,440)
Change in Proportionate share	(126,568)
Other	-
Net Change in Total OPEB Liability	63,509
Total OPEB Liability - Beginning	481,586
Total OPEB Liability - Ending	\$ 545,095

Residential Services' proportionate share of OPEB expense for the fiscal year ended June 30, 2020 was \$68,707.

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:

The tables below summarize Residential Services' deferred outflows and inflows of resources related to OPEB, together with the related future year impacts to expense from amortization of those deferred amounts. Note that deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the OPEB liability in the following year and are not amortized to pension expense.

Deferred Outflows of Resources	
2020	
Change in proportion	\$ 732
Difference between expected and actual experience	14,556
Change in assumptions	31,692
Contributions subsequent to the measurement date	9,399
TOTAL	\$ 56,379

Deferred Inflows of Resources	
2020	
Changes of assumptions	\$ (158,046)
Changes in Proportion	(92,986)
TOTAL	\$ (251,032)

Amortization of Deferred Outflows and Deferred Inflows of Resources	
Year	
2021	\$ (30,088)
2022	(30,088)
2023	(30,088)
2024	(30,088)
2025	(30,088)
Thereafter	(53,613)
TOTAL	\$ (204,053)

Note 13. Risk Management

The College purchases commercial insurance for auxiliary enterprise buildings, which were acquired with bond proceeds where the bond agreement requires the College to insure property and earnings. The College participates in a State of Washington risk management program based on the concept of self-insurance for coverage of its other properties. During the past three fiscal years, no settlement have been greater than the insurance coverage.

The College self-insures unemployment compensation for all non-student employees. The College maintains an unemployment reserve that includes Residential Services, funded by charging all labor and wage expenditures, except for work-study, a percentage in order to fund the reserve to pay unemployment claims. The rate charged in FY 2020 was 0.25%. Unemployment compensation claims paid by the College during FY 2020 were \$52,597. At the end of FY 2020, the reserve balance was \$320,955.

Note 14. Pledged Revenues

The Governmental Accounting Standards Board (GASB) has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The College has pledged specific revenues, net of operating expenses, to repay principal and interest of revenue bonds. The following is a schedule of the pledged revenue and related debt:

Source of Revenue Pledged	Current Year Revenues Pledged (net)	Current Year Debt Service	Total Future Revenues Pledged	Description of Debt	Purpose of Debt	Term of Commitment
Student housing rentals	\$ 743,955	\$ 418,455	\$ 2,495,980	2015 Housing Bond	Refunding of 2006 Bond Issue	2026