

WARREN COUNTY COMMUNITY COLLEGE

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2018

WARREN COUNTY COMMUNITY COLLEGE
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FINANCIAL STATEMENTS



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Independent Auditors' Report

The Honorable Chairman and
 Members of the Board of Trustees
 Warren County Community College
 Washington, New Jersey

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Warren County Community College (the "College") a component unit of the County of Warren, as of and for the fiscal years ended June 30, 2018 and 2017, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements as prescribed by the Office of Management and Budget, Department of the Treasury, State of New Jersey. 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 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.

The Honorable Chairman and
Members of the Board of Trustees
Warren County Community College
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Warren County Community College, in the County of Warren, as of June 30, 2018 and 2017, and the respective changes in financial position, and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the basic financial statements, the District implemented Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during the fiscal year ended June 30, 2018. Our opinions are 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, which follows this report, and the pension and post-employment benefits schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College’s basic financial statements. The accompanying schedules of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and New Jersey’s OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Honorable Chairman and
Members of the Board of Trustees
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2019 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Mt. Arlington, New Jersey
January 19, 2019


NISIVOCCIA LLP

FY18 MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

This Management Discussion and Analysis (MD & A) of Warren County Community College's ("College" or "WCCC") financial performance provides an overall review of the College's financial activities for the fiscal year ending June 30, 2018. The intent of this discussion and analysis is to look at the College's financial performance as a whole; readers also should review the financial statements, the notes to the financial statements and any management recommendations to enhance their understanding of the College's financial performance. This document is prepared by WCCC and represents management's interpretation of the financial data. It has not been audited by Nisivoccia LLP.

Overview of the Financial Statements

The College's audit is prepared under the standards prescribed by the Governmental Accounting Standards Board (GASB), which sets guidelines for financial reports prepared for public entities. The financial statements prescribed by GASB incorporate three statements:

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

These statements, which follow in the presentation, demonstrate the net value of assets and the results of the College's operations, respectively, on a college-wide basis. All statements are prepared using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. The audit performed by Nisivoccia LLP also includes a series of notes to accompany the financial data, and an audit of federal awards and state financial assistance, which is required by both federal and state entities.

Net Pension and OPEB Liabilities

Beginning in FY2018, GASB 75 requires public entities to reflect future pension liabilities in its financial statements along with any Post-Employee Retirement Benefits (OPEB). This is in addition to GASB 68, effective in FY2015, which required institutions to reflect estimated pension costs for WCCC employees.

Warren County Community College's employees participate in either the Alternate Benefits Program (ABP), which is a defined contribution plan and therefore has no future pension obligations, or the Public Employees Retirement System (PERS), which is a defined benefit plan. WCCC makes annual contributions for its PERS employees in accordance with actuarial estimates prepared for the NJ Division of Pensions. In order to reflect potential future pension and OPEB liabilities in the College's financial statements, the Division of Pensions has provided data on these liabilities.

The State of NJ, rather than WCCC, is responsible for funding these expenses. For purposes of better reflecting the College's financial position, this Management Discussion and Analysis will show the pension liability in a separate section.

The information that follows is a discussion of each of the main components of the financial report.

Statement of Net Position: College Funds

The Statement of Net Position includes assets, liabilities, deferred inflows and outflows, and the resulting net position of the College. WCCC's assets are classified as either current or non-current (capital) assets. Liabilities represent future commitments that the College has made that must be recognized as a future expense. These liabilities can be either short-term or long-term.

The College's net position is derived by calculating the difference between assets/deferred outflows and liabilities/deferred in-flows. The net position indicates both capital assets and fund assets. As the WCCC Foundation does not hold capital assets, the Foundation's net position represent fund assets only.

The chart below shows total and net position for the College (exclusive of its component unit, the WCCC Foundation). The overall College net position as of June 30, 2018, exclusive of the state net pension liability, was \$21.3 million. The overall College net position as of June 30, 2017, inclusive of the state net pension liability was \$16.87 million.

Statement of Net Position: College Funds Excluding State GASB 68 (Rounded \$000)

	<u>FY18</u>	<u>FY17</u>	<u>Change</u>
Total Assets			
Current Assets	5,677	5,636	42
Capital Assets, Net	<u>16,820</u>	<u>16,518</u>	<u>302</u>
Total Assets	22,497	22,154	343
Less Liabilities:			
Current Liabilities	1,071	891	180
Non-Current Liabilities (College)	<u>120</u>	<u>136</u>	<u>(16)</u>
Total, Liabilities	1,191	1,027	164
Net Position	21,306	21,127	179
<u>College Net Position</u>			
Investment in Capital	16,820	16,518	302
Restricted	28	26	2
Unrestricted-Designated	3,450	3,522	(72)
Unrestricted-Undesignated	<u>1,008</u>	<u>1,066</u>	<u>(52)</u>
Total Net Position	21,306	21,127	179

In order to understand the College's financial position, it is important to review each category of the net position statement: current assets, capital assets, liabilities, deferred inflows, deferred outflows and net position. These liabilities are the responsibility of the State of NJ. The 2018 net pension liability of the College was \$5,294,719. Had the net pension liability and the related deferred inflows and outflows for pensions been included in the chart above, the total net position would have reduced the net position by \$5,556,287.

Current Assets

Current assets include cash and cash equivalents, accounts receivable, inventory and prepaid expenses. As the chart on the prior page indicates, the College's current assets increased by to a level just under \$5.7 million. This change primarily represents a total of \$325,000 in a receivable for funds due from the State of New Jersey as reimbursement for the One-Stop Career Center ("One-Stop") office construction at the Phillipsburg Education Center (these funds have since been received). Because of the ongoing capital projects expenses, the college's actual cash position was slightly lower than in FY17.

Capital Assets

Capital assets include facilities, building improvements, computers, furnishings and equipment and fixtures. The College's capital assets were just over \$16.8 million by the end of FY18, representing a \$301,811 increase in net capital assets.

The change in capital assets by category is shown below.

Capital Assets (in Rounded \$000)			
<u>Asset Type</u>	<u>FY18</u>	<u>FY17</u>	<u>1 Year Change</u>
Computers & Equipment	2,045	2,037	8
Furniture & Fixtures	1,477	1,449	28
Building Improvements	2 485	1,973	512
Building	21,092	21,092	0
Construction-in-Progress	<u>386</u>	<u>0</u>	<u>386</u>
	27,485	26,551	
Total			
Less Accumulated Depreciation	(10,666)	(10,032)	(634)
Net Capital Assets	16,820	16,518	302

The net asset change reflects several increases, offset by depreciation. The increase in building improvements represents the renovation of offices in the Phillipsburg Education Center to support the tenancy of the State's One-Stop Office along with sidewalk and roof repair projects in Washington. The Construction-in-Progress represents the funds spent for the Building Annex project, a facility scheduled for occupancy in spring 2019.

The value of capital assets is important for a number of institutions as they can be leveraged for borrowing purposes (issuance of debt). However, in the case of WCCC, under state statute the College is unable to issue bond funds. Bonds for WCCC may be issued by state or county governments and certain public authorities.

Current Liabilities

Also displayed in the *Statement of Net Position* are liabilities. Liabilities may be current or non-current (reflecting commitments to be realized in future years). Current liabilities include upcoming salary and vendor payments for services already incurred during the fiscal year, as well as unearned tuition revenue and an accrual to cover earned employee vacation time. Current liabilities were \$1,070,837 at the end of FY18. This is an increase of \$180,221 from the FY17 level, reflecting outstanding payments related to the Building Annex project. The ratio of current assets to current liabilities was 5.3/1 as of June 30, 2018, indicative of the College's strong financial position at that time.

Long-Term Liabilities

The long-term liability of the College is the sick time and is actually an expense of the College. This reflects potential sick-leave payouts for faculty members. WCCC offers a sick leave payout of up to \$8,000 for faculty who have served for ten years in a full-time position and have provided one year's advance notice of retirement. The total set aside for this liability for FY18 is \$120,000, representing the maximum allocation available for eligible employees. This liability has decreased since FY17, reflecting the recent retirement of two faculty members in FY18.

Other long term liabilities reflected on the financial statements include the State of New Jersey net pension liability and post-retirement benefits. In order to indicate the College's financial position, this MD & A statement discusses the State of NJ liabilities separately.

Net Position

The final component of the *Statement of Net Position* is the College's net position. Conceptually, the net position is total assets less total liabilities. Net position includes capital assets, such as buildings and equipment, as well as non-capital assets (such as cash, investments, pre-payments and receivables). Non-capital net position is classified on the next page as "restricted," "designated" or "unrestricted." Note the data and this section does not include the NJ Pension liability, which will be discussed in a later section.

The table on the next page displays the College net position (exclusive of Capital Assets the net liability for the PERS Pension and WCCC Foundation funds) by category.

Unrestricted net position pertain to the aggregate of residual funds that are neither restricted nor designated at this time. Note that in the combined Statement of Net Position, the categories of designated and unrestricted are combined together as "Unrestricted." Undesignated funds as of 6/30/2018 decreased slightly to \$1,008,504, representing 10.6% of FY18 expenses (excluding

depreciation). This is consistent with the Board's annual goal of maintaining a set-aside of approximately 10% to 12% of expenses for contingency needs. This level is also in accordance with the expectations of the College's accreditor, the Middle State's Commission on Higher Education.

Designated funds represent resources allocated by the Board of Trustees for specific projects. Designated funds as of June 30, 2018 were just under \$3.5 million. Some of the designated projects are currently underway (such as the Building Annex, Computer Replacements and the Phillipsburg Boiler Project). Other projects are anticipated to be underway by summer 2019 (such the replacement of at least one Washington HVAC replacement unit and another round of computer classroom replacements). To offset a difference in rental income revenues, funds have been set aside in the Phillipsburg Stabilization fund account.

Also under designated funds is a set-aside for the Building Annex, which primarily is funded through the State of NJ General Obligation (GO) Bond. As of June 30, the project was approximately 30% complete. As part of the GO grant application, WCCC must match at least \$800,000 in expenses. These funds have been set aside in the Building Annex designation.

Change in College Net Position-Excluding Capital Funds (Rounded \$000s)

<u>Category</u>	<u>FY18</u>	<u>FY17</u>	<u>Change</u>
Undesignated	1,009	1,061	(52)
Designated			
Academic Student Programming	16	16	0
Phillipsburg Stabilization Fund	430	430	0
Pathways Project/Salary Grant	37	103	(66)
Phi Theta Kappa	38	50	(12)
Drone Project	46	75	(44)
Operating Budget/Assessment	260	260	0
Designated Technology	639	660	(21)
Renewal and Replacement	233	233	0
HVAC Projects	619	313	307
Roof Repairs	251	271	(19)
Parking, Sidewalk, Designated	141	317	(176)
Building Annex/Capital Reserve	<u>740</u>	<u>796</u>	<u>(56)</u>
Total Designated	3,450	3,522	(72)
Restricted	28	26	1

The final component of net position is *restricted net position*. The funds in this category represent resources held by the College on behalf of student clubs and organizations. Restricted College funds include fund raising revenues from student organizations as well as the WWII & Holocaust Grant.

Statement of Net Position: WCCC Foundation

The WCCC Foundation (“Foundation”) is considered a component unit of WCCC as the College’s Board approves Foundation Board members and College employees oversee the operations of the Foundation. The Statement of Net Position for the Foundation component unit is shown below.

<u>WCCC Foundation Net Position (in Rounded \$000)</u>			
	<u>FY18</u>	<u>FY17</u>	<u>Change</u>
Total Assets	1,142	1,148	(7)
Less Liabilities	<u>(19)</u>	<u>(25)</u>	<u>7</u>
Net Position	1,124	1,123	1
<u>Net Position</u>			
Restricted	556	571	(15)
Unrestricted	568	<u>552</u>	<u>16</u>
Total Net Position	1,124	1,123	1

From FY17 to FY18, the net position of the Foundation remained just over \$1.1 million. During FY18, the Foundation allocated funds to support various college priorities, including Middle States Self-Study activities, institutional advancement, drone technology program equipment and marketing and promotion initiatives.

Restricted funds include both funds that have been unrestricted and funds restricted by endowment agreements. The balance of funds are unrestricted. Note that the WCCC Foundation does not own any capital assets.

Statement of Revenues, Expenses and Change in Net Position: College Funds

The next statement in the financial report is the Statement of Revenues, Expenses and Changes in Net Position (SRECNP). The SRECNP provides information about the College’s revenues and expenses to explain key changes in the College’s financial position.

The SRECNP displays both operating and non-operating revenues. WCCC’s operating revenues primarily are student revenues (tuition and fees) and government grants (primarily financial aid). Non-operating revenues comprise state and local appropriations, including capital appropriations.

The SRECNP expenses for College funds (excluding Foundation and pension expenses) are shown on the next page. Note that expenses include depreciation, which is not an operating cost. Depreciation is recorded to indicate the potential aging of capital facilities (equipment, furniture and fixtures, building improvements and buildings). Also, expenses do not include funds that have been “capitalized,” meaning that they have been moved to capital assets. capital equipment expenses are not included under expenses, but are reflected under assets discussed previously.

Statement of Revenues, Expense and Changes in Net Position (College) (\$000)

	<u>FY18</u>	<u>FY17</u>	<u>Change</u>	<u>% Change</u>
<u>Operating Revenues</u>				
Student tuition and fees	3,308	3,501	(193)	-5.5%
Federal grants and contracts	1,059	1,182	(123)	-10.4%
State/ local grants and contracts	1,230	654	576	88.1%
Other	<u>99</u>	<u>391</u>	(292)	-74.8%
Total Operating Revenues	5,696	5,729	(33)	-0.6%
<u>Non-Operating Revenues</u>				
State appropriations	2,280	2,249	31	1.4%
State ABP	203	214	(10)	-4.8%
County appropriations	2,132	2,031	101	5.0%
One-Time County capital	<u>0</u>	<u>125</u>	(125)	-100%
Misc./Investment Income	<u>69</u>	<u>81</u>	(12)	-14.6%
Total Non-Operating Revenues	4,684	4,699	(15)	-0.3%
Total Revenues	<u>10,380</u>	<u>10,428</u>	(48)	-0.5%
Total Expenses	<u>10,201</u>	<u>11,200</u>	(999)	-8.9%
Revenue vs. Expenses	179	(772)		

Operating Revenues

Total FY18 College operating revenues were essentially level with FY17 revenues, although there were variations among categories. The decline in tuition and fee revenue reflects enrollment reductions in both credit and non-credit programs. The decrease in federal funds reflects a smaller amount of Pell grant revenues applied to student tuition and fees.¹ The increase in state grants reflects funds received in FY18 for both the One-Stop renovation project, the GO bond reimbursement and state Tuition Aid Grant (TAG) funds. Conversely, the reduction in other revenues reflects the loss of rental payments from the Phillipsburg Board of Education, which rented space in the PEC through February 2017. Rental income will resume in FY19 as the State of New Jersey now leases a portion of space in the PEC.

Gross Tuition and Fee Revenues

The SRECNP displays tuition and fees by funding source. Tuition and fee charges paid by state and federal financial aid grant funds are categorized under state or federal grants. This means that if a student receives financial aid to cover tuition and fees, the revenue is recorded as state or

¹ Because of additional state TAG support in FY18 (which can only be applied to tuition), a greater amount of federal financial aid was "passed through" to students in the form of student refunds. The College does not reflect student refunds in its audited financial statements but reflects total Pell grants and Student Loans (also considered pass-through funds) in its A-133 Financial Reports.

federal grant revenues, rather than tuition and fees. The next display shows total (gross) tuition and fee revenues for FY18 vs. FY17.

Gross Tuition and Fee Revenues (Rounded \$000)

	<u>FY18</u>	<u>FY17</u>	<u>Change</u>	<u>% Change</u>
Credit Tuition and Fees	3,950	4,098	(149)	-3.6%
Allowance for Doubtful Accounts	412	445	(33)	-7.5%
Revenue-Non-Credit Programs	165	165	1	0.3%
Customized Training	102	110	(8)	-7.3%
Bad Debt Expenses (Prior Year Debt)	<u>(46)</u>	<u>(72)</u>	<u>26</u>	<u>-36.1%</u>
Total	4,582	4,745	(163)	-3.4%

There was a decrease in credit tuition and fee revenues, reflecting an enrollment reduction partially offset with a 3.3% increase in per credit charges as shown below.

	<u>FY18</u>	<u>FY17</u>	<u>Change</u>	<u>% Change</u>
Audited Credit Hours	34,644	37,141	(2,497)	-6.7%
Per Credit Charges	\$158.00	\$153.00	\$ 5.00	3.3%

Non-credit revenues reflect a slight decrease in customized training expenses. Non-credit revenue includes both the College and the Skylands Professional Training (SPT) activities. SPT is a partnership between WCCC and Sussex County Community College (SCCC) for the delivery of continuing education programs and services in Sussex County. This partnership made just over \$3,000 in net revenue in FY18.

Bad debt expenses reflect the change in the bad debt allowance for outstanding accounts. The college does not eliminate student account debt, but puts an 80% uncollectable allowance for accounts over 180 days and a 100% uncollectable allowance in for accounts over 365 days.

Non-Operating Revenues

State and county appropriations, along with investment income, are classified as non-operating revenue. As a public county college, WCCC relies on these annual subsidies to meet its operating needs, as state and county funds account for nearly 45% of the College's unrestricted expenses.

County operating funding was \$2,131,681 in FY17, an increase of \$100,621 from the previous year.² During FY17, the County provided \$125,000 in capital funds to support the parking lot repaving project. At the February 2017 Board of School Estimate Meeting, the Warren County Board of Chosen Freeholders approved \$500,000 in capital funds to support the new Building Annex. These capital funds will be drawn down in FY19.

The *State appropriation* of \$2,279,680 represents a \$31,081 increase from the FY17 level. State funding is determined by a funding formula that considers several factors, including

² The county approves funding on a calendar year basis while the college records funds on a fiscal year basis, so the increase reflects the College's July-June fiscal year.

enrollment. The sector appropriation for the County Colleges has not changed in over a decade and remains at \$134 million.

State Alternate Benefit Funding (ABP) is a reimbursement for state pension contributions for eligible employees. These reimbursements are based on actual pension payments made by the College on behalf of its educational employees into the ABP program.

Miscellaneous revenue includes testing fees, miscellaneous facility rental income and investment income. The decrease in this category from FY17 reflects one-time foundation capital funds received for the Phillipsburg Education Center (PEC) renovation projects.

Operating Expenses by Functional Spending Categories

Expenses related to the operation of the College can be displayed by the functional categories unique to college and universities. The chart below shows expense by functional categories for both FY17 and FY18. Total FY18 expenses (exclusive of the NJ net pension liability) decreased by 8.9% from FY17 to FY18. However, much of this reflects a calculation correction for depreciation and deletions (which are “balance sheet entries”). The actual operating fund decrease was 4.1%.

Expenses by Functional Classification (Rounded \$000)

<u>Category</u>	<u>FY18</u>	<u>FY17</u>	<u>Change</u>	<u>% Change</u>
Instruction	3,738	3,956	(174)	-4.5%
Institutional Support	2,093	2,048	45	2.2%
Public Service	478	490	(12)	-2.5%
Academic Support	1,127	1,192	(65)	-5.5%
Physical Plant	1,131	1,249	(118)	-9.4%
Student Support	746	766	(19)	-2.5%
Capital Expense	65	99	(34)	-34.2%
Scholarships/Aid	125	156	(31)	-19.8%
Debt Service	27	27	(0)	n/a
Depreciation/Deletions	670	1,261	(591)	-46.9%
Total	10,201	11,200	(999)	-8.9%
Excluding Depreciation	9,531	9,939	(408)	-4.1%

The largest single category is *Instruction*. This category declined 174,267 or -4.5%. Approximately \$136,000 of this decrease can be attributed to faculty salaries, related to three faculty on half-year sabbatical and one faculty on a medical leave of absence in FY18.³

The other significant expense reductions were in the categories of *Physical Plant* and *Capitalization/Deletions*. The reduction in physical plant primarily relates to a decrease in utility

³ The FY17 Instruction category also includes the expenses corresponding with the liability for negotiated faculty salary increases. These expenses were paid in FY18 out of the previously established liability.

expenses in FY18. This decrease reflects both utility rate reductions lower usage in FY18 due to the vacancy in the Phillipsburg leased space (which is now the One-Stop offices) The decrease in capitalization/deletions reflects the deletion of the modular classrooms in FY17, which was “overcapitalized in FY17).

Academic Support and *Student Services* also experienced some salary savings due to staffing turnover due to retirements. These positions were replaced in FY18. *Scholarship expenses* in FY17 were higher than FY18 due to the Junior Option Program, which was not funded in FY18. A modified version of this state grant program will be in place for spring/summer 2019.

Only one category experienced an increase in FY18: *Institutional Support*. Institutional Support covers many centralized costs including Pension Payments for all employees, professional development and tuition reimbursement for employees and legal expenses. Much of the increase reflects an \$11,606 increase in employee tuition reimbursement payments for employees attempting master and doctoral programs. This category also includes legal expenses, which increased by \$18,816 related to contractual development and review for various construction projects as well as work related to faculty contract negotiations.

Note that Institutional Support shown above does not include expenses required for GASB 68 (Pension) or GASB 75 (Other Post Employment Benefits or OPEB). This is why the expenses shown in the official schedules are so much higher than those reflected on the College account.

The College pays a small amount of *Debt Service* related to the College’s Equipment Leasing Fund grant allocations received through FY17 (ELF). The College is obligated to pay 25% of the annual debt service for grant funds received under the ELF grant.

Expenses by Natural Spending Categories

Expenses also can be categorized by “natural” groupings that reflect spending type. These expenses for College funds (excluding State Pension Funds and the Foundation) are shown on the next page.

The largest segment of operating costs are employee costs, which totaled \$6.8 million in FY18. These represent 72% of the College’s operating expenses. *Employee Salaries* decreased by \$341,748, reflecting salary turnover and various savings from not filling vacancies and the accrual expensed in FY17 for faculty salary increases. Even though salary expenses decreased, *Employee Fringe Benefits* costs actually increased 2.85 in FY18 due to health benefit increases.

Overall, non-salary expenses declined by an average of 2.2%, although there was a significant range of change by category. As noted before, there was a significant decline in *Utilities/Insurance and Maintenance* costs related to utility cost reductions. An increase in *Services* reflected one-time expenses related to the 2018 Middle States Team Visit, along with expanded marketing and promotional activities, particularly advertising for the 2018-19 academic year and an increase in legal expenses.

As noted previously, the decrease in *Scholarships* reflects one-time revenue and expense received for the Junior Option program in FY17.

Expenses by Natural Classification (Rounded \$000)

<u>Category</u>	<u>FY18</u>	<u>FY17</u>	<u>Change</u>	<u>% Change</u>
Employee Salaries	4,869,529	5,211,277	(341,748)	-6.6%
Employee Fringe Benefits	<u>1,934,876</u>	<u>1,882,127</u>	<u>52,749</u>	<u>2.8%</u>
Employee Salaries & Benefits	6,804,405	7,093,404	(288,999)	-4.1%
Non-Salaries				
<i>Materials and Supplies</i>	366,789	372,850	(6,061)	-1.6%
<i>Services</i>	399,124	318,378	80,746	25.4%
<i>Customized Training/SPT</i>	158,049	211,422	(53,373)	-25.2%
<i>Computing/Equipment</i>	611,891	590,751	21,139	3.6%
<i>Utilities/Insurance/Maint.</i>	989,388	1,061,141	(71,753)	-6.8%
<i>Scholarships</i>	124,830	155,733	(30,903)	-19.8%
<i>Other</i>	<u>12,000</u>	<u>12,000</u>	<u>0</u>	<u>0.0%</u>
Subtotal, Non-Salaries	<u>2,662,071</u>	<u>2,722,276</u>	(60,204)	-2.2%
Total, Operating Expenses	9,466,476	9,815,679	(349,203)	-3.6%
Capital/Depreciation/Debt	<u>734,797</u>	<u>1,384,406</u>	<u>(649,608)</u>	<u>-46.9%</u>
Total	10,201,274	11,200,085	(998,812)	-8.9%

Customized Training/SPT primarily reflects fewer offerings through the Skylands Professional Training Center, a joint venture between WCCC and Sussex County Community College. This partnership is part of a three-year pilot that will be re-evaluated in Summer 2019.

The change in the depreciation expense was discussed under functional expense changes.

Statement of Revenues and Expenses: WCCC Foundation

Revenues and expenses for the WCCC Foundation, a component unit within the College's financial statement, are shown below.

**Statement of Revenues, Expense and Changes in Net Position (Foundation)
(Rounded \$000)**

	<u>FY18</u>	<u>FY17</u>	<u>Change</u>
Foundation Revenues			
Fundraising	54	91	(37)
Other	<u>25</u>	<u>38</u>	<u>(12)</u>
Total Revenues	79	136	(49)
Foundation Expenses	78	82	(4)
Increase in Net Position	1	46	

Total Foundation revenues for FY18 were \$79,054 including \$54,055 in fundraising revenues from the Comedy Night and the Warren County Hall of Fame. The balance of income represents restricted scholarship income, investment income and realized/unrealized gains on investments.

Expenses of \$78,182 included \$25,065 in direct fundraising costs and \$21,514 in scholarship payments.

Statement of Cash Flows

The third financial statement included in the audit is the Statement of Cash Flows. This statement documents the actual outlay and receipt of cash and cash equivalents of the College and reconciles the decreases in cash in accordance with GASB reporting. As this schedule notes, the overall cash position was \$5,363,497 at the close of FY18. This is a decrease of \$310,107 from the cash position of \$5,673,604 at the end of FY17.

The College's cash position was \$5,045,716 as of June 30, 2018. Although this was a decrease from the FY17 level of \$5,195,213, the reduced cash position reflects \$325,000 in funds drawn down to support the One-Stop Project in Phillipsburg. The College received the renovation reimbursement from the State of NJ in early FY19.

The Foundation's cash and cash equivalents position stood at \$317,781 at the end of FY18. This is a decrease from the \$478,391 at the close of FY17, reflecting the transfer of funds to the Foundation's investment accounts.

Long-Term (State) Liabilities

As noted previously, while two Government Accounting Standards Board (GASB) pronouncements requires entities to report the net pension liability for their employees along with Other Post Employment Benefits (OPEB), these these expenses are not the responsibility of the College.

In New Jersey, certain employees participate in the PERS pension system, which is a defined benefit plan. The New Jersey Division of Pensions has provided actuarial estimates, which show the net pension liability for current WCCC employees and retirees. Eligible retirees receive OPEB benefits through PERS. Eligible Retirees through the Alternate Benefits Program (a defined contribution plan) receive OPEB benefits through an annual appropriation in the State budget. The NJ actuarial estimates for these costs are also shown in the financial statements.

The impact of the pension liability is shown on the official statements along with the related deferred inflows and outflows. The net pension liability for FY 18 was \$5,294,719, and is not recorded on the College's accounting system and is shown for GASB requirements only.

Future Developments

The final component of the MD & A is a discussion of future developments. This section is intended to focus on prospective issues that may affect the College's financial position in future years. There are six issues of note:

Strategic Planning

In December 2014, the Board of Trustees adopted its latest Strategic Planning to cover the 2014-2019 period. Most of the activities have been implemented or completed. The focus of FY19 has been on the completion of the Building Annex project, with sufficient WCCC resources and state bond funds already set aside for this purpose. During the next 12 months, the College will begin working on a new Strategic Plan.

Building Annex

On June 30, 2016, WCCC was notified that it had received \$2.0 million in state General Obligation (GO Bond) grant funds to support the construction of a building annex to replace the modular classroom building. This project would include a large computer lab, an auditorium, additional faculty office space and fully ADA compliant/gender neutral restrooms (a significant need for the campus). This project is expected to be completed and occupied for the Spring 2019 semester.

New Academic Program Initiatives

Over the past year, the College has been involved in two new program initiatives to serve the citizens of Warren County. The AS and AAS in Addiction Counseling will support students interested in the field of Addiction Counseling. The AAS in Unmanned Aerial Systems (drones) will focus on providing students with career options for use of drones in various capacities, from agricultural surveying to emergency services and law enforcement careers. Both programs are offering courses and are scheduling to be fully implemented for fall 2019.

Spring 2019 Initiatives

The College will be launching two new initiatives in spring 2019. WCCC was selected as one of thirteen community colleges (the only one in Northwest NJ) to pilot the Community College Opportunity Grant program. This program is intended to assist students with family incomes at or below \$45,000 who may not be eligible for other state or federal financial aid. The College was awarded a \$250,000 Community College Innovation Grant (CCIG) to assist with the implementation of this program.

Also in spring 2019, WCCC will begin using Cengage Unlimited for all of its course learning materials. Students will pay \$140 for a one-year subscription to Cengage Unlimited, where they may access and download books and learning materials. This is expected to save students hundreds of dollars of book expenses over a one-year period. WCCC is the only College in the eastern US to offer such an initiative.

Enrollment Changes and Budget Challenges

WCCC's enrollment trends over the past decade mirror regional and national trends for community colleges. There was substantial growth in enrollment during the recent economic recession, with enrollments leveling off and declining beginning in FY12. This trend also reflects a decline in high school enrollment in the region, which began in 2009.

WCCC enrollment is not anticipated to grow significantly over the next several years due to the Highlands Act in 2004, which has significantly limited land use and property development in Warren County.

Despite enrollment limitations, WCCC remains financially stable. Over the past decade, the College has slightly reduced its overall staffing complement. As part of its strategy of coping with additional budget constraints, WCCC has adopted a hybrid teaching/administrative job classification (“Teaching Administrators”) to support both instructional and academic/student support needs. These 12-month positions allow the College to address functions and services outside of the normal 30-week faculty-teaching schedule and have enabled services such as advising to be provided through these hybrid positions.

WCCC also has significantly expanded its dual enrollment program, to serve local high school students. Dual enrollment, while not generating significant revenue for the college, does allow WCCC to continue to reach out to the community and serve a larger population base in Warren County.

A portion of the College’s income over the past several years has come from the rental of space at the Phillipsburg Education Center (PEC). A significant portion of the rental space went vacant in March 2017 with the relocation of Phillipsburg Board of Education to another site. This action was anticipated when the College first acquired the PEC in 2012. Much of the vacated space has now been rented to the One-Stop offices to serve residents of Warren County and funds were set aside to cover the transition period.

Reaccreditation

In June 2018, WCCC was reaccredited by the Middle States Commission on Higher Education (MSCHE). The approved Team Report did not contain any recommendations for the College. WCCC’s next evaluation visit is scheduled for 2026-2027.

WARREN COUNTY COMMUNITY COLLEGE
STATEMENT OF NET POSITION
JUNE 30, 2018 AND 2017

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	2018	2017
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 5,266,721	\$ 5,595,736
Investments	824,533	661,268
Restricted cash and cash equivalents	96,776	77,868
Receivables:		
Student accounts receivable (net of allowance for doubtful accounts of \$789,878 for 2018 and \$738,602 for 2017)	191,457	161,652
Third-party receivables	421,929	210,140
Other restricted receivables		9,199
Prepaid expenses	18,211	68,769
Total Current Assets	6,819,627	6,784,632
Noncurrent Assets:		
Capital Assets:		
Depreciable Buildings and Building Improvements and Furniture, Machinery and Equipment	16,819,632	16,517,821
Total Noncurrent Assets	16,819,632	16,517,821
TOTAL ASSETS	23,639,259	23,302,453
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Changes in Assumptions - Pensions	1,066,703	1,443,668
Difference Between Expected and Actual Experience - Pensions	124,672	129,608
Net Difference Between Projected and Actual Investment Earnings on Plan Investments - Pensions	36,053	265,746
College's Contribution Subsequent to Measurement Date - Pensions	210,710	211,511
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,438,138	2,050,533
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	1,013,528	833,509
Scholarship payable	17,481	17,712
Accrued compensated absences payable	123,081	132,850
Unearned revenue	146,000	144,015
Total Current Liabilities	1,300,090	1,128,086
Non-Current Liabilities	5,414,719	7,105,306
TOTAL LIABILITIES	6,714,809	8,233,392
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Changes in Assumptions - Pensions	1,062,793	
Changes in Proportions - Pensions	426,203	390,395
TOTAL DEFERRED INFLOWS OF RESOURCES	1,488,996	390,395
<u>NET POSITION</u>		
Net investment in capital assets	16,819,632	16,517,821
Restricted	583,480	577,827
Unrestricted/(Deficit)	(529,520)	(366,449)
TOTAL NET POSITION	\$ 16,873,592	\$ 16,729,199

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

WARREN COUNTY COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating Revenue:		
Student Tuition and Fees	\$ 3,308,441	\$ 3,501,457
Federal Grants and Contracts	1,058,964	1,182,355
State and Local Grants and Contracts	7,189,805	654,146
Foundation Revenue	79,054	127,774
Other	98,570	390,942
	<u>11,734,834</u>	<u>5,856,674</u>
Operating Expenses:		
Instruction	3,738,473	3,955,627
Institutional Support	7,255,169	2,205,339
Public Service	478,210	490,339
Academic Support	1,127,105	1,192,410
Operation and Maintenance of Plant	1,130,936	1,248,517
Student Support	746,402	765,548
Capital Expenses	934,973	293,282
Scholarships and Student Aid	124,830	112,847
Foundation Expenses	78,182	81,707
Debt Service	27,104	27,118
Depreciation	633,162	1,261,087
	<u>16,274,546</u>	<u>11,633,821</u>
Operating Loss	<u>(4,539,712)</u>	<u>(5,777,147)</u>
Nonoperating Revenue:		
State Appropriations	2,279,680	2,248,599
State Alternate Benefits Plan	203,491	213,641
County Appropriations	2,131,681	2,156,060
Miscellaneous	21,460	61,885
Investment Income	47,793	19,253
	<u>4,684,105</u>	<u>4,699,438</u>
Change in Net Position	144,393	(1,077,709)
Net Position- Beginning of Year	<u>16,729,199</u>	<u>17,806,908</u>
Net Position - End of Year	<u>\$ 16,873,592</u>	<u>\$ 16,729,199</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

WARREN COUNTY COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 4,711,740	\$ 4,888,920
Grants and contracts received	1,118,535	287,694
Payments to suppliers	(3,010,645)	(2,677,434)
Payment for employee salaries and benefits	(6,814,174)	(7,093,404)
Other receipts	98,570	390,942
Net Cash Used for Operating Activities	(3,895,974)	(4,203,282)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from state appropriations	2,279,680	2,248,599
Cash received from state appropriations - Alternate Benefits Plan	203,491	213,641
Cash received from county appropriations	2,131,681	2,156,060
Cash received from other non-operating activities	21,460	61,885
Net Cash Provided by Noncapital Financing Activities	4,636,312	4,680,185
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(934,973)	(293,282)
Net Cash Used for Capital and Related Financing Activities	(934,973)	(293,282)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	47,793	19,253
Purchases of investments	(204,123)	(145,482)
Proceeds from sales of investments	57,722	128,289
Interest and dividends - reinvested	(14,421)	(15,007)
Unrealized gains/losses	(2,443)	(5,212)
Net Cash Provided by/(Used for) Investing Activities	(115,472)	(18,159)
Net Increase/(Decrease) in Cash and Cash Equivalents	(310,107)	165,462
Cash and Cash Equivalents - Beginning of Year	5,673,604	5,508,142
Cash and Cash Equivalents - End of Year	\$ 5,363,497	\$ 5,673,604
Reconciliation of operating loss to net cash used for operating activities:		
Operating Loss	\$ (4,539,712)	\$ (5,777,147)
Adjustment to reconcile operating loss to net cash used for operating activities:		
Depreciation	633,162	1,261,087
Changes in assets and liabilities:		
(Increase)/Decrease in Student accounts receivable	(29,805)	17,614
(Increase)/Decrease in Third-party receivables	(211,789)	117,946
(Increase)/Decrease in Other restricted receivables	9,199	(9,199)
(Increase)/Decrease in prepaid expenses	50,558	(197)
(Increase)/Decrease in Deferred Outflows of Resources	612,395	(1,136,757)
Increase/(Decrease) in Accounts payable	180,019	(182,169)
Increase/(Decrease) in Scholarships payable	(231)	(9,995)
Increase/(Decrease) in Accrued compensated absences payable	(9,769)	9,006
Increase/(Decrease) in Unearned revenue	1,985	20,206
Increase/(Decrease) in Non current liabilities	(1,690,587)	1,599,898
Increase/(Decrease) in Deferred Inflows of Resources	1,098,601	(113,575)
Net Cash Used for Operating Activities	\$ (3,895,974)	\$ (4,203,282)

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies

Warren County Community College (the "College") is an institution of higher education and a governmental unit and instrumentality of the State of New Jersey as provided by the County College Act, N.J.S.A. 18A:64A.

Basis of Accounting

The Warren County Community College's financial statements are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements.

The College makes a distinction between operating and non-operating revenues and expenses. The College's policy for defining operating activities as reported on the Statement of Revenues, Expenses and Changes in Net Position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the College's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 34, including state and county appropriations as well as investment income. Restricted resources are spent and tracked at the discretion of the College within the guidelines of donor restrictions, if any.

Reporting Entity

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Furthermore, the College is not includable in any other reporting entity on the basis of such criteria. The Warren County Community College is a component unit of the County of Warren.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
 (Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

The Warren County College Foundation (the Foundation) is a legally separate, tax-exempt entity that was established exclusively to carry out charitable, educational functions that benefit the College, its students, faculty and staff. The College appoints a voting majority of the Foundation's board. All financial resources of the Foundation are held for the direct benefit of the College or its constituents and the College has the ability to access these significant resources. As a result, the Foundation is considered a component unit of the College and is blended into the financial statements accordingly.

Measurement Focus

The financial statements of the College have been prepared using the total economic resources measurement focus and the accrual basis of accounting, and conform to generally accepted accounting principles in the United States of America as applicable to colleges and universities. For financial reporting purposes, the College utilizes the business-type activities model.

Under the terms of grant and other agreements, the College may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, other restricted funds and general revenue. Therefore, when program expenses are incurred, both restricted and unrestricted net position may be available to finance the program. It is the College's policy to first apply cost-reimbursement grants and other restricted resources to such programs, followed by general revenue.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, accounts are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and internal reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined in order to comply with the requirements of eliminating internal revenue and expense charges and to meet the financial reporting requirements under accounting principles generally accepted in the United States of America as promulgated by GASB.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from Unrestricted Funds allocated to specific purposes by action of the governing board. Restricted Funds may only be utilized in accordance with the purposes established by the donor or grantor of such funds, and are in contrast with Unrestricted Funds over which the governing board retains full control to use in achieving any of its institutional purposes.

The College uses encumbrance accounting for internal accounting and reporting. Under encumbrance accounting, purchase orders, contract and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation.

The College accounts for its financial transactions through the following separate funds:

Operating Fund – to account for funds which are expendable for any purpose in performing the primary objectives of the College, including tuition and student fees funds.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

Restricted Fund – to account for those funds expendable for operating purposes, but restricted by donors and other outside agencies, as to the specific purposes for which they may be expended.

Accounts included in the Restricted Funds are:

College Funds – to account for state and local grant revenue and expenses as well as student club activities.

Foundation Funds – to account for revenue and expenses of funds for the Warren County Community College Foundation.

Plant Fund – to account for funds expended for property and equipment.

Net Position:

Net position represents the difference between assets, deferred inflows and outflows, and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the College or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The College's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Compensated Absences:

The College accounts for compensated absences (e.g., unused vacation, sick leave) as directed by GASB. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

College employees are granted varying amounts of vacation and sick leave in accordance with the College's personnel policy or appropriate labor contract. Employees can accrue up to a one-year allocation of vacation leave. Upon termination, employees are paid for accrued vacation. The College's policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement, faculty who have worked at the College for 10 or more years shall be paid by the College for up to \$8,000 in unused sick leave in accordance with their contract. The College has established a long-term liability equivalent to the number of faculty with 10 or more years of service.

In the Statement of Net Position, the liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due after one year.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

Inventory

The College had no inventory at June 30, 2018 or 2017.

Income Taxes

The College, as an instrumentality of the State of New Jersey and therefore a governmental entity, has determined itself to be a tax-exempt organization and not subject to either federal or state income taxes. The Warren County Community College Foundation, as a 501(c)(3) organization, also is not subject to taxes.

Allowance for Uncollectible Accounts:

The College had an allowance for uncollectible accounts of \$789,878 and \$738,602 at June 30, 2018 and 2017, respectively. The allowance for uncollectible accounts consists of all items that are currently 365 days or more overdue as well as 80% of the receivables over 120 days.

Deferred Outflows and Deferred Inflows of Resources:

The Statement of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflow of resources, reported after Total Assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after Total Liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

Transactions are classified as deferred outflows of resources and deferred inflows of resources only when specifically prescribed by GASB standards. The College is required to report the following as deferred outflows of resources and deferred inflows of resources.

Defined Benefit Pension Plans – The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the College's proportion of expenses and liabilities to the pension as a whole, differences between the College's pension contribution and its proportionate share of contributions, and the College's pension contributions subsequent to the pension valuation measurement date.

Pensions:

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 pension of the Public Employees Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by the plans. 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.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

Management Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Cash, Cash Equivalents, and Investments

Cash and cash equivalents include petty cash, change funds, amounts in deposits, and short-term investments with maturities of three months or less.

The College generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments are presented in the financial statements in the aggregate at fair value based on quoted market prices. The College's investments for the years ended June 30, 2018 and 2017 consisted of investments with the New Jersey Cash Management Fund.

GASB requires disclosure of the level of custodial credit risk assumed by the College in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned.

Interest Rate Risk – In accordance with its formal cash management plan, the College ensures that any deposit or investment matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The College limits its investments to those authorized in its formal cash management plan which are those permitted under state statute as detailed on the following pages.

Custodial Credit Risk – The College does not have a policy with respect to custodial credit risk. However, the College ensures that College funds are only deposited in financial institutions in which NJ school districts are permitted to invest their funds.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

Note 2: Cash, Cash Equivalents, and Investments (Cont'd)

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5% of the average daily balance of public funds; and

If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Cash and cash equivalents of the College as of June 30, 2018 consisted of the following:

	College	Foundation	Total
Cash, Checking and Cash Equivalents	\$ 1,385,602	\$ 300,315	\$ 1,685,917
New Jersey Cash Management Fund	3,677,580		3,677,580
	\$ 5,063,182	\$ 300,315	\$ 5,363,497

Cash and cash equivalents of the College as of June 30, 2017 consisted of the following:

	College	Foundation	Total
Cash, Checking and Cash Equivalents	\$ 1,579,446	\$ 464,371	\$ 2,043,817
New Jersey Cash Management Fund	3,629,787		3,629,787
	\$ 5,209,233	\$ 464,371	\$ 5,673,604

The carrying amount of the College's cash and cash equivalents at cost at June 30, 2018 was \$5,363,497 and the bank balance was \$5,432,956. The \$3,677,580 with the New Jersey Cash Management Fund was uninsured and unregistered. The carrying amount of the College's cash and cash equivalents at cost at June 30, 2017 was \$5,673,604 and the bank balance was \$5,778,251. The \$3,629,787 with the New Jersey Cash Management Fund was uninsured and unregistered.

Investments

New Jersey statutes permit the College to purchase the following types of securities:

1. Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

Note 2: Cash, Cash Equivalents, and Investments (Cont'd)

Investments (Cont'd)

2. Government money market mutual funds;
3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
4. Bonds or other obligations of the school district or bonds or other obligations of the local unit or units within which the school district is located.
5. Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law", P.L. 1983, c.313 (C.40A:5A-1 et seq.). Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Investment in the Department of the Treasury for investment by local units;
6. Local government investment pools;
7. Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or

The Foundation is a 501 © (3) entity and a component unit of the College. The Foundation may invest in commercial paper, repurchase agreements, treasury bills, certificates of deposit, money market funds, component debt securities, common stocks, preferred stocks, convertible securities, and obligations of the United States Government.

As of June 30, the actual changes in the fair market value of the Foundation's investments consisted of the following:

	<u>2018</u>	<u>2017</u>
Balance July 1	\$ 661,268	\$ 623,856
Investment activity:		
Realized gain/(loss) on investments	\$ 2,443	\$ 5,212
Dividend and Interest Income	14,421	15,007
Sale of Investments	(57,722)	(128,289)
Purchase of Investments	<u>204,123</u>	<u>145,482</u>
	<u>163,265</u>	<u>37,412</u>
Balance June 30	<u>\$ 824,533</u>	<u>\$ 661,268</u>

Investments consisted of the following:

	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
	<u>Cost Value</u>	<u>Fair Value</u>	<u>Cost Value</u>	<u>Fair Value</u>
Mutual Funds	<u>\$ 604,887</u>	<u>\$ 824,533</u>	<u>\$ 604,887</u>	<u>\$ 661,268</u>
	<u>\$ 604,887</u>	<u>\$ 824,533</u>	<u>\$ 604,887</u>	<u>\$ 661,268</u>

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 3: Student Accounts Receivable

Unpaid student accounts are charged to student accounts receivable, and students are notified of payments due to the College. No provision for delinquent penalty interest is provided. However, any grade or transcript release or future registration will be denied to any student with an unpaid obligation due to the College. The College does pursue collection through an agency, including litigation, if payment is not received during the next semester. During the fiscal year ended June 30, 2018, the College used the services of two collection agents. Fees charged by these agents ranged from 25% to 35% of the amount collected.

As of June 30, 2018 and 2017, accounts receivable from students amounted to \$981,335 and \$900,254, respectively, excluding the allowance for doubtful accounts in the amount of \$789,878 for the fiscal year ending 2018 and \$738,602 in 2017. The allowance for doubtful accounts recorded for the fiscal year ended 2018 amounted to \$738,602 as a result of the following provision rates applied to the receivable balance per receivable aging category.

<u>Age in Days</u>	<u>Provision Rate</u>
121-365	80%
365 and over	100%

The College's policy is to write off any student accounts that have been outstanding for more than three years.

Note 4: Third-Party Receivables

As of June 30, 2018 and 2017, the College had third party-receivables in the amounts of \$421,929 and \$210,140, respectively. This receivable at June 30, 2018 consists mainly of \$325,000 of receivables from grants related to the new campus project.

Note 5: Prepaid Expenses

Prepaid expenses at June 30, 2018 total \$18,211, and include a number of small pre-payments for warrantees, copier fees, and computer licenses.

Note 6: Capital Assets

Capital assets include property, plant equipment, and infrastructure assets, such as roads and sidewalks. Capital assets are defined by the College as assets with an initial unit cost of \$1,500 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The County of Warren is responsible for the issuance of bonds and notes for the College's capital expenditures which are financed by bond ordinances. The County is also responsible for the payment of interest on issued bonded debt and the retirement of such obligations. Accordingly, this debt is reported in the financial statements of the County of Warren. Donated capital assets are recorded at acquisition value. Capital assets were reviewed for impairment.

Capital assets are recorded at cost and consisted of the following, as of June 30, 2018 and 2017:

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 6: Capital Assets (Cont'd)

	Beginning Balance	Additions	Adjustments/ Deletions	Ending Balance
Capital Assets not Being Depreciated:				
Construction in Progress		\$ 386,343		\$ 386,343
		<u>386,343</u>		<u>386,343</u>
Capital Assets Being Depreciated:				
Building	\$21,091,674			21,091,674
Building Improvements	1,972,925	515,850	\$ (3,511)	2,485,264
Furniture and Fixtures	1,449,114	27,429		1,476,543
Computer and Equipment	2,036,583	42,158	(33,296)	2,045,445
	<u>26,550,296</u>	<u>585,437</u>	<u>(36,807)</u>	<u>27,098,926</u>
Less Accumulated Depreciation for:				
Building	(6,647,812)	(421,762)		(7,069,574)
Building Improvements	(924,522)		113,012	(811,510)
Furniture and Fixtures	(922,070)	(147,698)		(1,069,768)
Computer and Equipment	(1,538,071)	(176,714)		(1,714,785)
	<u>(10,032,475)</u>	<u>(746,174)</u>	<u>113,012</u>	<u>(10,665,637)</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 16,517,821</u>	<u>\$ 225,606</u>	<u>\$ 76,205</u>	<u>\$ 16,819,632</u>

The College did not have active construction projects as of June 30, 2018.

Depreciation is recognized on a straight-line basis over the estimated useful life of the asset as follows:

<u>Classification</u>	<u>Life</u>
Buildings	50 years
Building Improvements	15 years
Furniture and Fixtures	7 years
Computers and Equipment	4 years

Note 7: Long-term Liabilities

The College's long term liabilities consist of unused sick leave that is paid upon retirement, and net pension liability. The following table presents the changes in long term liabilities for the fiscal year ended June 30, 2018:

	June 30,	
	2018	2017
Compensated Absences Payable - Current Portion	\$ 123,081	\$ 132,850
Compensated Absences - Long Term Portion	120,000	136,000
Net Pension Liability	5,294,719	6,969,306
	<u>\$ 5,537,800</u>	<u>\$ 7,238,156</u>

The only post-retirement benefit offered through the College is a sick leave payout of up to \$8,000 for faculty members meeting criteria contained within the faculty contract, including one year's advance notice of retirement.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 7: Long-term Liabilities (Cont'd)

The Public Employee's Retirement System (PERS) net pension liability of the governmental fund types is recorded in the current and long-term liabilities and will be liquidated by the General Fund. The current portion of the net pension liability at June 30, 2018 is \$-0- and the long term portion is \$5,294,719. See Note 8 for further information on the PERS.

Note 8: Pension Plans

Substantially all of the College's employees participate in one contributory, defined benefit public employee retirement system: the Public Employee's Retirement System (PERS) of New Jersey.

A. Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions/financial-reports.shtml.

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a members retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 8: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing members. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. College contributions to PERS amounted to \$211,511 for fiscal year 2018.

The employee contribution rate was 7.34% effective July 1, 2017. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

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

At June 30, 2018, the College reported a liability of \$5,294,719 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. 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 relative to the projected contributions of all participating members, actuarially determined. At June 30, 2017, the College's proportion was .0227%, which was an decrease of .001% from its proportion measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of \$246,314. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 8: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

	<u>Year</u>	<u>Amortization Period in Years</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	2014	6.44	\$ 60,063	
	2015	5.72	253,001	
	2016	5.57	753,639	
	2017	5.48		\$ 1,062,793
			<u>1,066,703</u>	<u>1,062,793</u>
Difference Between Expected and Actual Experience	2015	5.72	70,194	
	2016	5.57	22,871	
	2017	5.48	31,607	
			<u>124,672</u>	
Changes in Proportion	2014	6.44		81,858
	2015	5.72		154,834
	2016	5.57		49,393
	2017	5.48		140,118
				<u>426,203</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5.00	(63,446)	
	2015	5.00	54,123	
	2016	5.00	226,932	
	2017	5.00	(181,556)	
			<u>36,053</u>	
Contribution Subsequent to the Measurement Date	2017	1.00	210,710	
			<u>\$ 1,438,138</u>	<u>\$ 1,488,996</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts including changes in proportion and the contribution subsequent to measurement date) related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2018	\$ 124,643
2019	188,089
2020	113,972
2021	(151,584)
2022	(110,484)
	<u>\$ 164,637</u>

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 8: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)
Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected_returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2017 are summarized in the following table:

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 8: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Long Term Expected Rate of Return (Cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Market Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the contribution rate in the most recent fiscal year. The local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the College's proportionate share of the collective net pension liability as of June 30, 2017 calculated using the discount rate as disclosed below, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate:

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 8: Pension Plans (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Cont'd)

	June 30, 2017		
	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
College's proportionate share of the Net Pension Liability	\$ 6,568,459	\$ 5,294,719	\$ 4,233,537

Pension plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

Note 9: Unearned Revenue

Unearned revenue consists of the unearned portion of tuition and fees for courses offered during the summer and fall, as well as advanced funding for summer courses. All tuition received for courses that were not more than 50% complete as of June 30 are recognized as tuition revenue in the subsequent fiscal year. As of June 30, 2018 and 2017, unearned revenue is a total of \$146,000 and \$144,015, respectively.

Note 10: Economic Dependency

The College receives a substantial amount of its support from federal, state and county governments. A significant reduction in the level of support, if this were to occur, may have an effect on the College's programs and activities.

Note 11: Risk Management

The College maintains commercial insurance coverage for property, liability, student accident and surety bonds. The College is a member of a joint insurance Pool for workers' compensation. Health benefits are provided to employees through the State of New Jersey Health Benefits Plan.

The College is a member of the New Jersey Community College Insurance Pool Worker's Compensation Fund (the "Pool"). The Pool provides the College with workers' compensation insurance. The Pool is a risk-sharing public entity risk pool that is both an insured and self-administered group of school Colleges established for the purpose of providing low-cost insurance coverage for its members in order to keep local property taxes at a minimum. Each member appoints an official to represent their respective College for the purpose of creating a governing body from which officers for the Pool are elected.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 11: Risk Management (Cont'd)

As a member of the Pool, the College could be subject to supplemental assessments in the event of deficiencies. If the assets of the Pool were to be exhausted, members would become responsible for their respective shares of the Pool's liabilities.

The Pool can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body. In accordance with Statement No. 10 of the Governmental Accounting Standards Board, these distributions are used to reduce the amount recorded for membership expense in the year in which the distribution was declared.

The financial statements for the Fund for 2018 were not available at the time of audit. Selected summarized financial information for the Pool at June 30, 2017 and 2016 is as follows:

	<u>New Jersey Community College</u>	
	<u>Insurance Pool Worker's Compensation Fund</u>	
	<u>2018</u>	<u>2017</u>
Total Assets	\$ 9,252,780	\$ 9,797,348
Net Position	\$ 3,556,013	\$ 3,481,479
Operating Revenue	\$ 2,566,613	\$ 2,658,659
Total Expenses and Adjustments	\$ 2,492,079	\$ 421,559
Nonoperating Revenue	\$ -0-	\$ 402,548
Change in Net Position	\$ 74,534	\$ 2,639,648
Member Dividends	\$ -0-	\$ -0-

Financial statements for the Pool are available at the Pool's Executive Director's Office:

New Jersey Community College Insurance Pool
PO Box B
Trenton, NJ 08690

Note 12: Contingent Liabilities

The College is periodically involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, the ultimate resolution of these matters would not have a material adverse effect on the financial position or operations of the College.

The College participates in federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The College is potentially liable for expenses which may be disallowed pursuant to the terms of these grant programs. Management of the College is not aware of any material items of noncompliance which would result in the disallowance of grant program expenses.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 13: Accounts Payable

The College's accounts payable as of June 30 consists of:

	<u>2018</u>	<u>2017</u>
Accounts Payable, including accruals	\$ 504,518	\$ 237,807
Contribution Subsequent to Measurement Date	210,710	211,511
Payroll Liabilities	297,238	375,944
	<u>\$ 1,012,466</u>	<u>\$ 825,262</u>

The Foundation's accounts payable as of June 30 consists of:

	<u>2018</u>	<u>2017</u>
Accounts Payable - Vendors	\$ 1,062	\$ 8,247
	<u>\$ 1,062</u>	<u>\$ 8,247</u>

Note 14: Operating Leases

The College did not have any operating leases as of June 30, 2018, or June 30, 2017.

Note 15: Restricted Net Position

There was restricted net position of \$583,480 and \$577,827 as of June 30, 2018 and June 30, 2017, respectively. The restricted net position of the College is for student group funds. The restricted net position of the Foundation is for permanently restricted awards.

Note 16: Related Party Transactions

During the fiscal years ended June 30, 2018 and 2017, the College recognized \$2,131,681 and \$2,156,060 in operating aid from the County of Warren.

Note 17: Unrestricted Net Position/(Deficit)

The total Unrestricted Net Position at June 30, 2018 and 2017, was (\$529,520) and (\$366,449) respectively. A deficit in the Unrestricted Net Position exists primarily due to the net pension liability, and deferred inflows and outflows from pensions of \$5,556,287 and \$5,465,233 in 2018 and 2017, respectively. This does not reflect that the College is in financial hardship and is a permitted practice under Generally Accepted Accounting Principles.

Pre-GASB 68 – Net Position	\$ 5,026,767
GASB 68 – Pensions	<u>(5,556,287)</u>
Post GASB 68 – Net Pension	<u>\$ (529,520)</u>

Of the total Unrestricted Net Position, the following have been designated by the Board of Trustees as of June 30, 2018:

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 17: Unrestricted Net Position/(Deficit) (Cont'd)

	<u>2018</u>	<u>2017</u>
Designated for Future Projects	\$ 638,926	\$ 795,975
Designated for Building Projects	1,660,154	1,792,754
Designated for Subsequent Fiscal Year	<u>812,154</u>	<u>933,685</u>
	<u>\$3,111,234</u>	<u>\$3,522,414</u>

Note 18: Post-Employment Benefits Other Than Pensions (OPEB)

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund)

General Information about the OPEB Plan

Plan Description and Benefits Provided

The College is in a “special funding situation”, as described in GASB Statement No. 75, in that OPEB contributions and expenses are legally required to be made by and are the sole responsibility of the State of New Jersey, not the College.

The State of New Jersey reports a liability as a result of its statutory requirements to pay other post-employment (health) benefits for the State Health Benefit Local Education Retired Education Plan. The State Health Benefit Local Education Retired Employees Plan is a multiple-employer defined benefit OPEB plan that is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The State Health Benefits Local Education Retired Employees Plan provides medical, prescription drug, and Medicare Part B reimbursement to retirees and their covered dependents of local education employers.

The employer contributions for the participating local education employers are legally required to be funded by the State of New Jersey in accordance with N.J.S.A. 52:14-17.32f. According to N.J.S.A. 52:14-17.32f, the State provides employer-paid coverage to employees who retire from a board of education or county college with 25 years or more of service credit in, or retires on a disability pension from, one or more of the following plans: the Teachers’ Pension and Annuity Fund (TPAF), the Public Employees’ Retirement System (PERS), the Police and Firemen Retirement System (PFRS), or the Alternate Benefit Program (ABP). Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 years or more of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree’s annual retirement benefit and level of coverage.

The total nonemployer OPEB liability does not include certain other postemployment benefit obligations that are provided by the local education employers. The reporting of these benefits, if any, is the responsibility of the individual education employers.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 18: Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund) (Cont'd)

General Information about the OPEB Plan

Employees Covered by Benefit Terms

At June 30, 2016, the plan membership consisted of the following:

Inactive Plan Members or Beneficiaries Currently Receiving Benefit Payments	142,331
Active Plan Members	<u>223,747</u>
Total	<u><u>366,078</u></u>

Total Nonemployer OPEB Liability

The total nonemployer OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The total nonemployer OPEB liability as of June 30, 2016 was determined by an actuarial valuation as of June 30, 2016.

Actuarial Assumptions and Other Inputs

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.50%		
	<u>TPAF/ABP</u>	<u>PERS</u>	<u>PFRS</u>
Salary Increases:			
Through 2026	1.55 - 4.55%	2.15 - 4.15%	2.10 - 8.98%
	based on years of service	based on age	based on age
Thereafter	2.00 - 5.45%	3.15 - 5.15%	3.10 - 9.98%
	based on years of service	based on age	based on age

Preretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Employee Male/Female Mortality Table with fully generational mortality improvement projections from the central year using MP-2017 scale. Postretirement mortality rates were based on the RP-2014 Headcount-Weighted Health Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2014 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 18: Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund) (Cont'd)

Actuarial Assumptions and Other Inputs (Cont'd)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies for the periods July 1, 2012 – June 30, 2015, July 1, 2010 – June 30, 2013, and July 1, 2011 – June 30, 2014 for TPAF, PFRS and PERS, respectively.

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) medical benefits, this amount initially is 5.9% and decreases to a 5.0% long term trend rate after nine years. For self-insured post 65 PPO medical benefits, the trend rate is 4.5%. For health maintenance organization (HMO) medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long term rate after nine years. For prescription drug benefits, the initial trend rate is 10.5% and decreases to a 5.0% long term rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Discount Rate

The discount rate for June 30, 2017 and 2016 was 3.58% and 2.85%, respectively. This represents the municipal bond rate as chosen by the State of New Jersey Division of Pensions and Benefits. The source is the Bond Buyer Go 20-Bond Municipal bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Changes in the State's Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2016	\$ 57,831,784,184
Changes for Year:	
Service Cost	2,391,878,884
Interest on the Total OPEB Liability	1,699,441,736
Changes of Assumptions	(7,086,599,129)
Gross Benefit Payments by the State	(1,242,412,566)
Contributions from Members	45,748,749
Net Changes	<u>(4,191,942,326)</u>
Balance at June 30, 2017	<u>\$ 53,639,841,858</u>

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 18: Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund) (Cont'd)

Sensitivity of the Total Nonemployer OPEB Liability Attributable to the College to Changes in the Discount Rate

The following presents the total nonemployer OPEB Liability attributable to the College as of June 30, 2017 and 2016, respectively, calculated using the discount rate as disclosed in this note, as well as what the total nonemployer OPEB liability attributable to the College would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2017		
	At 1% Decrease (2.58%)	At Discount Rate (3.58%)	At 1% Increase (4.58%)
Total OPEB Liability Attributable to the College	\$ 7,599,520	\$ 6,401,902	\$ 5,451,940
	June 30, 2016		
	At 1% Decrease (1.85%)	At Discount Rate (2.85%)	At 1% Increase (3.85%)
Total OPEB Liability Attributable to the College	\$ 7,991,403	\$ 6,670,502	\$ 5,630,784

Sensitivity of the Total Nonemployer OPEB Liability Attributable to the College to Changes in the Healthcare Trend Rate

The following presents the total nonemployer OPEB Liability attributable to the College as of June 30, 2017 and 2016, respectively, calculated using the healthcare trend rate as disclosed in this note, as well as what the total nonemployer OPEB liability attributable to the College would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2017		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability Attributable to the College	\$ 5,264,946	\$ 6,401,902	\$ 7,911,767

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 18: Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund) (Cont'd)

Sensitivity of the Total Nonemployer OPEB Liability Attributable to the College to Changes in the Healthcare Trend Rate (Cont'd)

	June 30, 2016		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability Attributable to the College	\$ 5,473,333	\$ 6,670,502	\$ 8,271,003

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

For the fiscal year ended June 30, 2018 the College recognized OPEB expense of \$677,856 as determined by the State of New Jersey Division of Pensions and Benefits. This expense and the related offsetting revenue are for benefits provided by the State through a defined benefit OPEB plan that meets the criteria in GASB Statement 75, in which there is a special funding situation.

In accordance with GASB Statement 75, as the College's proportionate share of the OPEB liability is \$-0, there is no recognition of the allocation of the proportionate share of the deferred inflows and outflows of resources. At June 30, 2017 the State had deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption Changes		\$ (6,343,769,032)
Contributions Made in Fiscal Year Ending 2018 After June 30, 2017 Measurement Date	\$ 1,190,373,242	
	\$ 1,190,373,242	\$ (6,343,769,032)

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Note 18: Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund) (Cont'd)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Cont'd)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Total</u>
2018	\$ (742,830,097)
2019	(742,830,097)
2020	(742,830,097)
2021	(742,830,097)
2022	(742,830,097)
Thereafter	<u>(2,629,618,547)</u>
	<u>\$ (6,343,769,032)</u>

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

WARREN COUNTY COMMUNITY COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS
UNAUDITED

	Fiscal Year Ending June 30,			
	2015	2016	2017	2018
College's proportion of the net pension liability	2.5610831400%	2.3919319800%	0.0235313329%	0.0227452015%
College's proportionate share of the net pension liability	\$ 4,795,048	\$ 5,369,408	\$ 6,969,306	\$ 5,294,719
College's covered employee payroll	\$ 1,289,532	\$ 1,305,864	\$ 1,373,086	\$ 1,302,570
College's proportionate share of the net pension liability as a percentage of its covered employee payroll	371.84%	411.18%	507.57%	406.48%
Plan fiduciary net position as a percentage of the total pension liability	52.08%	47.93%	40.14%	48.10%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

WARREN COUNTY COMMUNITY COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF COLLEGE'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS
UNAUDITED

	Fiscal Year Ending June 30,			
	2015	2016	2017	2018
Contractually required contribution	\$ 211,132	\$ 205,642	\$ 209,428	\$ 211,511
Contributions in relation to the contractually required contribution	(211,132)	(205,642)	(209,428)	(211,511)
Contribution deficiency/(excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
College's covered employee payroll	\$ 1,263,741	\$ 1,289,532	\$ 1,305,864	\$ 1,373,086
Contributions as a percentage of covered employee payroll	16.71%	15.95%	16.04%	15.40%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

WARREN COUNTY COMMUNITY COLLEGE
 REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
 SCHEDULE OF CHANGES IN THE STATE'S TOTAL OPEB LIABILITY AND RELATED RATIOS
 LAST TWO FISCAL YEARS
 UNAUDITED

	Fiscal Years Ending	
	June 30, 2016	June 30, 2017
Total OPEB Liability		
Service Cost	\$ 1,723,999,319	\$ 2,391,878,884
Interest Cost	1,823,643,792	1,699,441,736
Changes in Assumptions	8,611,513,521	(7,086,599,129)
Member Contributions	46,273,747	45,748,749
Gross Benefit Payments	(1,223,298,019)	(1,242,412,566)
Net Change in Total OPEB Liability	10,982,132,360	(4,191,942,326)
Total OPEB Liability - Beginning	46,849,651,824	57,831,784,184
Total OPEB Liability - Ending	<u>\$ 57,831,784,184</u>	<u>\$ 53,639,841,858</u>
State's Covered Employee Payroll *	\$ 13,493,400,208	\$ 13,493,400,208
Total OPEB Liability as a Percentage of Covered Employee Payroll	429%	398%

* - Covered payroll for the fiscal years ending June 30, 2016 and June 30, 2017 is based on the payroll on the June 30, 2016 census data.

Note: This schedule does not contain ten years of information as GASB No. 75 was implemented during the fiscal year ended June 30, 2018.

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

A. PUBLIC EMPLOYEES RETIREMENT SYSTEM

Benefit Changes

There were no changes to benefit terms.

Changes of Actuarial Assumptions

The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017. The municipal bond rate changed from 2.85% to 3.58%. The long-term expected rate of return on pension plan investments changed from 7.65% to 7.00%.

The inflation rate changed from 3.08% as of June 30, 2016 to 2.25% as of June 30, 2017.

B. STATE HEALTH BENEFIT LOCAL EDUCATION RETIRED EMPLOYEES OPEB PLAN

Benefit Changes

There were none.

Changes of Actuarial Assumptions

The discount rate changed from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

PART II

WARREN COUNTY COMMUNITY COLLEGE

FISCAL YEAR ENDED JUNE 30, 2018



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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*

Independent Auditors' Report

The Honorable Chairman and
 Members of the Board of Trustees
 Warren County Community College
 Washington, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Office of Management and Budget, Department of the Treasury, State of New Jersey (the "Department"), the financial statements of the Warren County Community College, in the County of Warren (the "College") as of, and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 19, 2019.

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 the 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.

The Honorable Chairman and
Members of the Board of Trustees
Warren County Community College
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Mount Arlington, New Jersey
January 19, 2019

NISIVOCIA LLP

NISIVOCIA LLP



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Report on Compliance For Each Major Federal and State Program;
 Report on Internal Control Over Compliance

Independent Auditors' Report

The Honorable Chairman and
 Members of the Board of Trustees
 Warren County Community College
 Washington, New Jersey

Report on Compliance for Each Major Federal and State Program

We have audited the Warren County Community College (the "College's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the College's major federal and state programs for the fiscal year ended June 30, 2018. The College's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Those standards, the Uniform Guidance and New Jersey's OMB Circular 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the College's compliance.

The Honorable Chairman and
Members of the Board of Trustees
Warren County Community College
Page 2

Opinion on Each Major Federal and State Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and NJOMB 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance or NJOMB 15-08. Accordingly, this report is not suitable for any other purpose.

Mount Arlington, New Jersey
January 19, 2019

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WARREN COUNTY COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 2018

Department/ Pass Through Grantor/Cluster Title	C.F.D.A. Account No.	Name of Grant	Grant I.D. No.	Grant Period	Award Authorizations	Amount Received Fiscal Year 2018	Grant Expenditures Fiscal Year 2018	Amount Provided to Subrecipients
U.S. Department of Education Pass-Through NJ Department of Education	84.048A	Carl D. Perkins Vocational and Technical Education	PSFS718007	7/1/17-6/30/18	\$ 64,228	\$ 64,228	\$ 64,228	
Student Financial Assistance Cluster:						64,228	64,228	
U.S. Department of Education	84.063	Federal Pell Grant	P063P004578	7/1/17-6/30/18	1,649,226	1,649,226	1,649,226	
U.S. Department of Education	84.007	Federal Supplemental Education Opportunity Grant*	P007A007578	7/1/17-6/30/18	29,183	29,183	29,183	
U.S. Department of Education	84.033	Federal Work Study Program*	P033A007578	7/1/17-6/30/18	27,265	27,265	27,265	
Federal Direct Student Loans Program:								
U.S. Department of Education	84.268	Unsubsidized Direct	N/A	7/1/17-6/30/18	339,578	339,578	339,578	
U.S. Department of Education Total Federal Direct Student Loans Program	84.268	Subsidized Direct	N/A	7/1/17-6/30/18	194,615	194,615	194,615	
Total Student Financial Assistance Cluster					2,239,867	2,239,867	2,239,867	
Total U.S. Department of Education					2,304,095	2,304,095	2,304,095	
Total Federal Awards					\$ 2,304,095	\$ 2,304,095	\$ -0-	

*Represent the federal share of funds for these programs. The Federal Government authorizes the full amount but pays 75% of the authorization. The college provides the remaining 25% match.

N/A - Not Available

WARREN COUNTY COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FISCAL YEAR ENDED JUNE 30, 2018

Name of State Agency or Department	Name of Grant	Account I.D. #	Grant Period	Award Authorizations	Amount Received Fiscal Year 2018	Grant Expenditures Fiscal Year 2018
Department of Treasury	State Support Operational Costs	18-100-082-2155-015	7/1/17-6/30/18	\$ 2,279,680	\$ 2,279,680	\$ 2,279,680
	Alternate Benefit Plan	18-100-082-2155-017	7/1/17-6/30/18	203,491	203,491	203,491
					<u>2,483,171</u>	<u>2,483,171</u>
Commission on Higher Education	EOF Summer	18-100-074-1401	7/1/17-6/30/18	39,086	38,777	38,777
	EOF Article III	18-100-074-1401	7/1/17-6/30/18	39,283	39,283	39,283
	EOF Article IV Academic Year	18-100-074-1401	7/1/17-6/30/18	84,625	80,054	80,054
					<u>158,114</u>	<u>158,114</u>
Higher Education Assistance Authority	Tuition Aid Grant	18-100-074-2405-007	7/1/17-6/30/18	333,149	333,149	333,149
	NJ STARS	18-100-074-2405-313	7/1/17-6/30/18	64,780	64,780	64,780
					<u>397,929</u>	<u>397,929</u>
					\$ 3,039,214	\$ 3,039,214
					<u><u>3,039,214</u></u>	<u><u>3,039,214</u></u>

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

WARREN COUNTY COMMUNITY COLLEGE
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Note 1: Basis of Presentation

The accompanying schedules of expenditures of federal and state awards present the activity of federal and state award programs of the Warren County Community College (the "College") under programs of the federal and state governments for the fiscal year ended June 30, 2018. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the schedules present only a selected portion of the operations of the College, they are not intended to and do not present the financial position, changes in net position or cash flows of the College.

Note 2: Summary of Significant Accounting Policies:

Expenditures reported on the accompanying schedules of expenditures of federal and state awards are reported on the accrual basis of accounting. This basis of accounting is described in Note 1 to the College's basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts, if any, shown on the Schedules represents adjustments or credits made in the normal course of business to amounts reports as expenditures in prior years.

Note 3: Indirect Cost Rate

The College has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4: Relationship to Basic Financial Statements

There is an adjustment needed to reconcile the Schedule of Expenditures of Federal and State Awards to the basic financial statements. The adjustment for federal awards is (\$1,808,211) and the adjustment for state awards is (\$1,245,131). The adjustment is necessary because the College must reflect the entire drawdown amounts on the Schedules of Expenditures of Federal and State Awards. In the basic financial statements, the College is only reflecting the revenue and expenses pertaining to the College, and is not accounting for awards that pass through the College and are refunded to the students.

Note 5: Relationship to Federal and State Financial Reports

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

WARREN COUNTY COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2018

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the College.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *Independent Auditors' 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*.
- No instances of noncompliance material to the financial statements of the District which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- There were no material weaknesses or significant deficiencies in internal control over major federal and state programs disclosed during the audit as reported in the *Independent Auditors' Report on Compliance For Each Major Federal and State Program; Report on Internal Control Over Compliance*.
- The auditor's report on compliance for each of the major federal and state programs for the District expresses an unmodified opinion on all major federal and state programs.
- The audit did not disclose any audit findings which are required to be reported in accordance with New Jersey's OMB Circular 15-08 or 2 CFR 200.516(a) of the Uniform Guidance.
- The College's programs tested as major federal and state programs for the current fiscal year consisted of the following:

	<u>State Grant/ CFDA Number</u>	<u>Grant Period</u>	<u>Award Amount</u>	<u>Budgetary Expenditures</u>
<u>State:</u>				
State Support	18-100-082-			
Operational Costs	2155-015	7/01/17-6/30/18	\$ 2,279,680	\$ 2,279,680
<u>Federal:</u>				
Student Financial Assistance Cluster:				
Federal Pell Grant	84.063	7/01/17-6/30/18	1,649,226	1,649,226
Federal Supplemental Education				
Opportunity Grant	84.007	7/01/17-6/30/18	29,183	29,183
Federal College Work Study	84.033	7/01/17-6/30/18	27,265	27,265
Federal Direct Student Loans Program	84.268	7/01/17-6/30/18	534,193	534,193

WARREN COUNTY COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

Summary of Auditor's Results: (Cont'd)

- The threshold used for distinguishing between Type A and Type B programs for both federal and state programs was \$750,000.
- The College determined to be a "low-risk" auditee for both federal and state programs.

Findings and Questioned Costs for Federal Awards:

- The audit did not disclose any findings or questioned costs for federal awards as defined in 2 CFR 200.516(a) of the Uniform Guidance.

Findings and Questioned Costs for State Awards:

- The audit did not disclose any findings or questioned costs for state awards as defined in 2 CFR 200.516(a) of the Uniform Guidance and New Jersey's OMB Circular 15-08.

WARREN COUNTY COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2018

Status of Prior Year Findings:

There were no findings or questioned costs noted during the audit of the fiscal year ended June 30, 2017.