STATE CENTER COMMUNITY COLLEGE DISTRICT

GASB 68 ACTUARIAL VALUATION REPORT

FOR PENSION BENEFITS

July 1, 2017 – June 30, 2018 Fiscal Year

CONTENTS

EXECUTIVE SUMMARY

A. Plan Overview

State Center Community College District ***(District)*** provides pension benefits to employees who meet certain criteria. As a result of offering such benefits, the District is required to report the value of such benefits and the associated costs according to the accounting requirements of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68). The purpose of this report is to provide measurements of the pension obligations, annual expense, and other required disclosure items in accordance with GASB 68. The information contained in this report may not be suitable for other purposes.

B. Summary of Key Results

The summary below identifies the key results of the costs related to the July 1, 2017 – June 30, 2018 Fiscal Year, according to the accounting requirements of GASB 68.

Measurement Date	**June 30, 2018**
Reporting Date	**June 30, 2018**
Present Value of Future Benefits	
Actives	$0
Retirees	3,556,111
Total	**$3,556,111**
Total Pension Liability	
Actives	$0
Retirees	3,556,111
Total	**$3,556,111**
Plan Assets	N/A
Net Pension Liability	**$3,556,111**
GASB 68 Measures For the Period Ending	**June 30, 2018**
Pension Expense	**$3,901,114**
Expected Employer Contributions	**$335,971**
Actual Employer Contributions	**$345,003**

C. Demographic Information

Demographic Information	2017/2018
Active Participants	0
Retired Participants	164
Total	**164**

D. Assets

As of the valuation date, the District has not set aside assets in an irrevocable trust to pay for future benefits. According to GASB, an employer has made a contribution to pay for future benefits if it meets one of the following criteria:

- The employer has made benefit payments directly to or on behalf of a retiree or beneficiary.
- The employer has made premium payments to an insurer.
- The employer has made contributions to a plan to fund payments of benefits as they come due in the future, and all the following apply:
  - The employer no longer has ownership or control of the assets.
  - The plan is effectively a legally separate entity under the stewardship of a board of trustees.
  - The plan assets provide benefits to retirees and their beneficiaries in accordance to the terms stated in the plan.
  - The plan assets are legally protected from creditors of the employer.

Assets	June 30, 2018
Market Value of Assets	$0
Actuarial Value of Assets	$0
Money-Weighted Rate of Return (2017/2018 FY)	N/A

E. Discount Rate

The discount rate under GASB 68 is required to be a blend of the long-term expected rate of return (ROR) to the extent funded and the 20 year municipal bond rate. Specifically, an initial projection is made using the ROR on irrevocable plan assets and, as long as the plan's net position and projected contributions associated with current participants are expected to fully cover projected benefit payments (including expenses), this long-term rate may be used. For years in which the net position is not projected to cover projected benefit payments, the discount rate used is equal to the 20 year municipal bond yield. A single discount rate is then determined as a blend of the two rates, which produces the same discounted present value of benefits as the duel rate calculation. Since the plan is not funded through an irrevocable trust, the municipal bond rate was selected for all years. As of June 30, 2017 a rate of 3.13% was used. As of June 30, 2018 a rate of 2.98% was used.

Actuarial Certification

State Center Community College District ***(District)*** retained Grant Thornton to perform a valuation of its pension benefits plan for the purpose of determining its annual cost and disclosures in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

The consulting actuary is a member of the Society of Actuaries and other professional actuarial organizations, and meets the "Qualification Standard for Prescribed Statements of Actuarial Opinion" relating to pension plans.

In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

Where reasonable, the actuarial assumptions and the accounting policies and methods employed in the development of the post-employment benefits cost have been selected by the District, which relied upon actuarial audits and experience studies conducted for the California Public Employees Retirement System (CalPERS). We did not independently study historical information to develop assumptions.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices. In our opinion, the actuarial assumptions and methods represent reasonable expectations of anticipated plan experience. To fulfill the applicable accounting requirements, each actuarial assumption should be management's "best estimate solely with respect to that individual assumption."

The information contained in this report was prepared for the internal use of the District and its auditors in connection with the actuarial valuation of the pension plan. It is neither intended nor necessarily suitable for other purposes. The District may also distribute this actuarial valuation report to parties which have a legal right to require the District to provide them with this report, in which case they will provide this report in its entirety including all assumptions, caveats, and limitations.

We are available to answer questions on the material contained in the report or to provide explanations or further detail, as may be appropriate.

Andrew Etheridge, FSA, EA, MAAA
Experienced Manager, Human Capital Services
Grant Thornton, LLP
November 19, 2018

ACCOUNTING & ACTUARIAL INFORMATION

A. RECONCILIATION OF TOTAL PENSION LIABILITY

The Total Pension Liability (TPL) is the liability or obligation for benefits earned through the valuation date, based on certain actuarial methods and assumptions. The following represents a reconciliation of the TPL from the beginning of the Fiscal Year (July 1, 2017) to the end of the Fiscal Year (June 30, 2018). The TPL as of June 30, 2018 is $3,556,111.

Reconciliation of Total Pension Liability	2017/2018 FY
Beginning of Year TPL	**$0**
Transfer of Liabilities[1]	3,173,149
Service Cost	0
Interest Cost	112,075
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	260,473
Changes in Assumptions	355,417
Actual Benefit Payments	(345,003)
End of Year TPL	**$3,556,111**
Municipal Bond Rate:	
Beginning of Year	3.13%
End of Year	2.98%

B. DEVELOPMENT OF PENSION EXPENSE

The Pension Expense related to the July 1, 2017 – June 30, 2018 period is $3,901,114. Deferred inflows and outflows of resources are amortized over the following periods depending on source.

- Differences between expected/actual experience and assumption changes are amortized over the average working lifetime (active and inactive participants).
- The difference between projected and actual earnings on any applicable plan investments is recognized over a 5-year period.
- Any plan changes are fully recognized.

Pension Expense	2017/2018 FY
Transfer of Liabilities	$3,173,149
Service Cost	0
Interest Cost	112,075
Expected Return on Assets	N/A
Recognition of:	
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	260,473
Differences Between Projected and Actual Earnings	0
Changes in Assumptions	355,417
Pension Expense	**$3,901,114**

[1] Transfer of benefits from the OPEB plan to this plan. This transfer amount uses the same assumptions as the corresponding liability transfer out of the OPEB plan and any changes in assumptions are reflected under the "Changes in Assumptions" section of the reconciliation. The interest cost is measured using the beginning of year municipal bond rate of 3.13% and reflecting the discount rate change in TPL from 4.25% to 3.13%.

Beginning of Year:	
Municipal Bond Rate	3.13%
Expected Rate of Return	N/A
Average Expected Service Life	N/A
Actual Benefit Payments	$345,003

C. Schedule of Deferred Inflows & Outflows

Differences between expected and actual experience, assumption changes, and projected and actual earnings, are amortized over their respective periods as discussed in the prior section. The amounts left to be amortized in the future are reported as deferred inflows and outflows of resources.

The table below summarizes the current balances of collective deferred inflows and outflows of resources along with the net recognition through annual expense over future years.

Schedule of Deferred Inflows/Outflows	**June 30, 2018**	
	Deferred Inflows	**Deferred Outflows**
Differences Between Expected and Actual Experience	$0	$0
Differences Between Projected and Actual Earnings	0	0
Changes in Assumptions	0	0
Total	**$0**	**$0**

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

Fiscal Year Ending June 30:	**Recognition**
2019	$0
2020	0
2021	0
2022	0
2023	0
Thereafter	$0

D. Sensitivity of TPL to Changes in Discount Rate

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL, while higher discount rates produce a lower TPL.

	1% Decrease	**Current Rate**	**1% Increase**
Total Pension Liability	$3,867,398	$3,556,111	$3,285,958

E. Schedule of Required Supplementary Information

The following schedule is intended to show information for a period of 10 years. However, the District recently adopted GASB 68, and therefore has limited information to disclose. This information will be included prospectively as the District continues to perform actuarial valuations and report under GASB 68.

	2017/2018 FY
Total Pension Liability	
Transfer of Liabilities[2]	$3,173,149
Service Cost	0
Interest Cost	112,075
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	260,473
Changes in Assumptions	355,417
Expected Benefit Payments	(345,003)
Net Change in Total Pension Liability	**$3,556,111**
Total Pension Liability – Beginning of Year	**$0**
Total Pension Liability – End of Year (a)	**$3,556,111**
Plan Fiduciary Net Position	
Actual Employer Contributions	$345,003
Net Investment Income	0
Actual Benefit Payments	(345,003)
Administrative Expenses	0
Net Change in Plan Fiduciary Net Position	**$0**
Plan Fiduciary Net Position – Beginning of Year	**$0**
Plan Fiduciary Net Position – End of Year (b)	**$0**
Net Pension Liability – End of Year (a) – (b)	**$3,556,111**
Plan Fiduciary Net Position *as a percentage of the TOL*	**0.00%**
Covered Payroll	**$0**
Net Pension Liability *as a percentage of Covered Payroll*	**N/A**
Municipal Bond Rate:	
Beginning of Year	3.13%
End of Year	2.98%

[2] Transfer of benefits from the OPEB plan to this plan. This transfer amount uses the same assumptions as the corresponding liability transfer out of the OPEB plan and any changes in assumptions are reflected under the "Changes in Assumptions" section of the reconciliation. The interest cost is measured using the beginning of year municipal bond rate of 3.13% and reflecting the discount rate change in TPL from 4.25% to 3.13%.

CENSUS INFORMATION

The following table summarizes active and retiree demographic information:

	Participants
Actives[3]	
Fully Eligible to Receive Plan Benefits	0
Not Fully Eligible	0
Total	*0*
Retirees	
Under Age 65	0
Age 65 or over	164
Total Receiving Plan Benefits	*164*
Total	**164**

	Actives	Retirees	Total
Average Age	N/A	75.28	75.28
Average Service	N/A	N/A	N/A

There were no material modifications to the data as provided by the District.

[3] All eligible actives are assumed to elect healthcare coverage under the OPEB, therefore there are no actives included in this valuation.

Assumptions & Actuarial Methods

The assumptions and methods displayed in this section were selected from the complete set of assumptions used to calculate liabilities for the plan. The District has reviewed the assumptions and recommended to the actuary that they be used.

A. Discount Rate

In accordance with GASB 68, the discount rate as of June 30, 2017 and June 30, 2018 is the 20 year municipal bond yield. As of June 30, 2017 a rate of 3.13% was used. As of June 30, 2018 a rate of 2.98% was used.

Rationale: As prescribed by GASB for unfunded benefits, the discount rate was developed using 20 year municipal bond yield. The S&P Municipal Bond 20 Year High Grade Rate Index was used for this purpose.

B. Mortality Rates

Select mortality rates are listed below.

	CalPERS	
Age	Male Retired	Female Retired
25	0.00029	0.00011
30	0.00038	0.00015
35	0.00049	0.00027
40	0.00064	0.00037
45	0.00080	0.00054
50	0.00372	0.00346
55	0.00437	0.00410
60	0.00671	0.00476
65	0.00928	0.00637
70	0.01339	0.00926
75	0.02316	0.01635
80	0.03977	0.03007
85	0.07122	0.05418
90	0.13044	0.10089
95	0.21658	0.17698
100	0.32222	0.28151
105	0.46691	0.43491
>=110	1.00000	1.00000

Rationale: This assumption is based on the expectation that future experience under the plan will be materially consistent with the assumptions utilized in the CalPERS valuations. CalPERS mortality rates are from the 2017 experience study.

Assumptions & Actuarial Methods (Continued)

C. Participation

All eligible future retirees are assumed to elect healthcare benefits through the OPEB instead of receiving the pension (cash waiver) benefit provided under this plan.

Rationale: This assumption is based on anticipated future experience under the plan.

D. Lapse

All participants currently electing coverage under the plan are assumed to maintain coverage in the future.

Rationale: This assumption is based on anticipated future experience under the plan.

E. Funding Policy

It is our understanding that the District is not required to prefund these benefits and therefore a "pay-as-you-go" funding policy is used.

F. Other Assumptions and Methods

Other assumptions and methods such as the entry age normal actuarial cost method, salary scale, termination rates, retirement rates and the marriage assumption are not applicable as the covered population is solely retirees.

Changes in Assumptions Since the Prior Valuation

- The discount rate as of the beginning of the fiscal year changed from 4.25% to 3.13% to reflect the transfer of these benefits from the OPEB GASB 75 accounting and to reflect the adoption of GASB 68.
- The discount rate as of the end of the fiscal year changed from 3.13% to 2.98% based on the change in 20 year municipal bond yields.

PLAN PROVISIONS

The following summary of plan provisions represents our understanding of the State Center Community College District ***(District)*** substantive plan, which is a single-employer defined benefit pension plan.

Certain retired employees are eligible for post-employment benefits pursuant to the provisions below.

ELIGIBILITY

- Eligible prior employees who upon retirement elected to receive fixed quarterly cash payments in lieu of medical benefits.
- Eligible participants were hired prior to July 1, 2013 and have at least 15 consecutive years of District service upon retirement.

SURVIVOR BENEFITS

None

FORM OF PAYMENT

Single life annuity, paid on a quarterly basis.

BENEFITS

Upon retirement, eligible employees receive a single life annuity. As of the valuation date, all participants included in the valuation have commenced payment and the fixed benefit amounts were provided in the census data.

CHANGES IN PLAN PROVISIONS SINCE THE PRIOR VALUATION

- These benefits were previously included in the OPEB GASB 75 valuation and transferred into a separate plan effective July 1, 2017, to be valued under GASB 68.
- No other changes occurred.

Glossary of Terms

Actuarial Valuation Date

The date as of which an actuarial valuation is performed. This date may be up to 24 months prior to the measurement date and up to 30 months prior to the employer's reporting date.

Deferred Inflow of Resources

An acquisition of net assets by a government employer that is applicable to a future reporting period. In the context of GASB 68, these are experience gains on the Total Pension Liability, assumption changes reducing the Total Pension Liability, or investment gains that are recognized in future reporting periods.

Deferred Outflow of Resources

A consumption of net assets by a government employer that is applicable to a future reporting period. In the context of GASB 68, these are experience losses on the Total Pension Liability, assumption changes increasing the Total Pension Liability, or investment losses that are recognized in future reporting periods.

Entry Age Actuarial Cost Method

The actuarial cost method required for GASB 68 calculations. Under this method, the actuarial present value of the projected benefits of each individual, included in an actuarial valuation, is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The portion of this actuarial present value allocated to a valuation year is called the Service Cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future service costs is called the Total Pension Liability.

Measurement Date

The date as of which the Total Pension Liability and Plan Fiduciary Net Position are measured. The Total Pension Liability may be projected from the Actuarial Valuation Date to the Measurement Date. The Measurement Date must be the same as the Reporting Date for the plan.

Net Pension Liability

The liability of employers and non-employer contributing entities for benefits provided through a defined benefit Pension plan. It is calculated as the Total Pension Liability less the Plan Fiduciary Net Position.

Plan Fiduciary Net Position

The fair or market value of assets.

GLOSSARY OF TERMS (CONTINUED)

Reporting Date

The last day of the Pension plan or employer's fiscal year.

Service Cost

The portion of the actuarial present value of projected benefit payments that is attributed to the current period of employee service in conformity with the requirements of GASB 68. The Service Cost is the normal cost calculated under the entry age actuarial cost method.

Total Pension Liability

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB 68. The Total Pension Liability is the actuarial liability calculated under the entry age actuarial cost method.