2019 ANNUAL FINANCIAL REPORT

Centralia College

www.centralia.edu

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600 Centralia College Blvd, Centralia, WA

Centralia College, the oldest community college in continuous operation in Washington State since 1925.

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From Running Start to a bachelor's degree in teaching

For former Running Start student Levi Sathre, Centralia College was the perfect choice for his entry into the world of teaching.

"When I was getting done with my associate degree, I was searching for colleges. The teaching program here had sparked a lot of interest in me," Sathre said. "I was confident when I signed up for the program here, I'd get good teaching on how to be a teacher."

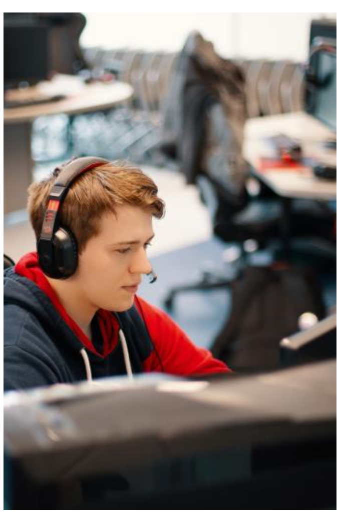
As the cost of universities goes up, staying home and getting a scholarship made Centralia College an easier choice for Levi. "Really, the scholarships have been the bedrock of my success at the college," Sathre said. "It's helped me immensely."

Levi received the Baxter Killian Memorial Scholarship for the 2019-20 academic year. Before jumping into CC's applied bachelor's degree in Teacher Education, Levi was working part-time. Without the scholarship, juggling the requirements of the teaching program would have been more difficult. "As the requirements for the program became clear, without the scholarship, I'd have to be working full time or overtime," Sathre said. "That, in effect, affects my teaching."

Today, Sathre is a student-teacher teaching fifth grade at Adna Elementary School. Sathre is a senior and he'll turn 20 in May, just before his graduation in June. "I made that choice to do Running Start and it's paid off in the long run," Sathre said. "I was able to get scholarships…those have helped me pay for my now bachelor's degree. It's been awesome."

Looking ahead, Sathre will be able to finish college debt-free and with his bachelor's degree in teaching. He thanks the community for playing a role in making it happen. "There's a lot of good people who donate to the college," Sathre said. "The donors are the seeds and the students are the trees. The community is investing in the lives of students. It's a big deal."

CC esports ends season with record high finishes



Centralia College's esports team (competitive video gaming) ended its inaugural season with the National Junior College Athletic Association esports with a second place in Rocket League and first and third places in Super Smash Bros. Ultimate.

"This ranks as a great achievement for us," said esports Coach Jacob Beach. "Our players worked hard and put up a result to be proud of."

Beach said the first and third place finishes in Super Smash Bros. Ultimate are especially meaningful because of a large and challenging field of 59 competitors.

This initial success is great news for Centralia College, which has taken the lead statewide in esports. Centralia College's team was the first official collegiate team in the state and, this fall, was the first college to offer scholarships to esports student-athletes.

The team currently has 37 rostered players who practice Hearthstone, Magic the Gathering: Arena, League of Legends, Overwatch, Rocket League, and Super Smash Bros. Ultimate at the esports arena in room 339 in the TransAlta Commons.

Beach's goal is to build excitement for esports, cultivate skill, and help players earn college scholarships.

"Ultimately, esports can propel students through college and into a good career. They can become esports writers, players, managers, coaches, analysts, event coordinators, web developers, and social media managers," Beach said. "There are a lot of opportunities for student-athletes willing to put in the work and get the experience."

Student Success Story – Christie Moore

"From the moment I picked up a rod in my hand and laid that first bead, I knew it was for me," explained welder Christie Moore, who graduated from Centralia College's two-year welding program in 2015.

"People are amazed when they find out what I do and where I've worked," she said. "I've worked at Boeing, Hanaford, at dams across a five-state region. Just last week I was up 250 feet, up on a bridge hanging from a strap. It's intense. It's dangerous. It's an extraordinary adventure and I can't believe I get paid for it."

Moore, a longtime Lewis County resident, knew she didn't want an office job, but struggled to find her place. She worked odd jobs, relied on friends and family when she had nowhere to stay, and had no stability from day to day. She needed a change.

"Centralia College was the first step for me. I knew I needed to go to school for welding because I wanted to be certified. I wanted to be legit and not just start in my garage," she described, adding "Centralia College was the only choice for me…it's a family and I felt welcome. I felt like I was part of a community here."

In addition to the hands-on training in welding, Moore benefited from the structure of attending college and learning a trade she can take anywhere. She learned what it meant to be a good employee, to arrive on time, put in a full day's work, and have others rely on her in high-stakes situations. She's now living the life she always wanted, and doing work that suits her personality.

For those considering a career in the trades, Moore recommends starting now. "The way the work is going, this is where the opportunities are going to be," she said. "The trades are one thing that is not going to disintegrate over time…It's open ended. You get your degree. You get your certifications. You can go anywhere in the world, do anything you want."

LETTER FROM THE PRESIDENT

Bob Mohrbacher, Ed.D.

March 9, 2020

Mark Scheibmeir, J.D., Board Chair
Board of Trustees
Centralia College
Centralia, WA 98531

Dear Chair Scheibmeir:

We are proud to continue the tradition of submitting our 2019 Annual Financial Report of Centralia College to the Board of Trustees. Management assumes full responsibility for the content and accuracy of this report.

The College continues to report our financial information in a timely manner, as required by NWCCU accreditation standards and in keeping with the college's own goals for sustainable and responsible budgeting and fiscal accountability.

Our 2019 report serves as a reminder of the responsibility we have as stewards of public resources to undergo a financial audit which provides the public confidence in our management of college and state resources. The State Auditor's Office (SAO) has issued another clean (unmodified) opinion on the College's financials. The *Management Discussion and Analysis*, which follows the State Auditor's Office *Independent Audit Opinion Letter*, provides the reader with a better understanding of the financial position and result of operation for the College's most recent fiscal-year.

We hope you find this report useful and that it helps to provide a full picture of the fiscal health of Centralia College.

Sincerely,

Bob Mohrbacher, President

Stephen Ward, Vice President Finance & Administration

BOARD OF TRUSTEES AND ADMINISTRATORS

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

March 9, 2020

Board of Trustees
Centralia College
Centralia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Centralia College, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from

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material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

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

Matters of Emphasis

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents 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.

Supplementary and 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 as a whole. The College Success Stories, Letter from the President, and Board of Trustees and Administrators information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the College. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated March 9, 2020, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

MANAGEMENT'S DISCUSSION & ANALYSIS

Centralia College

The objective of this Management Discussion and Analysis (MD&A) is to help readers of Centralia College's financial statements better understand the financial position and operating activities for the year ended June 30, 2019 with comparative information for the year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section. Unless otherwise stated, all years refer to the fiscal year ended June 30th.

The Centralia College financial report communicates financial information for Centralia College and its' discretely presented component unit, the Centralia College Foundation. The College is an agency of the State of Washington, and the financial information contained in this report is included in the State of Washington's Comprehensive Annual Financial Report (CAFR) for 2019.

Reporting Entity

Centralia College is one of 30 community and technical college districts in the State of Washington overseen by the State Board for Community and Technical Colleges (SBCTC). The College is governed by a Board of five Trustees, which has broad responsibilities to supervise, coordinate, manage and regulate the College as provided by state law. Trustees are appointed by the Governor for a term of five years, with consent of the Senate.

The College offers associate degrees and certificates in a variety of programs, and four baccalaureate degrees in Applied Science.

The College is the oldest continuously operating two-year public college in the State of Washington, was established in 1925 and currently averages approximately 3,800 full-time and part-time students per academic quarter. The College's main campus is located in Centralia, and serves Lewis and south Thurston counties with a population of approximately 80,000, and has a satellite campus in Morton.

Using the Financial Statements

The College reports as a special purpose government, engaged in business-type activities as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities, as amended. Under this model, the financial report includes three financial statements, the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted accounting standard setting body for establishing governmental accounting and financial reporting principles. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires a college to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under this requirement, the Centralia College Foundation is a component unit of the College and their financial statements are discretely presented into this financial report.

The College's Financial Position

The statement of net position provides information about the College's financial position at the end of the fiscal year. It displays all of the College's assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position.

A condensed comparison of the Statements of Net Position as of June 30, 2019 and 2018, follows:

Condensed Statement of Net Position

As of June 30 (in thousands)	2019	2018
Assets		
Current assets	$ 8,502	$ 9,096
Capital assets, net	86,482	84,039
Other assets, non-current	9,202	9,910
Total Assets	104,186	103,045
Deferred Outflows of Resources	2,070	1,259
Liabilities		
Current liabilities	2,554	3,627
Other liabilities, non-current	19,953	21,600
Total Liabilities	22,506	25,227
Deferred Inflows of Resources	6,648	3,676
Net Position		
Net Investment in Capital Assets	83,640	81,091
Restricted	2,223	4,525
Unrestricted	(8,761)	(10,215)
Total Net Position	$ 77,102	$ 75,401

Current assets consist of cash, investments, accounts receivable and inventories. The $618K decrease from 2018 to 2019 was the result of: 1) cash increased $474K and investments decreased by $1.5 million which is the result of not reinvesting in U.S. Government sponsored enterprise bonds. This decreased the total bond investments to $10.5 million, of which $3 million is classified as current investments and $7.5 million as non-current. This was the result of a need for cash to fund the property purchases for the student athletic multi-purpose field project. 2) $500K increase in Accounts Receivable.

Capital assets including land and construction in progress increased by a net of $2.4 million in 2019. Land increased $971K with the purchases of land for the multi-purpose field, construction in progress increased $609K for the new ECEAP modular facility, buildings decreased a net of $779K with the removal of Kemp Hall and infrastructure increased a net of $1.6 million with the completion of the esplanade expansion. More information on the College's capital assets can be found in Note 6 to the financial statements.

Non-current assets, other than the net capital assets, decreased by $722K in 2019. This is a result of a decrease in restricted cash associated with property purchases in preparation for the student's athletic multi-purpose field.

Deferred outflows of resources and deferred inflows of resources represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY2018. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $1.26 million in FY 2018 and $2.07 million in FY 2019 of pension and postemployment-related deferred outflows.

Similarly, the increase in deferred inflows in 2019 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and the implementation of GASB Statement No. 75. The College recorded $3.7 million in FY 2018 and $6.6 million in FY 2019 of pension and postemployment-related deferred outflows.

Current liabilities include accounts payable, accrued payroll, the current portion of Certificate of Participation (COP) debt, and associated liabilities and unearned revenues. The $1 million decrease in current liabilities for 2019 was the result of a decrease in OPEB liability, short term.

Non-current liabilities are made up of OPEB and pension liabilities, vacation and sick leave balances, and the long-term portion of Certificate of Participation debt. The $1.6 million decrease in non-current liabilities is the result of an $853K decrease in OPEB liability, $1.2 million decrease in net pension liability and $409K increase in total pension liability.

Net position represents the difference between the College's assets plus deferred outflows, less liabilities and deferred inflows, and measures whether the financial condition has improved or worsened during the year. The College reports its net position in three categories:

Net Investment in capital assets – The College's total investment in property, plant and equipment, net of accumulated depreciation and any outstanding debt attached to its capital assets. To the extent of restricted cash and cash equivalents for capital projects collected, but not yet spent, these amounts are not included as a component of capital assets, instead are included as a component of restricted net position, expendable described below.

Restricted net position, nonexpendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for spending but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. As a result, the College is not reporting a balance in this category.

Restricted net position, expendable – Includes resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by the donor or external parties. The primary expendable funds for the College are the dedicated student fees collected as part of referendums and reserved for student projects, such as TransAlta Commons and athletic multi-purpose field.

Unrestricted net position – These represent all the other resources available to the College for general and educational obligations to meet expenses for any lawful purpose. Unrestricted net position is not subject to externally imposed stipulations, however the College has designated the majority of the unrestricted net position for various academic and support functions. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

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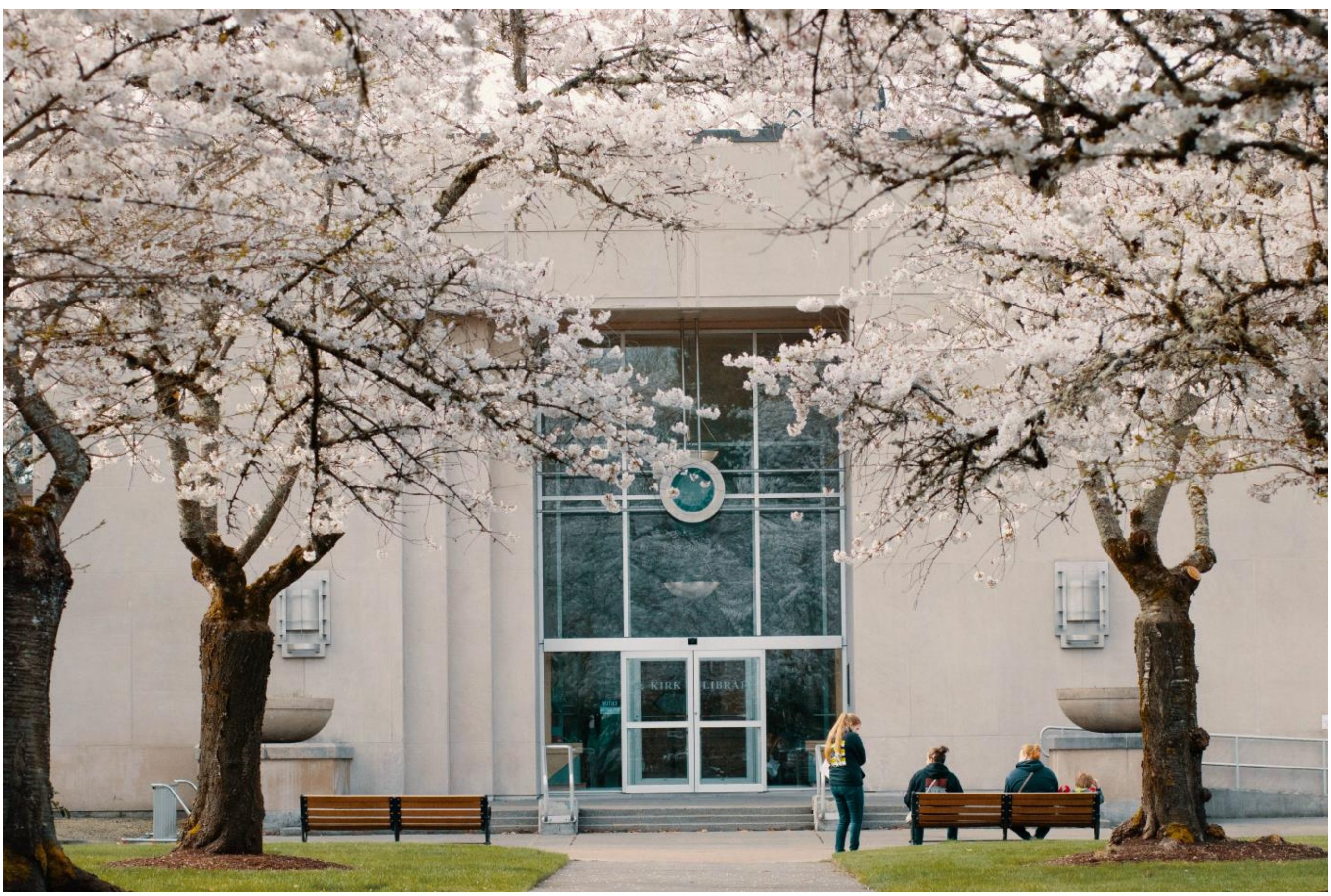
Condensed Net Position

As of June 30 (in thousands)	2019	2018
Net Investment in capital assets	$ 83,640	$ 81,091
Restricted expendable	2,223	4,525
Unrestricted (deficit)	(8,761)	(10,215)
Total Net Position	$ 77,102	$ 75,401

Several factors are involved in the $1.7 million increase in overall net position. The net increase of $2.57 million for investment in capital assets, largely resulting from the completion of the esplanade expansion and property purchases. The $2.3 million decrease in restricted expendable resulted from the multi-purpose field project funds being utilized for property purchases. The $1.4 million increase in unrestricted net position was the result of the decreases in non-current liabilities and pension liability.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position provides information about the details of the changes in the net position of the College. The statement classifies revenues and expenses as either operating or non-operating. Generally, operating revenues are revenues that are earned by the College in exchange for providing goods or services. Operating expenses are defined as expenses incurred in the normal operation of the College, including a provision for the depreciation of property and equipment assets. The difference between the operating revenues and operating expenses, will always result in an operating loss since the College’s state operating appropriations, and Federal Pell grant revenues are shown as non-operating revenues as required by the GASB.



MANAGEMENT'S DISCUSSION & ANALYSIS (CONT.)

A summary of the College's Statements of Revenue, Expenses and Changes in Net Position for the years ended June 30, 2019 and 2018, follows:

Centralia College

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

As of June 30 (in thousands)	2019	2018
Operating Revenues		
Student tuition and fees, net	$ 4,176	$ 4,167
Auxiliary enterprise sales	1,329	1,389
Grants and contracts	15,029	15,426
Other operating revenues	157	68
Total operating revenues	20,691	21,051
Non-Operating Revenues		
State appropriations	13,418	12,964
Federal Pell grant revenue	4,075	4,103
Other non-operating revenues	371	215
Total non-operating revenues	17,864	17,282
Total revenues	38,555	38,333
Operating Expenses		
Salaries and Benefits	24,458	24,107
Scholarships	4,805	4,684
Depreciation	2,605	2,280
Other operating expenses	6,139	8,162
Total operating expenses	38,007	39,233
Non-Operating Expenses		
Building fee remittance	651	649
Other non-operating expenses	346	404
Total non-operating expenses	997	1,053
Total expenses	39,004	40,286
Excess (deficiency) before capital contributions	(449)	(1,953)
Capital appropriations and contributions	2,150	1,024
Change in Net Position	1,701	(929)
Net Position		
Net position, beginning of year	75,401	90,669
Cumulative effect of change in accounting principle	0	(14,339)
Net Position, beginning of year, as restated	75,401	76,330
Net Position, end of year	$ 77,102	$ 75,401

Operating and Non-Operating Revenues

State operating appropriations, tuition and fees (net of scholarship discounts and allowances), and grants and contracts, are the primary sources for funding the College's academic programs.

The following table shows a comparison of operating and non-operating revenues for years ended June 30, 2019 and 2018:

Revenues by Source

For the years ended June 30 (in thousands)	2019	2018
Operating		
Student tuition and fees, net	$ 4,176	$ 4,167
Grants & contracts	15,029	15,426
Auxiliary enterprise sales	1,329	1,389
Other revenues	157	68
Non-operating		
State operating appropriations	13,418	12,964
Capital appropriations	2,150	1,024
Federal pell grant	4,075	4,103
Investment income	371	215
	$ 40,705	$ 39,356

Revenues

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In fiscal year 2019, the SBCTC allocated funds to each of the 34 colleges based on three-year average FTE actuals. Additionally, the supplemental budget also reduced the general fund by the amount set aside specifically for pension stabilization. This method of allocation will continue in FY2020.

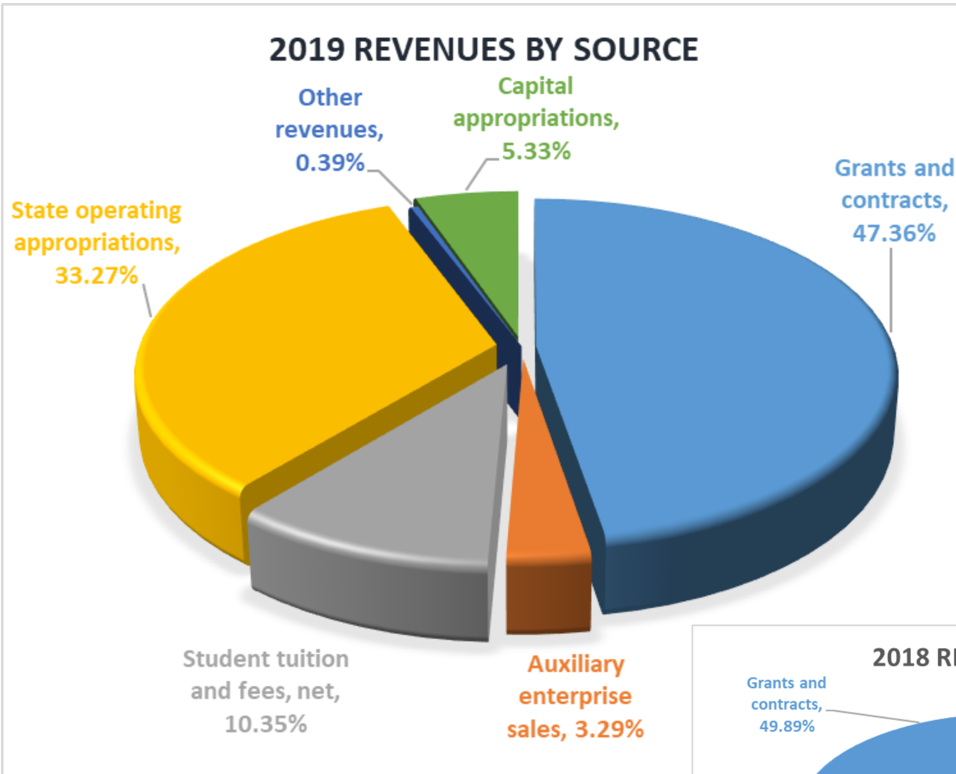
Overall enrollments decreased very slightly in fiscal year 2019, and as a result the College saw very little change in tuition and fee revenue. Pell grant revenues generally follow enrollment trends. The College's enrollment softened slightly during FY19, the Pell grant revenue showed a slight decrease as well.

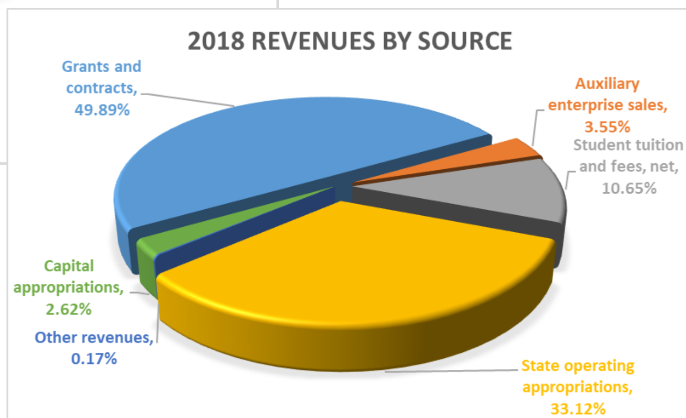
Non-Pell Federal grant revenues decreased by $2 million as the result of decreased activity and close-out on the U.S. Department of Labor WISE grant, a four-year grant in the amount of $10 million. State and local grants and contracts were up $1.6 million. The College only saw a slight increase in Running Start enrollments but revenues were up $612K over fiscal year 2018 as a result of the increased Running Start reimbursement rate. These contracted students earn both high school and college credit while attending the College. In addition, the college received an $800K Dept of Commerce grant for an ECEAP modular building and $574K was received in FY19.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriations was up $1.1 million in fiscal year 2019 because construction activity on various projects, primarily the razing of Kemp Hall and restoration of the related grounds and the completion of the esplanade.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT.)

The following illustration showing revenue by source, both operating and non-operating used to fund the College's programs for the year ended June 30, 2019 and 2018, in percentage terms.



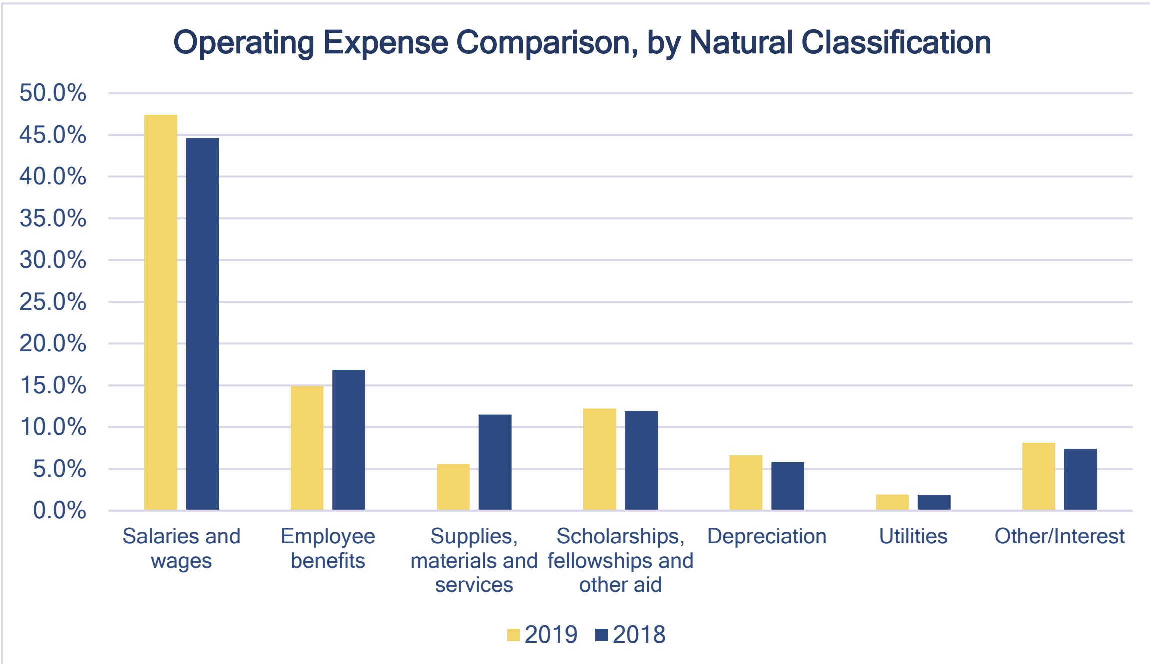


Operating Expenses

Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

For 2019, the College saw a decrease of $1.2 million in total operating expenses. Salary costs increased as a result of the 2% salary increase both in July 1, 2018 and January 1, 2019 by the legislature. Benefit costs decreased as a result of -852K pension expense. The supplies, materials and purchased services decreased significantly, $2.3 million, which was primarily the result of the close out of the U.S. Department of Labor WISE Grant in September 2019.

Salaries and wages, scholarships, fellowships and other aid, and employee benefits are the major support cost for the College's programs, followed by other, supplies materials and services and depreciation.



Capital Improvements

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

At June 30, 2019, the College had invested $86 million in capital assets, net of accumulated depreciation. This represents an increase of $2.4 million from last year, shown in the table below.

Capital Assets

For the years ended June 30 (in thousands)	2019	2018
Land	$ 8,338	$ 7,367
Construction in Progress	1,240	631
Buildings, net	71,556	72,334
Other Improvements and Infrastructure, net	3,691	2,071
Equipment, net	1,636	1,603
Library Resources, net	22	34
Total Capital Assests, net	$ 86,483	$ 84,040

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT.)

The increase in net capital assets can be attributed to the acquisition of land for the student athletic multi-purpose field, the completion of the esplanade expansion infrastructure project, and the ECEAP modular building project. Additional information on capital assets can be found in Note 6 of the Notes to the Financial Statements.

At June 30, 2019, the College had $2.47 million in outstanding debt. This represents a decrease of $85K from last year, as shown in the table below. The College entered into a Certificate of Participation (COP) for the Trans Alta Building during FY 2017. The College has capital leases for $57K.

Certificates of Participation and Capital Leases

For the years ended June 30 (in thousands)	2019	2018
Certificates of Participation	$ 2,470	$ 2,555
Capital Leases	57	63
Total	$ 2,527	$ 2,618

Additional information of leases payable, notes payable, debt service schedules and long term debt can be found in Notes 11, 12, 13 and 14 of the Notes to the Financial Statements.

Financial Summary and Economic Factors That Will Affect the Future

Beginning fiscal year 2016, the Legislature enacted the Affordable Education Act, which reduced the lower division tuition rate by 5% at the College in fiscal year 2016 and reduced the upper division tuition rate by 16% in fiscal year 2017. The Legislature did backfill a portion of this loss, however this will further reduce the amount of tuition collected by the College in the future. For the 17-19 biennium, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Due to a continued decrease in enrollment, it is anticipated that the College will likely see a decrease in state operating appropriations in future years.

In response to this possibility, the college is looking at ways to increase enrollment. This includes implementing the nationally known "Guided Pathways" process to help students navigate through the educational course offerings and degrees in a more seamless process. It is also working closely with the Centralia College Foundation on facilities that would allow additional educational programs, particularly in the trades, and possible projects that would make the campus more appealing to potential students.

Enrollment growth/decline is the most critical future factor Centralia College faces, and the campus is focused on identifying strategies and initiatives that will increase overall enrollment.

2018-19 Student Leadership Team

FINANCIAL STATEMENTS

Statement of Net Position

As of June 30, 2019

Assets		
Current Assets		
Cash and cash equivalents (Note 3)	$	1,779,899
Investments (Note 3)		3,009,310
Accounts receivable, net (Note 4)		3,413,562
Inventories (Note 5)		254,208
Interest receivable (Note 4)		25,154
Other current assets		20,172
		8,502,305
Non-Current Assets		
Restricted cash and cash equivalents (Note 3)		1,626,444
Investments (Note 3)		7,575,258
Non-depreciable capital assets (Note 6)		9,577,953
Capital assets, net of depreciation (Note 6)		76,904,464
		95,684,119
Total Assets		104,186,424
Deferred Outflows (Note 16 and 17)		
Deferred outflows related to pensions		1,485,732
Deferred outflows related to OPEB		584,237
		2,069,969
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	$	1,556,181
OPEB liability, short term (Note 14)		201,500
Unearned revenues (Note 8)		455,704
Compensated absences (Note 10 and 14)		190,553
Certificate of participation (Note 12 and 13)		110,783
Total pension liability, short term (Note 15)		39,242
		2,553,963
Non-Current Liabilities		
OPEB liability (Note 14)		10,772,776
Net pension liability (Note 15)		2,966,830
Certificate of participation (Note 12 and 13)		2,731,587
Compensated absences (Note 10 and 14)		1,610,311
Total pension liability (Note 15)		1,870,997
		19,952,501
Total Liabilities		22,506,464
Deferred Inflows (Note 16 and 17)		
Deferred inflows related to pensions	$	1,588,796
Deferred inflows related to OPEB		5,059,083
		6,647,879
Net Position		
Investment in capital assets		83,640,047
Restricted expendable		2,222,941
Unrestricted (deficit)		(8,760,938)
Total Net Position	$	77,102,050

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2019

Operating Revenues		
Student tuition and fees, net	$	4,175,811
State and local grants and contracts		13,449,310
Federal grants and contracts		1,580,043
Auxiliary enterprise sales		1,328,846
Other operating revenues		157,448
Total operating revenues		20,691,458
Operating Expenses		
Salaries and wages		18,599,991
Scholarships, fellowships and other aid		4,804,667
Employee benefits		5,857,518
Supplies, materials and services		2,190,515
Other operating expenses		3,197,359
Depreciation		2,605,274
Utilities		751,446
Total operating expenses		38,006,770
Operating loss	$	(17,315,312)
Non Operating Revenues (Expenses)		
State operating appropriations	$	13,417,953
Federal Pell grant revenue		4,074,978
Investment income		371,125
Interest on indebtedness		(176,039)
Building fee remittance		(650,820)
Innovation fund remittance		(170,456)
Net non operating revenues		16,866,741
Loss before capital appropriations		(448,571)
Capital appropriations		2,149,626
Change in net position		1,701,055
Net Position		
Net position, beginning of year		75,400,995
Net position, end of year	$	77,102,050

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of Cash Flows

For the Year Ended June 30, 2019

Cash Flows From Operating Activities	
Tuition and fees	$ 4,179,941
Grants and contracts	15,212,473
Payments for employees	(18,701,985)
Payments for benefits	(5,331,012)
Payments to vendors	(2,352,255)
Payments for scholarships and fellowship	(4,804,667)
Payments for utilities	(787,029)
Auxiliary enterprise sales, net	1,317,400
Other receipts (payments)	(3,822,060)
Net cash used by operating activities	(15,089,194)
Cash Flows From Noncapital Financing Activities	
State appropriations	13,063,255
Federal Pell grant receipts	4,074,978
Building fee remittance	(656,662)
Innovation fee remittance	(172,013)
Net cash provided by noncapital financing activities	16,309,558
Cash Flows From Capital Related Financing Activities	
Capital appropriations	1,969,476
Purchases of capital assets	(5,052,439)
Certificate of participation proceeds	-
Principal paid on capital debt	(85,000)
Interest paid on capital debt	(155,256)
Net cash provided/used by capital related financing activities	(3,323,219)
Cash Flows From Investing Activities	
Purchase of investments	(2,925,567)
Sales and maturities of investments	4,500,000
Investment income	252,998
Net cash used by investing activities	1,827,431
Increase (Decrease) in Cash and Cash Equivalents	(275,422)
Cash and Cash Equivalents, Beginning of Year	3,681,765
Cash and Cash Equivalents, End of Year	$ 3,406,343

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	$	(17,315,312)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense		2,605,274
Changes in assets, liabilities and deferrals		
Accounts payable and accrued liabilities		26,714
Accounts receivable		524,712
Inventories		(39,693)
Compensated absences		(177,720)
Pension/OPEB liability		(517,256)
Other assets		(58,063)
Unearned revenues		(137,849)
Net cash used by operating activities	$	(15,089,193)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS OF COMPONENT UNIT

CENTRALIA COLLEGE FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2019

	2019
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 2,094,891
Short-term investments	130,073
Pledges receivable, net	19,251
Current portion of note receivable	3,155
TOTAL CURRENT ASSETS	2,247,370
Long-term pledges receivable, net	1,170
Long-term note receivable	86,619
Life insurance policies	91,014
Long-term investments	16,370,622
Land and building held for the benefit of the College, net	221,671
Land, building and equipment, net	649,741
TOTAL ASSETS	$ 19,668,207
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Annuity and life income obligations	$ 19,323
Payable to the College	374,968
TOTAL LIABILITIES	394,291
Net Assets:	
Without donor restrictions	
Undesignated	$ 2,347,546
Designated by the Board for endowment	1,418,386
Invested in land and building	221,671
TOTAL WITHOUT DONOR RESTRICTIONS	3,987,603
With donor restrictions	
Purpose or time restrictions	8,606,103
Perpetual in nature	6,680,210
TOTAL WITH DONOR RESTRICTIONS	15,286,313
TOTAL NET ASSETS	19,273,916
TOTAL LIABILITIES AND NET ASSETS	$ 19,668,207

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS OF COMPONENT UNIT

CENTRALIA COLLEGE FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 292,119	$ 669,871	$ 961,990
Grants	---	1,498,602	1,498,602
Special fundraising event	1,720	3,803	5,523
Net investment return	475,687	523,026	998,713
Rental revenue	30,178	---	30,178
Other income	335,789	300	336,089
Net assets released from restrictions	806,977	(806,977)	---
TOTAL SUPPORT AND REVENUE	1,942,470	1,888,625	3,831,095
EXPENSES			
Program services	601,299	---	601,299
Management and general	451,139	---	451,139
Fundraising	13,665	---	13,665
TOTAL EXPENSES	1,066,103	---	1,066,103
CHANGE IN NET ASSETS	876,367	1,888,625	2,764,992
NET ASSETS, Beginning,	3,111,236	13,397,688	16,508,924
NET ASSETS, Ending	$ 3,987,603	$ 15,286,313	$ 19,273,916

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CENTRALIA COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2019

	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from support and revenue	$ 1,869,908
Cash paid for management, program and fundraising	(1,084,363)
Dividend and interest	362,325
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,147,870
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of land, building and equipment	(172,241)
Proceeds from sale of buildings to the College	357,000
Receipts on notes receivable	3,047
Proceeds from sale of investments	3,772,094
Purchases of investments	(4,395,641)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(435,741)
CASH FLOWS FROM FINANCING IN ACTIVITIES	
Contributions to be held in perpetuity	380,143
NET CASH PROVIDED BY FINANCING ACTIVITIES	380,143
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,092,272
CASH AND CASH EQUIVALENTS, Beginning	1,002,619
CASH AND CASH EQUIVALENTS, Ending	$ 2,094,891

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CENTRALIA COLLEGE FOUNDATION

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended June 30, 2019

	2019
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Change in net assets	$ 2,764,992
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Net unrealized and realized gains from investments	(636,388)
Contributions permanently restricted	(380,143)
Depreciation	40,590
Donated investments	---
Donated land, building and equipment	---
Gain on sale of buildings	(306,980)
(Increase) decrease in:	
Pledges receivable	2,317
Life insurance policies	(3,125)
Increase (decrease) in:	
Annuity and life income obligations	(1,099)
Payables to the College	(332,294)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 1,147,870

DISCLOSURE OF ACCOUNTING POLICY AND NONCASH TRANSACTIONS

For purposes of these financial statements, cash and cash equivalents is considered to include only cash on hand, and cash and money market accounts used for operating activities. In 2019, noncash transactions include donated materials and services of $389,983.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

Centralia College ("College") is a comprehensive community college offering open-door academic transfers, workforce education, and basic skill programs, as well as, community service and continuing education courses. The College confers applied baccalaureate degrees, associate degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

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

The Centralia College Foundation ("Foundation") is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to receive gifts, bequests, and donations to be held in trust and administered to advance the goals of Centralia College. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2019, the Foundation distributed approximately *$776,118* to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at (360)623-8942.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows. For the financial statements, intra-agency receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

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

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

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash and cash equivalents at fair value. Investments in the state's Local Government Investment Pool (LGIP), a qualified external investment pool, are reported at amortized cost which approximates fair value. All other investments, comprised of U.S. Government sponsored enterprise bonds, are reported at fair value.

Inventories

Inventories consist of merchandise held by auxiliary departments. Inventories are valued at cost, using the First-in First-out (FIFO) valuation method.

Accounts Receivable

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

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading.

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

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

Unearned Revenue

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer quarter tuition and fees as unearned revenues.

NOTES TO FINANCIAL STATEMENTS

Tax Exemption

The College is a tax-exempt organization under Section 115(1) of the Internal Revenue Code and is exempt from federal income taxes on related income. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Pension and OPEB Liability

For purposes of measuring the net pension liability in accordance with GASB 68, *Accounting and Financial Reporting for Pensions,* deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In fiscal year 2017, the College also reported its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 *Accounting and Financial Reporting for Pensions and Related Assets* that are not within the Scope of GASB 68, *Accounting and Financial Reporting for Pensions*. The reporting requirements are similar to GASB 68 but use current fiscal year-end as the measurement date for reporting the pension liabilities.

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

Deferred outflows and inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the college's proportionate share of pension liabilities. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. Employer transactions to pension plans made subsequent to the measurement date are also deferred and reduce pension liabilities in the subsequent year.

The portion of differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, and changes in the college's proportionate share of OPEB liability that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Differences between projected and actual earning on OPEB plan investments that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective OPEB liability should be recorded as deferred outflows of resources related to OPEB.

Net Position

The College's net position is classified, as follows:

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

Restricted net position, expendable – Includes resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by third parties.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's practice is to first apply the expense towards restricted resources and then towards unrestricted resources.

Classification of Revenues and Expenses

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, scholarships and fellowships, utilities, supplies, materials, purchased services and depreciation. All other revenues and expenses of the College are reported as non-operating revenues and expenses including state appropriations, Federal Pell grant revenues, investment income and tuition remittance. Non-operating expenses include state remittance related to the building fee and the innovation fee, and interest incurred on the Certificate of Participation loan.

Scholarship Discounts and Allowances

Student tuition and fee revenue, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charges for goods and services charged by the College, and the amount that is paid by the students and/or third parties on the students' behalf. Certain government grants, such as Pell grant, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2019 were $4,519,194.

State Appropriations

The state of Washington appropriates funds to the State Board of Community and Technical Colleges (SBCTC) which allocates funding to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statement of Revenues, Expenses and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College's remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position. For FY19, the building fee remittance was $650,820 and the innovation fund remittance was $170,456.

Use of Estimates

Allowances for uncollectible accounts are estimated based on aging and historical data on collection of various receivables. Actual results could differ from these estimates, though the College believes these allowances are adequate.

Note 2. Accounting and Reporting Changes

Accounting Standard Impacting the Future

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

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

Note 3. Deposits and Investments

Deposits

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

As of June 30, 2019, the carrying amount of the College's cash and equivalents was $3,406,343 as represented in the table below.

Cash and Cash Equivalents	**June 30, 2019**
Petty cash and change funds	$ 4,000
Bank demand and time deposits	1,779,851
Local government investment pool	1,622,492
Total Cash and Cash Equivalents	$ 3,406,343

Cash and cash equivalents include restricted cash and cash equivalents of $1,626,444 at June 30, 2019. The majority of the restricted balances comes from the collection of student self-assessed fees for their contribution towards the construction of the athletic multi-purpose field project.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the depository financial institution, the College would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The College's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All of the College's securities are registered in the College's name by the custodial bank. As a result, custodial credit risk for such investments is not applicable.

Investments

Interest Rate Risk

Interest rate risk is the risk that the College may face should interest rate variances affect the fair value of investments. The College investment policy stipulates that the College manage its exposure to interest rate risk by limiting the duration of investment and structuring the maturity of investments to mature at various points in the year, with a maximum duration for fixed-income securities of 42 months from the time of purchase until maturity.

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The College must then replace the called bond with a bond that may have a lower yield than the original yield. The call feature causes the fair value to be highly sensitive to changes in interest rates. Bond maturities, not factoring in any call provision they may contain, mature over the next three and one-half years as follows:

	Fair Market Value	Investment Maturities (in months)		
Investments - Operating Funds	**6/30/2019**	**0-12**	**13-24**	**25-42**
U.S. Government Agency Securities	$ 10,584,568	3,009,310	4,542,826	3,032,432

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an investment of a single issuer. Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Management believes that obligations of the U.S. government sponsored enterprise (GSE) bonds, such as Fannie Mae (FNMA), Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal Farm Credit Bank or those explicitly guaranteed by the U.S. government, are considered to have minimal concentrations of credit risk.

Investments in Local Government Investment Pool (LGIP)

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated investment pool. The pool portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification and liquidity for external investment pools that wish to measure all of its investments at amortized costs. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, or online at: http://www.tre.wa.gov/lgip/cafr/LgipCafr.shtml. In addition, more information is available regarding the LGIP in the Washington State Consolidated Annual Financial report, which can be found online at http://www.ofm.wa.gov/cafr/.

The College can contribute or withdraw funds in any amount from the LGIP on a daily basis. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The College adjusts its LGIP investment amounts monthly to reflect interest earnings as reported from the Office of the State Treasurer.

Investment in Government Securities

The College has $10.6 million in US Government sponsored enterprise bonds, with staggered maturities, in $500,000 amounts. The original maturities ranged from six months to 42 months. The College has assessed the effects of Statement No. 72 on its investments, and reports investments at fair value. Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

The College measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1 – Prices based on quoted prices in active markets for identical assets or liabilities;

Level 2 – Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;

Level 3 – Unobservable inputs for an asset or liability.

At June 30, 2019, the College had the following investments:

Investments by fair value level	Total	Level 1	Level 2	Level 3
Fixed income securities				
U.S. Government Agency Securities	$ 10,584,568	10,584,568		

Note 4. Accounts Receivable

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

Grants and contracts	722,308
Due from other agencies	1,304,477
State Appropriations	1,022,167
Tuition and fees	390,093
Auxiliary support	15,952
Other	5,703
Less Allowance	(47,138)
Net accounts receivable	3,413,562

As of June 30, 2019, interest receivable from bond investments was $42,001.

Note 5. Inventories

Merchandise inventories for the College Bookstore at year-end, stated at cost using the first-in, first-out (FIFO) inventory valuation method were $254,208 at June 30, 2019.

Note 6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2019 is presented as follows. The current year depreciation expense was $2,605,274.

	June 30, 2018	Additions	Retirements	June 30, 2019
Capital assets				
Land	$ 7,366,903	971,448		8,338,351
Construction in progress	630,538	1,181,216	572,152	1,239,602
Total capital assets, non-depreciable	7,997,441	2,152,664	572,152	9,577,953
Buildings	96,955,248	1,344,201	1,005,575	97,293,874
Infrastructure	2,908,249	1,712,296		4,620,545
Furniture, fixtures and equipment	4,116,148	411,151		4,527,299
Library resources	2,284,819	-		2,284,819
Total capital assets, depreciable	106,264,464	3,467,648	1,005,575	108,726,537
Less accumulated depreciation				
Buildings	24,620,561	2,122,917	1,005,575	25,737,903
Infrastructure	837,250	92,260		929,510
Furniture, fixtures and equipment	2,513,421	378,100		2,891,521
Library resources	2,251,141	11,997		2,263,138
Total accumulated depreciation	30,222,373	2,605,274	1,005,575	31,822,072
Capital assets, net	$ 84,039,532	$ 3,015,038	$ 572,152	$ 86,482,418

Note 7. Accounts Payable and Accrued Liabilities

At June 30, 2019, net accrued liabilities were as follows:

Accounts Payable and Accrued Liabilities	Amount
Salaries and wages	$ 494,668
Benefits	164,889
Utilities	424,500
All Other	472,123
Total Accounts Payable & Accrued Liabilities	1,556,181

Note 8. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, at June 30, 2019, as follows:

Unearned Revenue	Amount
Tuition and fees	$ 395,541
Auxiliary enterprises	60,097
Grants and contracts	65
Total unearned revenue	455,703

NOTES TO FINANCIAL STATEMENTS

Note 9. Risk Management

The College is exposed to various risk of loss related to tort liability, injuries to employees, errors and omissions, theft of, damage to, and destruction of assets, and natural disasters. The College purchases insurance to mitigate these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2018 through June 30, 2019, were $52,200.

Note 10. Compensated Absences

At termination of employment, employees may receive a cash payment for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which may be used for future medical expenses and insurance purposes. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $770,728 and accrued sick leave totaled $1,030,138 at June 30, 2019

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

Note 11. Leases Payable

The College leases facilities under a non-cancelable operating lease. At June 30, 2019, the College lease expense totaled $57,346.

Note 12. Notes Payable

In 2017, the College obtained financing in order to cover the student's share of the TransAlta Commons through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $2,595,000 at a premium of $415,668. The premium is to be amortized over the twenty year term of the loan, at an annual amount of $20,783. The interest rate charged is approximately 3.4%.

The students assessed themselves a mandatory fee to service this debt. Student fees related to the COP are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget.

The College's debt service requirements for this note agreement for the next five years and thereafter are as follows in Note 13.

Note 13. Annual Debt Service Requirements

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

Certificates of Participation						
Fiscal year		**Principal**		**Interest**		**Total**
2020		90,000		123,500		213,500
2021		90,000		119,000		209,000
2022		95,000		114,500		209,500
2023		100,000		109,750		209,750
2024		105,000		104,750		209,750
2025-2029		620,000		438,500		1,058,500
2030-2034		795,000		266,750		1,061,750
2034-2037		575,000		58,250		633,250
Total	**$**	**2,470,000**	**$**	**1,335,000**	**$**	**3,805,000**

Note 14. Schedule of Long-term Liabilities

Long Term Debt Liabilities	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Certificates of Participation	2,555,000	-	85,000	2,470,000	90,000
Certificate of Participation - Amortized Premium	393,153	-	20,783	372,370	20,783
Compensated Absences	1,677,715	1,074,758	951,607	1,800,866	190,553
OPEB Liabilities	12,890,764	2,812,930	4,729,418	10,974,276	201,500
Net pension obligation	5,623,522	3,029,202	3,775,655	4,877,069	39,242
	23,140,154	6,916,890	9,562,463	20,494,581	542,078

Note 15. Pension Liability

Pension liabilities reported as of June 30, 2019 consists of the following:

Pension Liability by Plan		
PERS 1	$	1,654,714
PERS 2/3		778,390
TRS 1		474,275
TRS 2/3		59,451
SBRP		1,910,239
Total	**$**	**4,877,069**

Additional information on net pension liabilities can be found in Note 16 to these financial statements.

Note 16. Retirement Plans

A. General

The College offers three contributory pension plans: the Washington State Public Employees' Retirement System (PERS), the Washington State Teachers' Retirement System (TRS), and the State Board Retirement Plan (SBRP). PERS and TRS are cost sharing multiple-employer defined-benefit pension plans administered by the Washington

State Department of Retirement Systems (DRS). The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. The SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

Basis of Accounting

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

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

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

Aggregate Pension Amounts - All Plans

Pension liabilities	$4,877,069
Deferred outflows of resources related to pensions	1,485,732
Deferred inflows of resources related to pensions	1,588,796
Pension expense	(836,534)

Department of Retirement Systems

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

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

- Public Employees' Retirement System (PERS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution
- Teachers' Retirement System (TRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan. Administration of the PERS and TRS plans is funded by an employer rate of 0.18 percent of employee salaries. Pursuant to RCW 41.50.770, the College offers its employees that elect to participate a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

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

Higher Education

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

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

PERS and TRS

Plan Description (PERS). The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

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

Benefits Provided. PERS plans provide retirement, disability, and death benefits to eligible members.

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

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

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

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

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

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

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

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

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

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

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3. Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided. TRS plans provide retirement, disability, and death benefits to eligible members.

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

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

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

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

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

The college also has three faculty members with pre-existing eligibility who continue to participate in TRS 1 or 2.

Contributions

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

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

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

	PERS 1	PERS 2/3*	TRS 1	TRS 2/3*
Contribution Rate	12.83%	12.83%	15.41%	15.41%
Actual Contributions	313,747	454,632	92,488	86,209

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

Actuarial Assumptions

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
Total	**100%**	

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

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

Discount Rate

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

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

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

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

Pension Plan	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1	2,033,536	1,654,710	1,326,571

PERS 2/3	3,560,381	778,392	(1,502,530)
TRS 1	592,793	474,275	371,672
TRS 2/3	370,542	59,451	(193,263)

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

Pension Liabilities. At June 30, 2019, the College reported a total pension liability of $2,966,830 for its proportionate share of the net pension liabilities as follows:

Pension Plan	Liability
PERS 1	$1,654,714
PERS 2/3	$778,390
TRS 1	$474,275
TRS 2/3	$59,451

The College's proportionate share of pension liabilities for fiscal years ending June 30, 2017 and June 30, 2018 for each retirement plan are listed below:

Pension Plan	2017	2018	Change
PERS 1	0.041015%	0.037051%	-0.003964%
PERS 2/3	0.047747%	0.045589%	-0.002158%
TRS 1	0.013945%	0.016239%	0.002294%
TRS 2/3	0.011616%	0.013208%	0.001592%

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

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

Pension Plan	Pension Expense
PERS 1	(48,339)
PERS 2/3	(19,826)
TRS 1	123,393
TRS 2/3	40,082
Total	**95,310**

Deferred Outflows and Inflows of Resources Related to Pensions

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

PERS 1

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	65,757
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	313,747	-
Totals	**$ 313,747**	**$ 65,757**

PERS 2/3

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	95,410	136,282
Difference between expected and actual earnings of pension plan investments	-	477,657
Changes of assumptions	9,106	221,524
Changes in College's proportionate share of pension liabilities	52,832	78,794
Contributions subsequent to the measurement date	454,632	-
Totals	**$ 611,981**	**$ 914,257**

TRS 1

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	20,282
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	92,488	-
Totals	**$ 92,488**	**$ 20,282**

	TRS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	27,938	4,390
Difference between expected and actual earnings of pension plan investments	-	50,280
Changes of assumptions	1,011	23,891
Changes in College's proportionate share of pension liabilities	32,917	1,251
Contributions subsequent to the measurement date	86,209	-
Totals	**$ 148,074**	**$ 79,812**

The $1,166,295 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2020.

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

Year ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2020	2,877	(71,815)	2,029	6,357
2021	(14,375)	(160,739)	(4,199)	(8,628)
2022	(43,135)	(296,212)	(14,423)	(23,410)
2023	(11,124)	(112,108)	(3,690)	(3,885)
2024	-	(43,915)	-	3,191
Thereafter	-	(72,119)	-	8,428
Total Net Deferred (Inflows)/Outflows	**$ (65,757)**	**$ (756,908)**	**$ (20,282)**	**$ (17,947)**

C. College Participation in Plan Administered by the State Board for Community and Technical Colleges State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plans

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2019 were each $867,739.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2019, supplemental benefits were paid by the SBCTC on behalf of the System in the amount of $1,818,361. The College's share of this amount was $31,467. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During fiscal year 2019, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $49,076. This amount was not used as a part of GASB 73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2019, the Community and Technical College system accounted for $19,733,342 of the fund balance.

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

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

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

Most actuarial assumptions used in the June 30, 2018, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans. Material assumption changes during the measurement period include the discount rate decrease from 3.87 percent to 3.50 percent.

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

Pension Expense. For the year ended June 30, 2019, the College reported $46,704 for pension expense in the State Board Retirement Plans. The components that make up pension expense for the College are as follows:

Proportionate Share (%)		**1.73052%**
Service Cost	$	49,345
Interest		59,687
Amortization of Differences Between Expected and Actual Experience		(64,985)
Amortization of Changes of Assumptions		7,366
Changes of Benefit Terms		-
Administrative Expenses		-
Other Changes in Fiduciary Net Position		-
Proportionate Share of Collective Pension Expense		**51,413**
Amortization of the Change in Proportionate Share of TPL		(4,709)
Total Pension Expense	**$**	**46,704**

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2019 was 1.73%. The College's proportion of the total pension liability was based on a projection

of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

Proportionate Share (%) 2018	**1.71%**
Proportionate Share (%) 2019	**1.73%**
Total Pension Liability - Ending 2018	$ 1,489,545
Total Pension Liability - Beginning 2019	1,508,549
Total Pension Liability - Change in Proportion	19,004
Total Deferred Inflow/Outflows - 2018	602,427.25
Total Deferred Inflow/Outflows - 2019	610,113.26
Total Deferred Inflows/Outflows - Change in Proportion	7,686
Total Change in Proportion	**$ 26,690**

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

Number of Participating Members

District	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
Centralia College	8	10	83	101

Change in Total Pension Liability/ (Asset). The following table presents the change in total pension liability of the State Board Supplemental Retirement Plan at June 30, 2019, the latest measurement date for the plan:

Schedule of Changes in Total Pension Liability

	Amount
Service Cost	$ 49,345
Interest	59,687
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	112,532
Changes in Assumptions	211,592
Benefit Payments	(31,467)
Change in Proportionate Share of TPL	19,004
Other	-
Net Change in Total Pension Liability	420,693
Total Pension Liability - Beginning	1,489,545
Total Pension Liability - Ending	**$ 1,910,238**

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

1% Decrease (2.50%)	**Current Discount Rate (3.50%)**	**1% Increase (4.50%)**
$ 2,182,726	$ 1,910,238	$ 1,683,972

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 97,325	$ 400,385
Changes of Assumptions	182,999	108,304
Changes in College's proportionate share of pension liability	29,695	-
Transactions Subsequent to the Measurement Date	-	-
Total	$ 310,019	$ 508,689

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

State Board Supplemental Retirement Plan	
2020	(52,910.59)
2021	(52,910.59)
2022	(52,910.59)
2023	(52,910.59)
2024	(24,387.38)
Thereafter	37,360.43

Note 17. Other Post-Employment Benefits

Plan Description. In addition to pension benefits as described in Note 16, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

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

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

Employees Covered by Benefit Terms. Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units. Additionally, there are 76 of the state's

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

Summary of Plan Participants
As of June 30, 2018

Active Employees*	252
Retirees Receiving Benefits**	111
Retirees Not Receiving Benefits***	13
Total Active Employees and Retirees	376

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

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

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

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

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

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

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

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

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

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

Total OPEB Liability

As of June 30, 2019, the state reported a total OPEB liability of $5.08 billion. The College's proportionate share of the total OPEB liability is $10,974,277. This liability was determined based on a measurement date of June 30, 2018.

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

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

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

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

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

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

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

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

Changes in Total OPEB Liability

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

Centralia College

Proportionate Share (%)		**0.2160872089%**
Service Cost	$	686,129
Interest Cost		471,710
Differences Between Expected and Actual Experienc		430,579
Changes in Assumptions*		(3,003,771)
Changes of Benefit Terms		-
Benefit Payments		(199,227)
Changes in Proportionate Share		(301,906)
Other		-
Net Change in Total OPEB Liability		(1,916,486)
Total OPEB Liability - Beginning		12,890,763
Total OPEB Liability - Ending	**$**	**10,974,277**

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

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

Discount Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 13,232,398	$ 10,974,277	$ 9,212,454

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

Health Care Cost Trend Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 9,008,818	$ 10,974,277	$ 13,587,965

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

For the year ending June 30, 2019, the College will recognize OPEB expense of $536,009. OPEB expense consists of the following elements:

Centralia College	
Proportionate Share (%)	**0.2160872089%**
Service Cost	$ 686,129
Interest Cost	471,710
Amortization of Differences Between Expected and Actual Experience	47,842
Amortization of Changes in Assumptions	(550,424)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	(119,248)
Administrative Expenses	-
Total OPEB Expense	**$ 536,009**

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

Centralia College		
Proportionate Share (%)	**0.2160172089%**	
Deferred Inflows/Outflows of Resources	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience	$ 382,737	$ -
Changes in assumptions	-	4,186,714
Transactions subsequent to the measurement date	201,500	-
Changes in proportion	-	872,367
Total Deferred Inflows/Outflows	**$ 584,237**	**$ 5,059,081**

NOTES TO FINANCIAL STATEMENT

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

Proportionate Share (%)		**0.2160872089%**
2020	$	(621,829)
2021	$	(621,829)
2022	$	(621,829)
2023	$	(621,829)
2024	$	(621,829)
Thereafter	$	(1,567,199)

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

Proportionate Share (%) 2017		**0.2212694219%**
Proportionate Share (%) 2018		**0.2160872089%**
Total OPEB Liability - Ending 2017	$	12,890,763
Total OPEB Liability - Beginning 2018		12,588,857
Total OPEB Liability Change in Proportion		(301,906)
Total Deferred Inflows/Outflows - 2017		(1,570,932)
Total Deferred Inflows/Outflows - 2018		(1,534,139)
Total Deferred Inflows/Outflows Change in Proportion		36,793
Total Change in Proportion	**$**	**(338,699)**

Note 18. Operating Expenses by Program

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

Expenses by Functional Classification		
Instruction	$	10,213,615
Academic Support Services		2,675,801
Student Services		7,896,581
Institutional Support		2,243,005
Operations and Maintenance of Plant		5,576,054
Scholarships and Other Student Financial Aid		4,258,357
Auxiliary enterprises		2,538,083
Depreciation		2,605,274
Total operating expenses	**$**	**38,006,770**

Note 19. Vendor Payment Advance

In accordance with RCW 28B.50.143, the Washington State Treasurer advances the College an amount equal to 17% of the College's general fund (001) budgeted expenditures for the biennium. This advance is returned to the state Treasurer after the final reimbursement for the biennium is requested. In July 2017, the College repaid the 15/17 biennium advance in the amount of $164,700 and did not take an advance for the 17/19 biennium.

Note 20. Related-Party Transactions

Based on their inter-relationship, the College and the Foundation have a number of transactions with each other during the course of the year. Under a formal agreement between the College and Foundation, the College provides printing, postage, office space, staff services and supplies, which the value totaled a net of $203,726 for 2019, while the Foundation provides fundraising and financial services.

The Foundation distributed approximately $776,118 to the College for restricted and unrestricted purposes in 2019. Inter-entity transactions and balances between the College and Foundation are not eliminated for financial statement presentation purposes.

Note 21. Commitments and Contingencies

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

Cost Sharing Employer Plans

Schedule of Centralia College's Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 1

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.042578%	$ 2,144,887	$ 4,268,619	50.25%	61.19%
2015	0.041307%	$ 2,160,741	$ 4,337,289	49.82%	59.10%
2016	0.041476%	$ 2,227,448	$ 4,607,963	48.34%	57.03%
2017	0.041015%	$ 1,946,195	$ 4,894,118	39.77%	61.24%
2018	0.037051%	$ 1,654,710	$ 4,802,607	34.45%	63.22%
2019					
2020					
2021					
2022					
2023					

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Centralia College's Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 2/3

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.045865%	$ 927,097	$ 3,925,044	23.62%	93.29%
2015	0.045305%	$ 1,618,774	$ 4,021,138	40.26%	89.20%
2016	0.046496%	$ 2,341,053	$ 4,338,193	53.96%	85.82%
2017	0.047747%	$ 1,658,979	$ 4,681,195	35.44%	90.97%
2018	0.045589%	$ 778,390	$ 4,730,298	16.46%	95.77%
2019					
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Centralia College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.045865%	$ 927,097	$ 3,925,044	23.62%	93.29%
2015	0.045305%	$ 1,618,774	$ 4,021,138	40.26%	89.20%
2016	0.046496%	$ 2,341,053	$ 4,338,193	53.96%	85.82%
2017	0.047747%	$ 1,658,979	$ 4,681,195	35.44%	90.97%
2018	0.045589%	$ 778,390	$ 4,730,298	16.46%	95.77%
2019					
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Centralia College's Share of the Net Pension Liability

Teachers' Retirement System (TRS) Plan 1

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.013515%	$ 398,619	$ 523,662	76.12%	68.77%
2015	0.012868%	$ 407,677	$ 546,996	74.53%	65.70%
2016	0.012498%	$ 426,711	$ 570,355	74.81%	62.07%
2017	0.013945%	$ 421,594	$ 707,857	59.56%	65.58%
2018	0.016239%	$ 474,274	$ 795,053	59.65%	66.52%
2019					
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Centralia College's Share of the Net Pension Liability

Teachers' Retirement System (TRS) Plan 2/3

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.010603%	$ 34,247	$ 452,004	7.58%	96.81%
2015	0.010172%	$ 85,832	$ 475,173	18.06%	92.48%
2016	0.010351%	$ 142,150	$ 513,872	27.66%	88.72%
2017	0.011616%	$ 107,209	$ 637,270	16.82%	93.14%
2018	0.013208%	$ 59,451	$ 717,901	8.28%	96.88%
2019					
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Contributions

Public Employees' Retirement System (PERS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 188,463	$ 188,463	$ -	$ 4,268,619	4.42%
2015	$ 189,844	$ 189,844	$ -	$ 4,337,289	4.38%
2016	$ 235,208	$ 235,208	$ -	$ 4,607,973	5.10%
2017	$ 246,716	$ 246,716	$ -	$ 4,894,118	5.04%
2018	$ 246,986	$ 246,986	$ -	$ 4,802,607	5.14%
2019	$ 292,803	$ 292,803	$ -	$ 5,915,133	4.95%
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Contributions

Public Employees' Retirement System (PERS) Plan 2/3

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 193,752	$ 193,752	$ -	$ 3,925,044	4.94%
2015	$ 201,813	$ 201,813	$ -	$ 4,021,139	5.02%
2016	$ 268,419	$ 268,419	$ -	$ 4,338,193	6.19%
2017	$ 291,635	$ 291,635	$ -	$ 4,681,195	6.23%
2018	$ 354,295	$ 354,295	$ -	$ 4,730,298	7.49%
2019	$ 421,220	$ 421,220	$ -	$ 5,838,568	7.21%
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Contributions

Teachers' Retirement System (TRS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 26,725	$ 26,725	$ -	$ 523,662	5.10%
2015	$ 28,796	$ 28,796	$ -	$ 546,996	5.26%
2016	$ 30,313	$ 30,313	$ -	$ 570,355	5.31%
2017	$ 48,801	$ 48,801	$ -	$ 707,857	6.89%
2018	$ 62,308	$ 62,308	$ -	$ 795,053	7.84%
2019	$ 87,881	$ 87,881	$ -	$ 1,112,604	7.90%
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Plans

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 26,017	$ 26,017	$ -	$ 452,004	5.76%
2015	$ 27,033	$ 27,033	$ -	$ 475,173	5.69%
2016	$ 41,457	$ 41,457	$ -	$ 513,872	8.07%
2017	$ 42,800	$ 42,800	$ -	$ 637,270	6.72%
2018	$ 55,235	$ 55,235	$ -	$ 717,901	7.69%
2019	$ 81,334	$ 81,334	$ -	$ 1,038,432	7.83%
2020					
2021					
2022					
2023					

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Total Pension Liability and Related Ratios
State Board Supplemental Defined Benefit Plans
Fiscal Year Ended June 30, 2019
(expressed in thousands)

	2017	2018	2019
Total Pension Liability			
Service Cost	$ 92,089	$ 65,393	$ 49,345
Interest	59,742	60,096	59,687
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(430,730)	(177,742)	112,532
Changes of assumptions	(101,653)	(60,130)	211,592
Benefit Payments	(15,348)	(22,213)	(31,467)
Change in Proportionate Share		6,855	19,004
Other	(331)	-	-
Net Change in Total Pension Liability	**(396,231)**	**(127,741)**	**420,693**
Total Pension Liability - Beginning	**2,013,517**	**1,617,286**	**1,489,545**
Total Pension Liability - Ending	**$ 1,617,286**	**$ 1,489,545**	**$ 1,910,238**
College's Proportion of the Pension Liability	1.701511%	1.708723%	1.730000%
Covered-employee payroll	$ 9,196,442	$ 9,936,416	$ 9,353,350
Total Pension Liability as a percentage of covered-employee payroll	17.585997%	14.990767%	20.423036%

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

State Board Supplemental Defined Benefit Plans

Notes to Required Supplementary Information

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Information

Schedule of Changes in Total OPEB Liability and Related Ratios Measurement Date of June 30 2019				
Total OPEB Liability		**2019**		**2018**
Service cost	$	686,129	$	873,915
Interest cost		471,710		409,347
Difference between expected and actual experience		430,579		-
Changes in assumptions		(3,003,771)		(1,996,803)
Changes in benefit terms		-		-
Benefit payments		(199,227)		(208,610)
Changes in proportionate share		(301,906)		-
Other		-		-
Net Changes in Total OPEB Liability	$	(1,916,486)	$	(922,151)
Total OPEB Liability - Beginning	$	12,890,763	$	13,812,914
Total OPEB Liability - Ending	$	10,974,277	$	12,890,763
College's proportion of the Total OPEB Liability (%		0.21608721%		0.22126900%
Covered-employee payroll	$	14,940,507	$	14,737,524
Total OPEB Liability as a percentage of covered-employee payroll		73.453177%		87.468987%

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

Notes to Required Supplementary Information

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