2018 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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Welding Student Chosen to Make New Park Sign

Joseph Buxton, a second-year welding student at Centralia College, was chosen to create a new entrance sign for Rotary Riverside Park in Centralia. Buxton presented a half-size model of his sign at the Centralia Rotary Club meeting on April 17, 2018.

Buxton was among several students who submitted design ideas to the Rotary Club for consideration. The welding class was asked to submit designs for the sign and Buxton knew right away he wanted to participate.

"I've always been a fabricator of sorts. I like to make my own stuff and push the limits of what I do," he said, adding he was honored the Rotary Club chose his design.

Buxton, who lives in Rochester, graduated from the welding program in June, 2018. A mechanic by trade, he received an Opportunity Grant and other grant funding to go back to school to study welding.

"You can get a really great job and there's funding available, which really helps," he said. "If I can do it, anyone can."

Student Success Story – Jo Brooks

Centralia College wasn't in Jo Brooks' backyard, but, when she needed help after losing her job, Centralia College was there to reconnect her to a lifelong dream.

Olympia resident Jo Brooks was laid off from her job in February, 2017. She had been working as a manager for a wrestling company, organizing high school club competitions. When Jo wasn't able to find work, she sought the help of Centralia College.

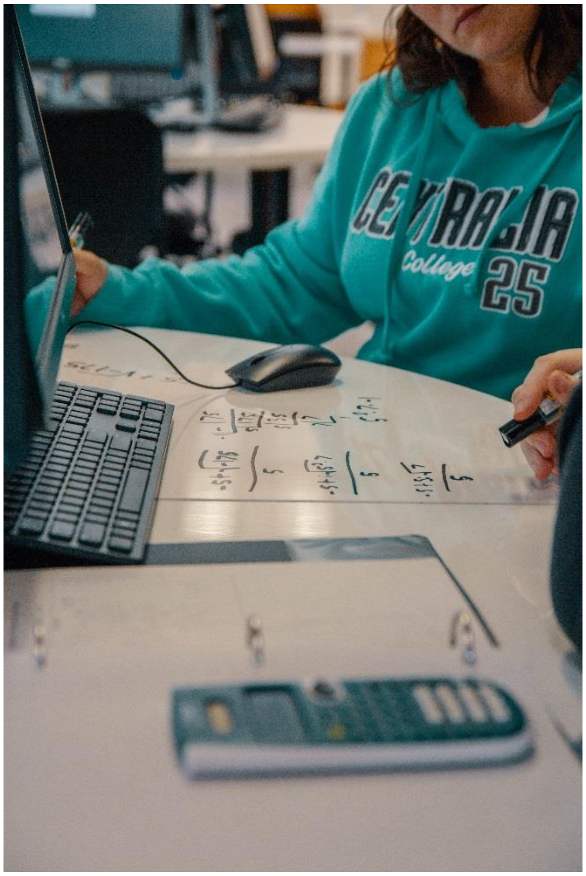
"I decided I wanted to go back to school and I ended up Centralia College because they were the most helpful," said Jo. Within three days of coming to CC for help, Jo was admitted, registered for classes, and connected with Worker Retraining funds to help pay for her education.

"I had no idea I was eligible for anything," said Jo. "Joanie (in Worker Retraining) worked really hard to get this training for me. She is a phenomenal individual. My experience has been wonderful. All of the instructors at CC want you to succeed, and they'll do everything they can to help you," she said. "It's actually a lot easier now that I'm older because I've learned to take advantage of the services the college has to offer. "

Since Jo had been out of the classroom for a number of years, she used the college's Writing Center, Math Center, and tutoring services to help her over any rough spots. Plus, she made great connections with the other students in the Medical Assistant program. "It's me and the same 16 women for the next nine months. It's an amazing group of women," she said. "I've made so many friends at CC. It's been easy and not at all stressful."

Jo completed a 9-month program to become a medical assistant, a career she had been interested in pursuing for years. She graduated with honors in June 2018 with an Associate in Applied Science – Medical Assistant.

New Math Emporium Provides Support for Students in Pre-college Math



During the 2017-18 school year, Centralia College unveiled its new Math Emporium, a one-stop classroom and interactive work space for students in pre-college math classes. The emporium, which is located in the recently remodeled Transitional Services Building (formerly the Student Center), has three levels of learners working together in one-hour blocks, watching online lectures and completing assignments in a friendly, supportive, and self-paced atmosphere.

"It's a great environment for students to get instant help," said Lisa Spitzer, one of two instructors who teach in the Math Emporium. "Students can slow down and go their own pace, or they can work ahead. It's possible for a student to complete two or more classes and only pay for one by working ahead."

"It's really important for students who need developmental math to see progress quickly," added Spitzer. "Progressing quickly helps them stay in school. A lot of students have already seen this material before, they just need a refresher."

In addition to circular desks of computers and whiteboard tables for those with laptops, the new space also has side rooms for more personalized instruction.

"I may notice several students struggling with the same thing," she said. "I can now pull them all together in a smaller room for mini-lectures or walk them through it with a couple of the tutors. That's been really helpful. This is a structured, but independent environment. If you need structure, I'm here. If you need independence, you can have it. The Math Emporium really allows for all kinds of learners to succeed."

LETTER FROM THE PRESIDENT

Bob Mohrbacher, Ed.D.

March 7, 2019

Stuart Halsan, J.D., Board Chair
Board of Trustees
Centralia College
Centralia, WA 98531

Dear Chair Halsan:

We are proud to continue the tradition of submitting our 2018 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 2018 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

BOARD OF TRUSTEES

ADMINISTRATORS

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

March 7, 2019

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, 2018, 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 controls 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 related 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 material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

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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.

Opinion

In our opinion, based on our audit and the report of the 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2018, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 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, 2018, 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 an opinion 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 Administrative Officers is presented for the purposes of additional analysis and is not a required part of the basic financial statements. 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 7, 2019, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

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, 2018 with comparative information for the year ended June 30, 2017. 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 2018.

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 over 75,000, 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.

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.

During 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. The change in accounting principle resulted in an adjustment to beginning net position in the amount of $14.3 million.

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, 2018 and 2017, follows:

Condensed Statement of Net Position

As of June 30 (in thousands)	2018	2017
ASSETS		
Current assets	$ 9,096	$ 13,339
Capital assets, net	84,039	84,512
Other non-current assets	9,910	7,962
Total assets	103,045	105,813
DEFERRED OUTFLOWS		
Deferred outflows related to Pensions	1,055	1,201
Deferred outflows related to OPEB	204	
Total deferred outflows	1,259	1,201
LIABILITIES		
Current liabilities	3,627	4,261
Other non-current liabilities	21,600	11,509
Total liabilities	25,227	15,770
DEFERRED INFLOWS		
Deferred inflows related to Pensions	1,248	575
Deferred inflows related to OPEB	2,428	
Total deferred inflows	3,676	575
NET POSITION	$ 75,401	$ 90,669

Current assets consist of cash, investments, accounts receivable and inventories. The $4.2 million decrease from 2017 to 2018 was the result of several items, 1) cash decreased $5.75 million which is the result of additional investment in U.S. Government sponsored enterprise bonds. This increased the total bond investments to $12 million, of which $4.5 million is classified as current investments and $7.5 million as non-current. This was the result of a strategic decision to improve investment income as continued historically low interest rates put a damper on short term investment income options. 2) $1.48 million decrease in Accounts Receivable, largely from the reduction of monies owed the College for capital appropriations for spending on the TransAlta Commons Project as the project was completed in May 2017.

Capital assets including land and construction in progress decreased by a net of $473K in 2018, the result of increased depreciation following the completion of the TransAlta Commons Project, a $40 million project that was completed in May 2017. The college recorded $2.28 million in depreciation expense in 2018 on its capital assets and only had $1.8 million in additions to capital assets. 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, increased by $1.95 million in 2018. This is a result of a $3 million increase in investments associated with the investment in bonds discussed above and in Note 3 and a $612K 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 and 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 $1.2 million in FY 2017 and $1.26 million in FY 2018 of pension and postemployment-related deferred outflows.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT.)

Similarly, the increase in deferred inflows in 2018 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 $575K in FY 2017 and $3.7 million in FY 2018 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 decrease in current liabilities for 2018 was the result of a decrease in salaries and benefits owed to employees since Spring quarter ended June 15 so faculty contracts were paid off June 25 and the winding down of the four year, $9.86 million, Department of Labor grant for which we were the fiscal lead.

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 large increase in non-current liabilities of $10.12 million is the result of the addition of OPEB liability with the implementation of GASB Statement 75, reflecting the College's proportionate share.

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:

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 positon 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.

Condensed Net Position

As of June 30 (in thousands)	2018	2017
Investment in capital assets	$81,091	$81,918
Restricted expendable	4,525	4,442
Unrestricted (deficit)	(10,215)	4,309
Total Net Position	75,401	90,669

Several factors are involved in the $15.3 million decrease in overall net positon. The net decrease of $827K for investment in capital assets, after depreciation expense of $2.28 million, is the result of increased depreciation following the completion of the TransAlta Commons Project, a $40 million project that was completed in May 2017. The $15.4 million decrease in unrestricted net position was the result of: 1) the inclusion of $12.9 million for the OPEB liability with the implementation of GASB Statement No. 75 is responsible for the majority of the decrease in unrestricted and 2) pension liability increasing by $2.5 million.

Statements 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, 2018 and 2017, follows:

Condensed Statement of Revenues, Expenses, and Changes in Net Position for Fiscal Years 2018 and 2017
(dollars in thousands)

	2018	2017
Operating Revenues		
Student tuition and fees, net	$ 4,167	$ 3,615
State and local grants and contracts	11,830	11,003
Federal grants and contracts	3,596	4,814
Auxiliary enterprise sales	1,389	1,393
Other operating revenues	68	64
Total operating revenues	**21,051**	**20,889**
Operating Expenses		
Salaries and wages	17,496	17,242
Scholarships, fellowships and other aid	4,684	4,315
Employee benefits	6,610	5,426
Other operating expenses	8,162	10,878
Depreciation	2,280	1,963
Total operating expenses	**39,232**	**39,824**
Net operating loss	(18,181)	(18,935)
Non-Operating Revenues (Expenses)		
State operating appropriations	12,964	12,876
Federal Pell grant revenue	4,103	3,962
Investment income	215	143
Other non-operating expenses	(1,053)	(788)
Net Non-operating revenues	**16,229**	**16,193**
Loss before capital contributions	(1,952)	(2,742)
Capital appropriations	1,024	19,141
Change in net position	**(928)**	**16,399**
Net position, beginning of year	90,668	76,283
Cumulative effect of accounting change (GASB 75)	(14,339)	-
Cumulative effect of accounting change (GASB 73)	-	(2,014)
Net position, beginning of year as restated	76,329	74,269
Net position, end of year	**75,401**	**90,668**

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, 2018 and 2017:

Revenues by Source

For the years ended June 30 (in thousands)	2018	2017
Operating		
Student tuition and fees, net	$ 4,167	$ 3,615
Grants & contracts	15,426	15,817
Auxiliary enterprise sales	1,389	1,393
Other revenues	68	64
Non-operating		
State operating appropriations	12,964	12,876
Capital appropriations	1,024	19,141
Federal pell grant	4,103	3,962
Total revenues	$ 39,141	$ 56,868

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 2018, 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 FY2019.

Although overall enrollments decreased again in fiscal year 2018, the College's $552K increase in tuition and fee revenue is primarily attributable to the increased bachelor's program enrollment, which increased by 66 annualized FTEs from fiscal year 2017, as well as the decrease in basic skills enrollments. In addition, scholarship discounts and allowances decreased by $208K primarily as a result in a change in how Foundation scholarships were awarded to students (Foundation controlled versus College controlled).

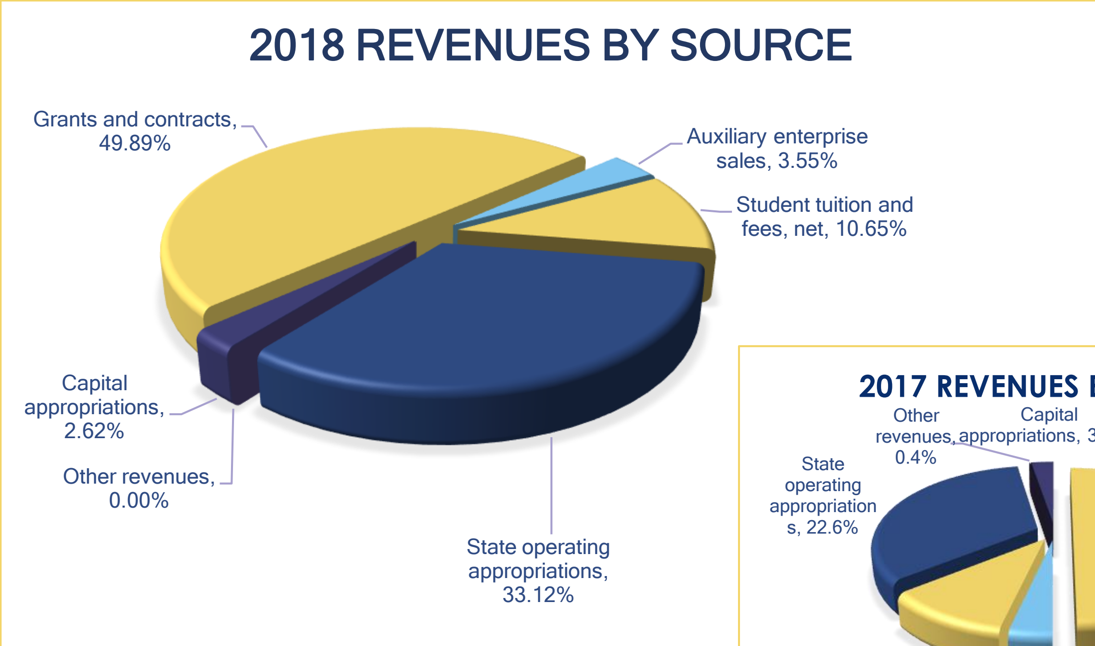
Pell grant revenues generally follow enrollment trends. Although the College's enrollment softened during FY18, the Pell grant revenue showed a slight increase, primarily as a result of the change of enrollment mix to higher enrollments in bachelor's programs.

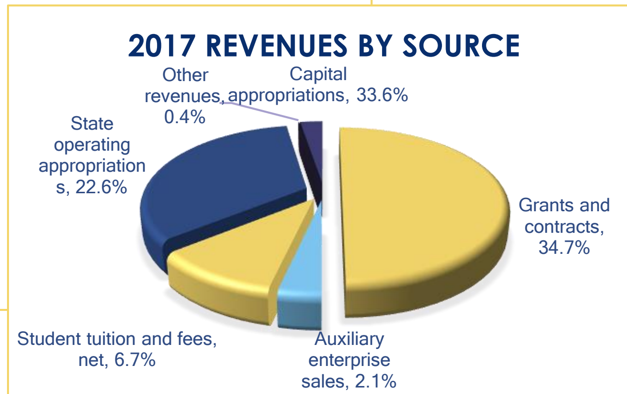
Non-Pell Federal grant revenues decreased by $1.2 million as the result of decreased activity and the beginning of the close-out period on the U.S. Department of Labor WISE grant, a four-year grant in the amount of $10 million. State and local grants and contracts were up $826K. The College continued to see increased Running Start enrollments and revenues were up $252K over fiscal year 2017. These contracted students earn both high school and college credit while attending the College. In addition, the college received a few new grants: $232K from TransAlta for campus energy upgrades, $202K from Pacific Mountain Workforce Development Council for Upskills/Backfill project at CC East, $84K grant from Professional Educator Standards board in support of the Bachelors in Teaching program, and $40K from the DART Foundation for equipment for the Mechatronics program.

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 down by $18 million in fiscal year 2018 because construction activity on the $40 million TransAlta Commons project was completed in May 2017.

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, 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 2018, the College saw a decrease of $1.1 million in total operating expenses. Salary and benefit costs increased as a result of the 2% salary increase by the legislature and a $459K pension expense adjustment. Utilities decreased in FY2018 as a result of targeted efforts in energy reduction with solar panel installation and lighting upgrades completed.

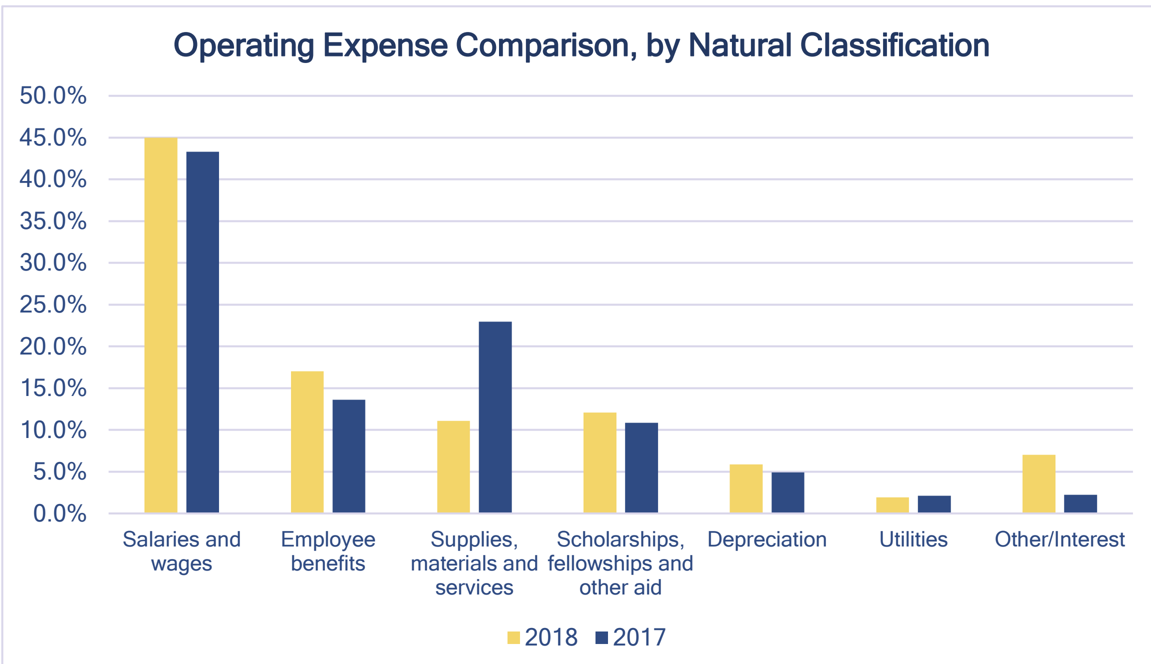
The supplies, materials and purchased services decreased significantly, $4.9 million, and depreciation increased with the completion of the new TransAlta Commons in May 2017. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased service costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity. In addition, expenses decreased as a result of beginning the close out period of the U.S. Department of Labor WISE Grant.

The College has non-operating expenses, comprised primarily of tuition remittances, which has been consistently around $800,000 for each of the last two years. Operating expenses, for 2018 and 2017 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages:

Operating Expenses

For the years ended June 30 (in thousands)	2018	2017
Salaries and wages	$ 17,496	$ 17,242
Supplies, materials and services	4,506	9,150
Employee benefits	6,610	5,426
Scholarships, fellowships and other aid	4,684	4,315
Depreciation	2,280	1,963
Other	3,656	1,728
Total operating expenses	$ 39,232	$ 39,824

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 College spent $24 million for capital related purposes in 2017, primarily for the construction of the TransAlta Commons Project. With a total cost of $40 million and construction completed in May 2017, the 70,000 square foot building replaced the student services building, provide facilities for Financial Aid, Enrollment Services, Student Programs, cashiering, bookstore, cafeteria, and classrooms. Additional information of notes payable, long term debt and debt service schedules can be found in Notes 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.

2017-18 Student Leadership Team

FINANCIAL STATEMENTS

Statement of Net Position

As of June 30, 2018

Assets		
Current Assets		
Cash and cash equivalents (Note 3)	$	1,306,364
Investments (Note 3)		4,475,366
Accounts receivable, net (Note 4)		2,914,004
Inventories (Note 5)		293,901
Interest receivable (Note 4)		28,286
Other current assets		78,236
		9,096,157
Non-Current Assets		
Restricted cash and cash equivalents (Note 3)		2,375,401
Investments (Note 3)		7,534,280
Non-depreciable capital assets (Note 6)		7,997,441
Capital assets, net of depreciation (Note 6)		76,042,091
		93,949,213
Total Assets		103,045,370
Deferred Outflows (Note 16 and 17)		
Deferred outflows related to pensions		1,054,797
Deferred outflows related to OPEB		204,004
		1,258,801
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	$	1,769,379
OPEB liability, short term (Note 14)		1,265,400
Unearned revenues (Note 8)		317,854
Compensated absences (Note 10 and 14)		141,671
Certificate of participation (Note 12 and 13)		105,783
Total pension liability, short term (Note 15)		27,286
		3,627,373
Non-Current Liabilities		
OPEB liability (Note 14)		11,625,364
Net pension liability (Note 15)		4,133,977
Certificate of participation (Note 12 and 13)		2,842,370
Compensated absences (Note 10 and 14)		1,536,044
Total pension liability (Note 15)		1,462,259
		21,600,014
Total Liabilities		25,227,387
Deferred Inflows (Note 16 and 17)		
Deferred inflows related to pensions	$	1,247,937
Deferred inflows related to OPEB		2,427,852
		3,675,789
Net Position		
Investment in capital assets		81,091,379
Restricted expendable		4,525,213
Unrestricted (deficit)		(10,215,597)
Total Net Position	$	75,400,995

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2018

Operating Revenues		
Student tuition and fees, net	$	4,167,307
State and local grants and contracts		11,829,881
Federal grants and contracts		3,596,397
Auxiliary enterprise sales		1,389,242
Other operating revenues		68,399
Total operating revenues		21,051,226
Operating Expenses		
Salaries and wages		17,496,395
Scholarships, fellowships and other aid		4,684,456
Employee benefits		6,610,543
Supplies, materials and services		4,505,711
Other operating expenses		2,911,295
Depreciation		2,279,928
Utilities		744,614
Total operating expenses		39,232,942
Operating loss	$	(18,181,716)
Non Operating Revenues (Expenses)		
State operating appropriations	$	12,963,624
Federal Pell grant revenue		4,103,388
Investment income		215,497
Interest on indebtedness		(241,005)
Building fee remittance		(648,790)
Innovation fund remittance		(163,442)
Net non operating revenues		16,229,272
Loss before capital appropriations		(1,952,444)
Capital appropriations		1,023,703
Change in net position		(928,741)
Net Position		
Net position, beginning of year		90,668,571
Cumulative effect of change in accounting principle (Note 1)		(14,338,835)
Net position, beginning of year		76,329,736
Net position, end of year	$	75,400,995

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of Cash Flows

For the Year Ended June 30, 2018

Cash Flows From Operating Activities	
Tuition and fees	$ 4,212,928
Grants and contracts	15,447,949
Payments for employees	(18,167,903)
Payments for benefits	(6,332,844)
Payments to vendors	(6,298,169)
Payments for scholarships and fellowship	(4,684,456)
Payments for utilities	(368,773)
Auxiliary enterprise sales, net	1,410,084
Other receipts (payments)	(3,298,910)
Net cash used by operating activities	(18,080,094)
Cash Flows From Noncapital Financing Activities	
State appropriations	13,032,962
Federal Pell grant receipts	4,103,388
Building fee remittance	(661,636)
Innovation fee remittance	(166,999)
Net cash provided by noncapital financing activities	16,307,715
Cash Flows From Capital Related Financing Activities	
Capital appropriations	2,784,349
Purchases of capital assets	(1,715,706)
Principal paid on capital debt	(143,916)
Interest paid on capital debt	(212,640)
Net cash provided/used by capital related financing activities	712,087
Cash Flows From Investing Activities	
Purchase of investments	(7,467,209)
Sales and maturities of investments	1,500,000
Investment income	194,716
Net cash used by investing activities	(5,772,493)
Increase (Decrease) in Cash and Cash Equivalents	(6,832,785)
Cash and Cash Equivalents, Beginning of Year	10,514,550
Cash and Cash Equivalents, End of Year	$ 3,681,765

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	$	(18,181,716)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense		2,279,928
Changes in assets, liabilities and deferrals		
Accounts payable and accrued liabilities		(2,141,661)
Accounts receivable		1,477,529
Inventories		(24,717)
Compensated absences		(107,582)
Pension/OPEB liability		504,945
Deferred resources		(1,893,906)
Other assets		(16,799)
Unearned revenues		23,885
Net cash used by operating activities	$	(18,080,094)

CENTRALIA COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,002,619
Short-term investments	127,767
Pledges receivable, net	21,612
Current portion of note receivable	3,047
TOTAL CURRENT ASSETS	1,155,045
Long-term pledges receivable, net	1,126
Long-term note receivable	89,774
Life insurance policies	87,889
Long-term investments	15,112,993
Land and building held for the benefit of the College, net	723,915
Land, building and equipment, net	65,866
TOTAL ASSETS	$ 17,236,608
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	$ 12,799
Annuity and life income obligations	20,422
Payable to the College	694,463
TOTAL LIABILITIES	727,684
Net Assets:	
Without donor restrictions	
Undesignated	950,301
Designated by the Board for endowment	1,437,020
Invested in land and building	723,915
TOTAL WITHOUT DONOR RESTRICTIONS	3,111,236
With donor restrictions	
Purpose or time restrictions	7,101,524
Perpetual in nature	6,296,164
TOTAL WITH DONOR RESTRICTIONS	13,397,688
TOTAL NET ASSETS	16,508,924
TOTAL LIABILITIES AND NET ASSETS	$ 17,236,608

See accompanying notes.

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CENTRALIA COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 266,578	$ 630,861	$ 897,439
Grants	---	60,225	60,225
Special fundraising event	28,334	1,587	29,921
Net investment return	287,865	659,645	947,510
Rental revenue	26,000	---	26,000
Other income	8,380	178	8,558
Net assets released from restrictions	1,010,392	(1,010,392)	---
TOTAL SUPPORT AND REVENUE	1,627,549	342,104	1,969,653
EXPENSES			
Program services	849,324	---	849,324
Management and general	365,914	---	365,914
Fundraising	15,825	---	15,825
TOTAL EXPENSES	1,231,063	---	1,231,063
CHANGE IN NET ASSETS	396,486	342,104	738,590
NET ASSETS, Beginning, as restated (Note 9)	2,714,750	13,055,584	15,770,334
NET ASSETS, Ending	$ 3,111,236	$ 13,397,688	$ 16,508,924

See accompanying notes.

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AUDITED FINANCIAL STATEMENTS OF COMPONENT UNIT

CENTRALIA COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from support and revenue	$ 521,632
Cash paid for management, program and fundraising	(916,900)
Dividend and interest	126,440
NET CASH USED BY OPERATING ACTIVITIES	(268,828)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of land, building and equipment	(54,665)
Receipts on notes receivable	2,944
Proceeds from sale of investments	2,978,348
Purchases of investments	(2,585,927)
NET CASH PROVIDED BY INVESTING ACTIVITIES	340,700
CASH FLOWS FROM FINANCING IN ACTIVITIES	
Contributions to be held in perpetuity	202,662
NET CASH PROVIDED BY FINANCING ACTIVITIES	202,662
NET INCREASE IN CASH AND CASH EQUIVALENTS	274,534
CASH AND CASH EQUIVALENTS, Beginning	728,085
CASH AND CASH EQUIVALENTS, Ending	$ 1,002,619

See accompanying notes.

CENTRALIA COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended June 30, 2018

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES	
Change in net assets	$ 738,590
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Net unrealized and realized gains from investments	(895,737)
Contributions permanently restricted	(202,662)
Depreciation	29,190
Donated investments	(15,711)
Donated land, building and equipment	(67,600)
(Increase) decrease in:	
Pledges receivable	37,783
Life insurance policies	(3,668)
Increase (decrease) in:	
Accounts payable	(25,541)
Annuity and life income obligations	(4,452)
Payable to the College	140,980
NET CASH USED BY OPERATING ACTIVITIES	$ (268,828)

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 2018, noncash transactions include donated materials and services of $273,391.

See accompanying notes.

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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.

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.

The Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amended GASB Statement No. 14, *The Financial Reporting Entity*. This provides additional guidance to determine whether certain organizations are component units for which the primary government is not financially accountable but should be reported based on the nature and significance of their relationship with the primary government.

Under GASB Statement No. 39 criteria, the Centralia College Foundation ("Foundation") is considered a legally separate component unit of the College, and its financial statements are discretely presented in the College's financial statements. Inter-entity transactions and balances between the College and Foundation are not eliminated for financial statement presentation purposes.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 and as such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

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 and Cash Equivalents

For the purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity date of 90 days or less to be cash equivalents. Funds invested through the State Treasurer's Local Government Investment Pool are also considered cash equivalents. Cash and cash equivalents that are held with the intent to fund capital projects are classified as non-current assets.

Investments

Investments are comprised of U.S. Government sponsored enterprise bonds, with laddered maturities ranging from six months up to 42 months. When investments are purchased, a discount or premium will also be factored into the purchase price, depending on the stated or face rate of the bond, versus the market interest rate at the time of the bond purchase. Bond premiums and discounts are amortized over the life of the bond using the straight-line method and reflected in the investment balances in the statement of net position. In addition, when an investment is purchased between its semi-annual interest payment dates, the purchase price will also include the number of days of accrued interest from the date the bond is purchased and when the last bond's last interest payment occurred. The purchase of interest is realized when the bond makes its' next semi-annual interest payment.

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 student tuition and fees and other charges for services provided to students, faculty and staff. Accounts receivable also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made in accordance with sponsored agreements, and includes a provision of an amount estimated by management deemed as uncollectible. Accounts receivable are shown net of estimated uncollectible amounts.

NOTES TO FINANCIAL STATEMENTS

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, 2018, 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.

Tax Exemption

The College is a tax-exempt organization under Section 115(a) 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 yearend 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.

Classification of Revenues and Expenses

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, 2018 were $5,447,852.

NOTES TO FINANCIAL STATEMENTS

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.

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* The scope of this Statement addresses accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The College has implemented this pronouncement during the 2018 fiscal year.

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB),* the College has a deficit unrestricted net position of $10,215,597. This new accounting standard requires the College to recognize its portion of the State's total OPEB liability, reducing net position by a substantial amount. Additional information regarding GASB Statement No. 75 can be found in Note 17.

Cumulative Effect of a Change in Accounting Principle

Beginning net position was restated by $14,338,835 in fiscal year 2018 as a result of implementing GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*.

Accounting Standard Impacting the Future

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, to addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The effective date of this Statement is fiscal year 2019. The College is in the process of reviewing its assets to ensure compliance with this reporting requirement.

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.

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 Local Government Investment Pool (LGIP). Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets, and Statements of Cash Flows as "Cash and Cash Equivalents."

As of June 30, 2018, the carrying amount of the College's cash and equivalents was $3,681,765 as represented in the table below.

Cash and Cash Equivalents	June 30, 2018
Petty cash and change funds	$ 4,000
Bank demand and time deposits	1,465,368
Local government investment pool	2,212,398
Total Cash and Cash Equivalents	$ 3,681,765

Cash and cash equivalents includes restricted cash and cash equivalents of $2,375,401 at June 30, 2018. 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.

NOTES TO FINANCIAL STATEMENTS

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	**6/30/2018**	**0-12**	**13-24**	**25-42**
U.S. Government Agency Securities	$ 12,009,646	4,475,366	2,474,020	5,060,260

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.

The College has $12 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, 2018, 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	$ 12,009,646		12,009,646	

Note 4. Accounts Receivable

The major components of accounts receivable as of June 30, 2018 were:

Grants and contracts	1,568,902
Due from other agencies	487,321
Tuition and fees	404,533
Auxiliary support	30,490
Other	422,758
Net accounts receivable	2,914,004

As of June 30, 2018 interest receivable from bond investments was $28,286.

Note 5. Inventories

Merchandise inventories for the College Bookstore at year-end, stated at cost using the first-in, first-out (FIFO) method were $293,901 at June 30, 2018.

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2018 is summarized as follows:

	June 30, 2017	Additions	Retirements	June 30, 2018
Capital assets				
Land	$ 6,781,994	584,909		7,366,903
Construction in progress	16,285	614,253		630,538
Total capital assets, non-depreciable	6,798,279	1,199,162	-	7,997,441
Buildings	96,638,283	316,965		96,955,248
Infrastructure	2,908,249	-		2,908,249
Furniture, fixtures and equipment	3,825,225	290,923		4,116,148
Library resources	2,284,819	-		2,284,819
Total capital assets, depreciable	105,656,576	607,888	-	106,264,464
Less accumulated depreciation				
Buildings	22,781,800	1,838,761		24,620,561
Infrastructure	751,864	85,386		837,250
Furniture, fixtures and equipment	2,170,104	343,317		2,513,421
Library resources	2,238,677	12,464		2,251,141
Total accumulated depreciation	27,942,445	2,279,928	-	30,222,373
Capital assets, net	$ 84,512,410	$ (472,878)	$ -	$ 84,039,532

Note 7. Accounts Payable and Accrued Liabilities

At June 30, 2018, net accrued liabilities includes:

Accounts Payable and Accrued Liabilities	Amount
Salaries and wages	$ 476,806
Benefits	158,935
Utilities	460,083
Due to State Treasurer	13,487
Held for others and retainage	660,068
	1,769,379

Note 8. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, at June 30, 2018, as follows:

Unearned Revenue	Amount
Tuition and fees	$ 265,361
Auxiliary enterprises	52,418
Grants and contracts	75
Total unearned revenue	317,854

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, 2017 through June 30, 2018, were $44,215.

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 $722,313 and accrued sick leave totaled $955,402 at June 30, 2018.

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 leases. At June 30, 2018, the College lease expense totaled $63,346.

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 are 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.

NOTES TO FINANCIAL STATEMENTS

Note 13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2018 are as follows:

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2019	85,000	127,750	212,750
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
2024-2028	590,000	468,000	1,058,000
2029-2033	755,000	304,500	1,059,500
2034-2037	750,000	95,750	845,750
Total	**$ 2,555,000**	**$ 1,462,750**	**$ 4,017,750**

Note 14. Schedule of Long Term Liabilities

Long Term Debt Liabilities	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Certificates of Participation	2,595,000	-	40,000	2,555,000	85,000
Certificate of Participation - Amortized Premium	413,936	-	20,783	393,153	20,783
Compensated Absences	1,785,381	780,666	888,332	1,677,715	141,671
OPEB Liabilities	-	14,338,835	1,448,071	12,890,764	1,265,400
Net pension obligation	6,754,647	27,283	1,158,408	5,623,522	27,286
	11,548,964	15,146,784	3,555,594	23,140,154	1,540,140

Note 15. Pension Liability

Pension liabilities reported as of June 30, 2018 consists of the following:

Pension Liability by Plan		
PERS 1	$	1,946,195
PERS 2/3		1,658,979
TRS 1		421,594
TRS 2/3		107,209
SBRP		1,489,545
Total	**$**	**5,623,522**

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

These notes form an integral part of the financial statements.

Note 16. Retirement Plans

A. General

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For fiscal year 2018, the payroll for the College's employees was $4,802,607 for PERS, $795,053 for TRS, and $9,417,486 for SBRP. Total covered payroll was $15,015,146.

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, and 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.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for Centralia College, for fiscal year 2018:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ 5,623,522
Deferred outflows of resources related to pensions	1,054,797
Deferred inflows of resources related to pensions	1,247,937
Pension expense	500,717

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

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

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

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

NOTES TO FINANCIAL STATEMENTS

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute. By statute, PERS 3 employees may select among six contribution rate options, ranging from 5 to 15 percent.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made 100% of required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2018, 2017, and 2016 are as follows:

Contribution Rates at June 30

	FY 2016		FY 2017		FY 2018	
	Employee	College	Employee	College	Employee	College
PERS 1	6.00%	11.18%	6.00%	11.18%	6.00%	12.70%
PERS 2	6.12%	11.18%	6.12%	11.18%	7.38%	12.70%
PERS 3	5 - 15%	11.18%	5 - 15%	11.18%	5 - 15%	12.70%
TRS 1	6.00%	13.13%	6.00%	13.13%	6.00%	15.20%
TRS 2	5.95%	13.13%	5.95%	13.13%	7.06%	15.20%
TRS 3	5-15%	13.13%	5-15%	13.13%	5-15%	15.20%

Required Contributions

	FY 2016		FY 2017		FY 2018	
	Employee	College	Employee	College	Employee	College
PERS 1	$ 16,202	$ 30,190	$ 12,964	$ 24,157	$ 4,338	$ 9,183
PERS 2	224,832	410,724	235,688	430,555	283,159	487,281
PERS 3	50,327	76,995	60,121	95,665	60,666	113,462
TRS 1	4,305	9,398	4,240	9,279	4,629	11,725
TRS 2	7,627	16,770	6,302	13,907	9,156	19,775
TRS 3	35,149	54,203	46,354	71,696	48,603	87,474

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

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

For the year ended June 30, 2017, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	13.84%
PERS Plan 2/3	14.11%
TRS Plan 1	14.45%
TRS Plan 2/3	14.10%

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
Total	**100%**	

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

Pension Expense. Pension expense is included as part of "Employee Benefits" expense in the statement of revenues, expenses and changes in net position. The table below shows the components of each pension plans expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	121,482	230,679	27,105	38,545	417,811
Amortization of change in proportionate liability	(24,135)	4,864	(47,837)	10,733	(56,374)
Total Pension Expense	**97,347**	**235,544**	**(20,732)**	**49,277**	**361,436**

Changes in Proportionate Shares of Pension Liabilities. The changes to the College's proportionate share of pension liabilities from 2016 to 2017 for each retirement plan are listed below:

Pension Plan	2017	2016	Change
PERS 1	0.041015%	0.041476%	-0.000461%
PERS 2/3	0.047747%	0.046496%	0.001251%
TRS 1	0.013945%	0.012498%	0.001447%
TRS 2/3	0.011616%	0.010351%	0.001265%

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.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Economic Inflation	3.00%
Salary Increases	3.75%
Investment Rate of Return	7.50%

NOTES TO FINANCIAL STATEMENTS

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table 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% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year, throughout the member's lifetime.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 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 7.7 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 7.5 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 TRS Plan 2/3, whose rates include a component for the TRS 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 7.5 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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

Pension Plan	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	$ 2,370,836	$ 1,946,194	$ 1,578,363
PERS 2/3	$ 4,469,466	$ 1,658,980	$ (643,796)
TRS 1	$ 524,244	$ 421,595	$ 332,745
TRS 2/3	$ 364,121	$ 107,209	$ (101,451)

Pension Expense and 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, 2017:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-	168,099	54,561
Difference between expected and actual earnings of pension plan investments	-	72,626	-	442,244
Changes of Assumptions	-	-	17,622	-
Changes in College's proportionate share of pension liabilities	-	-	71,887	11,865
Contributions to pension plans after measurement date	250,014	-	354,922	-
	$ 250,014	**$ 72,626**	**$ 612,529**	**$ 508,670**

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-	26,736	5,469
Difference between expected and actual earnings of pension plan investments	-	17,861	-	38,799
Changes of Assumptions	-	-	1,263	-
Changes in College's proportionate share of pension liabilities	-	-	29,305	2,085
Contributions to pension plans after measurement date	68,292	-	58,944	-
	$ 68,292	**$ 17,861**	**$ 116,248**	**$ 46,353**

The $732,171 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, 2019.

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
2019	(49,091)	(166,901)	(13,119)	(4,469)
2020	15,499	64,000	4,911	13,132
2021	(3,599)	(28,789)	(437)	(706)
2022	(35,436)	(170,563)	(9,216)	(13,681)
2023	-	22,255	-	3,474
Thereafter	-	28,931	-	13,200
Total	**(72,626)**	**(251,068)**	**(17,861)**	**10,949**

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, 2018 were each $832,926.

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.

NOTES TO FINANCIAL STATEMENTS

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2018, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $1,300,000. The College's share of this amount was $22,213. 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 2018, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $49,685. 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, 2018, the Community and Technical College system accounted for $16,351,270 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll forward the total pension liability to the June 30, 2018 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, 2016, 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 increase from 3.58 percent to 3.87 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 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 3.87 percent for the June 30, 2018, measurement date.

Pension Expense. For the year ended June 30, 2018, the College reported $4,229 for pension expense in the State Board Retirement Plans. The components that make up pension expense for the College are as follows:

Proportionate Share (%)	**1.71%**
Service Cost	$ 65,393
Interest Cost	60,096
Amortization of Differences Between Expected and Actual Experience	(79,182)
Amortization of Changes of Assumptions	(20,966)
Changes of Benefit Terms	-
Administrative Expenses	-
Other Changes in Fiduciary Net Position	-
Proportionate Share of Collective Pension Expense	**25,340**
Current Year Benefit Payments	(22,213)
Amortization of the Change in Proportionate Share of TPL	1,102
Total Pension Expense	**$ 4,229**

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2018 was 1.71%. 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 College's, actuarially determined. 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 (%) 2017	1.70%
Proportionate Share (%) 2018	1.71%
Total Pension Liability - Ending 2017	1,617,286
Total Pension Liability - Beginning 2018	1,624,141
Total Pension Liability - Change in Proportion	6,855
Total Deferred Inflow/Outflows - 2017	462,743
Total Deferred Inflow/Outflows - 2018	464,704
Total Deferred Inflows/Outflows - Change in Proportion	1,961
Total Change in Proportion	8,816

Plan Membership. Membership in the State Board Supplemental Retirement Plan consisted of the following as of June 30, 2016, 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	6	1	107	114

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, 2018, the latest measurement date for the plan:

Schedule of Changes in Total Pension Liability	**Amount**
Service Cost	65,393
Interest	60,096
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	(177,742)
Changes in Assumptions	(60,130)
Benefit Payments	(22,213)
Change in Proportionate Share of TPL	6,855
Other	-
Net Change in Total Pension Liability	(127,741)
Total Pension Liability - Beginning	1,617,286
Total Pension Liability - Ending	1,489,545

Sensitivity of the Total Pension Liability/(Asset) to Changes in the Discount Rate. The following table presents the total pension liability/(asset), calculated using the discount rate of 3.87 percent, as well as what the employers' total pension liability/(asset) 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 (expressed in thousands):

1% Decrease (2.87%)	**Current Discount Rate (3.87%)**	**1% Increase (4.87%)**
$ 1,698,949	$ 1,489,545	$ 1,315,375

These notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, 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	-	474,529
Changes of Assumptions	-	127,898
Changes in College's proportionate share of pension liability	7,714	-
Total	7,714	602,427

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:

Future Pension Expense		
2019	$	(99,046)
2020		(99,046)
2021		(99,046)
2022		(99,046)
2023		(99,046)
Thereafter		(99,482)
	$	(594,713)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 11.B for TRS Plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

Washington State Deferred Compensation Program

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

Note 17. Other Post-Employment Benefits

The College implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting. 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.

Plan Description. 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. It has no assets. The PEBB OPEB plan does not issue a publicly available financial report.

NOTES TO FINANCIAL STATEMENTS

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, 2017

Active Employees	123,379
Retirees Receiving Benefits*	46,180
Retirees Not Receiving Benefits**	6,000
Total Active Employees and Retirees	175,559

*Enrollment data for June, 2017 from Report 1: PEBB Total Member Enrollment for June 2017 Coverage report. PEBB Retirees only.

**This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future.

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 2016, the average weighted implicit subsidy was valued at $304 per member per month, and in calendar year 2017, the average weighted implicit subsidy is projected to be $328 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 2016, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar years 2017 and 2018. This will increase in calendar year 2019 to up to $168 per member per month.

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.

For calendar year 2017, 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	$	1,024
Dental		79
Life		4
Long-term Disability		2
Total		1,109
Employer contribution		959
Employee contribution		151
Total	$	1,110

*Per 2017 PEBB Financial Projection Model 8.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2017 which includes projected claims cost at the time of this reporting.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

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, 2018, the state reported a total OPEB liability of $5.83 billion. The College's proportionate share of the total OPEB liability is $12,890,764. This liability was determined based on a measurement date of June 30, 2017.

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	3%
Projected Salary Changes	3.75% Plus Service-Based Salary Increases
Health Care Trend Rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 7%, reaching an ultimate rate of approximately 5% in 2080
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

*For additional detail on the health care trend rates, please see Office of the State Actuary's 2017 OPEB Actuarial Valuation Report.

NOTES TO FINANCIAL STATEMENTS

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The Legislature determines the value of 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 2015 Economic Experience Study.

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

Actuarial Valuation Date	1/1/2017
Actuarial Measurement Date	6/30/2017
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

In order to calculate the beginning total OPEB liability balance under GASB 75, the January 1, 2017 actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017 valuation forward to June 30, 2017. Both the forward and backward projections reflect the plan's assumed service cost, assumed interest, and expected benefit payments.

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 2.85 percent for the June 30, 2016 measurement date and 3.58 percent for the June 30, 2017 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, 2018, components of the calculation of total OPEB lability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

Proportionate Share (%)		**0.2212694219%**
Service Cost	$	873,915
Interest Cost		409,347
Differences Between Expected and Actual Experience		-
Changes in Assumptions*		(1,996,803)
Changes of Benefit Terms		-
Benefit Payments		(208,610)
Changes in Proportionate Share		(525,921)
Other		-
Net Change in Total OPEB Liability		(1,448,071)
Total OPEB Liability - Beginning		14,338,835
Total OPEB Liability - Ending	**$**	**12,890,764**

*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.

Changes in assumptions resulted from an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate resulting in an overall decrease in total OPEB liability for the measurement date of June 30, 2017.

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 3.58 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 (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

Discount Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 15,728,323	$ 12,890,764	$ 10,694,948

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 7.00 percent decreasing to 5.00 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 (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.0 percent decreasing to 6.00 percent that the current rate:

Health Care Cost Trend Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 10,413,963	$ 12,890,764	$ 16,214,851

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

For the year ending June 30, 2018, the College will recognize OPEB expense of $979,780. OPEB expense consists of the following elements:

Proportionate Share (%)	0.2212694219%
Service Cost	$ 873,915
Interest Cost	409,347
Amortization of Differences Between Expected and Actual Experience	-
Amortization of Changes in Assumptions	(221,867)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	(81,615)
Administrative Expenses	-
Total OPEB Expense	**$ 979,780**

As of June 30, 2018, the deferred inflows and deferred outflows of resources for the College are as follows:

Proportionate Share (%)	0.2212694219%	
Deferred Inflows/Outflows of Resources	**Deferred Inflows**	**Deferred Outflows**
Difference between expected and actual experience	$ -	$ -
Changes in assumptions	1,774,936	-
Transactions subsequent to the measurement date	-	204,004
Changes in proportion	652,916	-
Total Deferred Inflows/Outflows	**$ 2,427,852**	**$ 204,004**

NOTES TO FINANCIAL STATEMENTS

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, 2019. 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 (%)		**0.2212694219%**
2019	$	(303,482)
2020		(303,482)
2021		(303,482)
2022		(303,482)
2023		(303,482)
Thereafter	$	(910,442)

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 (%) 2016		**0.2332163102%**
Proportionate Share (%) 2017		**0.2212694219%**
Total OPEB Liability - Ending 2016	$	14,558,708
Total OPEB Liability - Beginning 2017		13,812,914
Total OPEB Liability Change in Proportion		(745,794)
Total Deferred Inflows/Outflows - 2016		219,873
Total Deferred Inflows/Outflows - 2017	$	208,610
Total Deferred Inflows/Outflows Change in Proportion		(11,263)
Total Change in Proportion	**$**	**(734,531)**

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, 2018.

Expenses by Functional Classification

Instruction	$	9,166,470
Academic Support Services		4,755,839
Student Services		9,394,066
Institutional Support		4,093,292
Operations and Maintenance of Plant		2,308,093
Scholarships and Other Student Financial Aid		4,684,456
Auxiliary enterprises		2,550,798
Depreciation		2,279,928
Total operating expenses	**$**	**39,232,942**

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 $229,405 for 2018, while the Foundation provides fundraising and financial services.

The Foundation distributed approximately $690,657 to the College for restricted and unrestricted purposes in 2018. 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.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

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

Public Employees' Retirement System (PERS) Plan 1

Measurement Date of June 30

	2017	2016	2015	2014
College's proportion of the net pension liability (NPL)	0.041015%	0.041476%	0.041307%	0.042578%
College proportionate share of the net pension liability	$ 1,946,195	$ 2,227,448	$ 2,160,741	$ 2,144,887
College covered payroll	$ 4,894,118	$ 4,607,963	$ 4,337,289	$ 4,268,619
College's proportionate share of the NPL as a percentage of its covered payroll	39.77%	48.34%	49.82%	50.25%
Plan's fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%	61.19%

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

Measurement Date of June 30

	2017	2016	2015	2014
College's proportion of the net pension liability (NPL)	0.047747%	0.046496%	0.045305%	0.045865%
College proportionate share of the net pension liability	$ 1,658,979	$ 2,341,053	$ 1,618,774	$ 927,097
College covered payroll	$ 4,681,195	$ 4,338,193	$ 4,021,138	$ 3,925,044
College's proportionate share of the NPL as a percentage of its covered payroll	35.44%	53.96%	40.26%	23.62%
Plan's fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%	93.29%

Teachers' Retirement System (TRS) Plan 1

Measurement Date of June 30

	2017	2016	2015	2014
College's proportion of the net pension liability (NPL)	0.013945%	0.012498%	0.012868%	0.013515%
College proportionate share of the net pension liability	$ 421,594	$ 426,711	$ 407,677	$ 398,619
College covered payroll	$ 707,857	$ 570,355	$ 546,996	$ 523,662
College's proportionate share of the NPL as a percentage of its covered payroll	59.56%	74.81%	74.53%	76.12%
Plan's fiduciary net position as a percentage of the total pension liability	65.58%	62.07%	65.70%	68.77%

Teachers' Retirement System (TRS) Plan 2/3

Measurement Date of June 30

	2017	2016	2015	2014
College's proportion of the net pension liability (NPL)	0.011616%	0.010351%	0.010172%	0.010603%
College proportionate share of the net pension liability	$ 107,209	$ 142,150	$ 85,832	$ 34,247
College covered payroll	$ 637,270	$ 513,872	$ 475,173	$ 452,004
College's proportionate share of the NPL as a percentage of its covered payroll	16.82%	27.66%	18.06%	7.58%
Plan's fiduciary net position as a percentage of the total pension liability	93.14%	88.72%	92.48%	96.81%

These notes form an integral part of the financial statements.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

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

Public Employees' Retirement System (PERS) Plan 1

Measurement Date of June 30

	2018	2017	2016	2015	2014
Contractually Required Contributions (CRC)	$ 246,986	$ 246,716	$ 235,208	$ 189,844	$ 188,463
Contributions in relation to the CRC	$ 246,986	$ 246,716	$ 235,208	$ 189,844	$ 188,463
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 4,802,607	$ 4,894,118	$ 4,607,963	$ 4,337,289	$ 4,268,619
Contributions as a percentage of covered payroll	5.14%	5.04%	5.10%	4.38%	4.42%

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

Measurement Date of June 30

	2018	2017	2016	2015	2014
Contractually Required Contributions (CRC)	$ 354,295	$ 291,635	$ 268,419	$ 201,813	$ 193,752
Contributions in relation to the CRC	$ 354,295	$ 291,635	$ 268,419	$ 201,813	$ 193,752
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 4,730,298	$ 4,681,195	$ 4,338,193	$ 4,021,139	$ 3,925,044
Contributions as a percentage of covered payroll	7.49%	6.23%	6.19%	5.02%	4.94%

Teachers' Retirement System (TRS) Plan 1

Measurement Date of June 30

	2018	2017	2016	2015	2014
Contractually Required Contributions (CRC)	$ 62,308	$ 48,801	$ 30,313	$ 28,796	$ 26,725
Contributions in relation to the CRC	$ 62,308	$ 48,801	$ 30,313	$ 28,796	$ 26,725
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 795,053	$ 707,857	$ 570,355	$ 546,996	$ 523,662
Contributions as a percentage of covered payroll	7.84%	6.89%	5.31%	5.26%	5.10%

Teachers' Retirement System (TRS) Plan 2/3

Measurement Date of June 30

	2018	2017	2016	2015	2014
Contractually Required Contributions (CRC)	$ 55,235	$ 42,800	$ 41,457	$ 27,033	$ 26,017
Contributions in relation to the CRC	$ 55,235	$ 42,800	$ 41,457	$ 27,033	$ 26,017
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 717,901	$ 637,270	$ 513,872	$ 475,173	$ 452,004
Contributions as a percentage of covered payroll	7.69%	6.72%	8.07%	5.69%	5.76%

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS

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

State Board Supplemental Defined Benefit Plans

Measurement Date of June 30

Total Pension Liability	2017	2018
Service cost	92,089	65,393
Interest cost	59,742	60,096
Changes of benefit terms	-	-
Differences between expected and actual experience	(430,730)	(177,742)
Changes of assumptions	(101,653)	(60,130)
Benefit payments	(15,348)	(22,213)
Change in proportionate share of TPL	-	6,855
Other	(331)	-
Net Changes in Total Pension Liability	(396,231)	(127,741)
Total pension liability, beginning	2,013,517	1,617,286
Total pension liability, ending	1,617,286	1,489,545
College's proportion of the total pension liability (%)	1.701511%	1.708723%
Covered-employee payroll	9,196,442	9,936,416
Total pension liability as a percentage of covered payroll	17.585997%	14.990767%

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.

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

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

Other Postemployment Benefits (OPEB)

Measurement Date of June 30

Total OPEB Liability	2018
Service cost	873,915
Interest cost	409,347
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	(1,996,803)
Benefit payments	(208,610)
Change in proportionate share of TPL	-
Other	-
Net Changes in Total OPEB Liability	(922,150)
Total OPEB liability, beginning	13,812,914
Total OPEB liability, ending	12,890,764
College's proportion of the total OPEB liability (%)	0.221269%
Covered-employee payroll	9,417,486
Total OPEB liability as a percentage of covered payroll	136.881155%

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.