Centralia College

2017 Comprehensive

Annual Financial Report

Centralia College, located in Centralia, Washington

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

Centralia College

2017 Financial Report

Centralia College Nursing Students Score High

Centralia College **nursing students** taking the National Certification Exam (NCLEX-PN) to be Licensed Practical Nurses (LPN) are **among the best in the state**, according to PracticalNursing.org, an online ranking of the best LPN programs in the nation.

Though Centralia College does not have an LPN program, many of the students in the college's Registered Nursing program take the LPN exam. Their scores were high enough in 2016 to put **Centralia College in fourth place in the state** for LPN exam performance.

"Our exceptional passing rate, which has been 100 percent the past few years, of our students on the LPN exam is certainly representative of the excellence of our program and faculty," said Ellen Hinderlie, nursing program director. "We do a fantastic job in preparing our students to be excellent nurses, starting with those choosing to take the LPN exam. It translates well to our Registered Nursing program and our students' high rates of success."

$40 million TransAlta Commons Building completed in May 2017

In May of 2017, the TransAlta Commons (TAC) began operations. This marked an end of a journey that began in 2007, as part of the State Board of Community and Technical Colleges capital request process. This process, delayed by a two year suspension of state capitals projects, included numerous members of the campus and local community in the design process. Over 30 facilities were visited, with the design team gathering strengths and weaknesses in design and functionalities, along with ideas to incorporate into this project. Kicked off with a $500,000 contribution from the TransAlta Corporation, the Centralia College Foundation successfully raised $3 million in a capital campaign, with one million dollars dedicated to this project. The project was further supported with the Associated Students of Centralia College obtaining a $3 million bond through the Washington State Treasurer's Office, supported by a self-assessed student fee.

The 70,000 square foot facility houses programs from administration, instruction and student services. The Student Life and Involvement Center (SLIC) operates on the first floor in the heart of the facility, and oversees student government, organizations and clubs, programming of campus activities, new student orientation and promotes student leadership and involvement. Also on the first floor are food services, bookstore, coffee bar and a flexible banquet area capable of hosting 500 guests in a fine dining setting. Financial Aid, Counseling/Advising, Admissions and Registration, TRio programs, and cashiering are on the second floor, offering current and prospective students one-stop access to services necessary to attend the college. The third floor houses the Active Learning Classrooms (ALC) and Mechatronics program, along with faculty offices. Also on the third floor, at the apex of the stunning Atrium, is the Writing Center, which provides support for students seeking help on compositions, essays, and other writing needs. The college is in the final stages of LEED (Leadership in Energy Efficient Design) certification, and expects the building to join the Walton Science Center as a LEED Gold certified facility.

In addition to the building itself, the project allowed the campus to complete critical components of the Campus Master Plan, which included vacating Washington and Walnut streets, and allowing the college to become a true pedestrian centered campus. Further enhancing the experience was the establishment of a large plaza at the intersection of Walnut and Washington, a courtyard between the TAC and Washington Hall, and a sitting area around the statue of Margaret Corbet and Katherine Kemp across from the Diversity Clocktower.

Since the opening, returning alumni and visitors to the campus have remarked on the transformation of the college located on a former high school site and consistently remark that the campus feels like a small university. However, what remains consistent throughout the years is the dedication of truly excellent faculty, and the mission to provide access to quality post-secondary education. Centralia College extends an invitation to all to come and visit, relax and enjoy our wonderful campus.

Path from GED to Bachelor of Applied Science – Applied Management

The road hasn't been easy for Elva Villanueva. Born in Jalisco, Mexico, she immigrated to the U.S. in 1998. A few years ago, she and her husband divorced, leaving her with four children to raise on her own. Struggling to provide for her family, working multiple part-time jobs with no benefits, and no spousal support, she decided her only path to a better life was through education.

She heard that Centralia College had programs and resources for displaced homemakers to help them earn certificates and degrees, but, with no high school diploma, she knew it would be a difficult road. The first step was working with Joni Meister in the college's Workforce Education program and earning her GED. Though it has not been easy, she's never looked back.

Early on, Elva realized she needed help to take on such a heavy load. She entered the TRIO Student Success program at the college, and sought scholarships through the Centralia College Foundation. While at Centralia College, she has been the recipient of three scholarship, the Alice and Francis Paulus Endowment Scholarship, the Mercedes Hayertz Memorial Scholarship, and most recently the Bill and Helga Watterson Scholarship.

"Having the extra help with scholarships through the foundation has made life a lot easier while achieving my goals," Elva said. "I'm now on a strong path for myself and my family's security."

In fewer than six months, Elva earned her GED and immediately set her sights on her next goal. She earned an associate degree in accounting and finance in 2013, and then an associate degree in business in 2014. She finished her Bachelor of Applied Science in Applied Management (BAS-AM) degree with a focus on accounting earlier this year.

While earning her associate degree, Elva also began working for the college as a student worker in the TRIO program. She started as a part-time employee, but is now working full-time as an administrative assistant for the program. She has also remarried and is expecting her fifth child.

"It hasn't been easy, and it's a lot of work and responsibility, but I can see the light at the end of the tunnel," Elva said. "Besides, I want to be a good example for my children, showing them a better way to live."

Bob Mohrbacher, Ed.D.

February 1st, 2018

Jim Lowery, Board Chair
Board of Trustees
Centralia College
Centralia, WA 98531

Dear Chair Lowery:

We are proud to continue the tradition of submitting our 2017 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 2017 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

CENTRALIA COLLEGE

Trustees and Administrators

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

February 1, 2018

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, Lewis County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

The financial statements of the Centralia College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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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 Centralia College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Centralia College, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2017, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements as a whole. The College Success Stories, Letter from the President and Board of Trustees and Administrative Officers is presented for purposes of additional analysis and is not a required part of the basic financial statements of the College. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated February 1, 2018, 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

State Auditor

Olympia, WA

Management's Discussion and 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, 2017 with comparative information for the year ended June 30, 2016. 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 2017.

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 2017, the College adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* as amended by GASB Statement No. 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. Although the liability for defined benefit pensions are the responsibility of general state government, the College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in $1.6 million in pension liability.

The College's Financial Position

The statement of net position provides information about the College's financial position at the end of the 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, 2017 and 2016, follows:

Condensed Statements of Net Position

As of June 30 (dollars in thousands)	**2017**	**2016**
ASSETS		
Current assets	$13,339	$ 15,489
Capital assets, net	84,512	64,785
Other non-current assets	7,962	6,509
Total assets	105,813	86,783
DEFERRED OUTFLOWS	1,201	800
LIABILITIES		
Current liabilities	4,261	4,704
Other non-current liabilities	11,509	5,923
Total liabilities	15,770	10,627
DEFERRED INFLOWS	575	673
NET POSITION	$90,669	$ 76,283

Current assets consist of cash, investments, accounts receivable and inventories. The $2.15 million decrease from 2016 to 2017 was the result of several items, 1) cash decreased $1.5 million of which $1.0 million was the result of additional investment in U.S. Government sponsored enterprise bonds. This increased the total bond investments to $6 million, of which $1.5 million is classified as current investments and $4.5 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) a $500K decrease in Due from State Treasurer, from monies owed the College for capital appropriations for spending on the TransAlta Commons Project as the project was completed in May 2017, and 3) a $600K decrease in accounts receivable associated with grants and contracts receivable with most of this decrease due to reduced billings to the Dept of Early Learning as f 16 had $370K that had not been reimbursed for April and May billings that were booked at yearend.

Capital assets increased by a net of $19.7 million in 2017, the result of the completed construction of the TransAlta Commons Project, a $40 million project that was completed in May 2017. The college recorded $1.96 million in depreciation expense in 2017 on its capital assets. More information on the College's capital assets can be found in Note 7 to the financial statements.

Non-current assets, other than the net capital assets, increased by $1.5 million in 2017, of which $500K is associated with the investment in bonds discussed above and in Note 5. The remaining $1 million increase in restricted cash and cash equivalents, is the result of the fees collected from students for their portion of funding for the TransAlta College Commons Project being unspent and, with a new approved referendum by the students in Spring 2016, were redirected to a new project, an 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. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $800K in FY 2016 and $1.2 million in FY 2017 of pension-related deferred outflows.

Similarly, the decrease in deferred inflows in 2017 reflects the decrease in difference between actual and projected investment earnings on the state's pension plans and the implementation of GASB Statement No. 73.

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 2017 was the result of the winding down of the TransAlta Commons project with the majority of the contracts being closed out. In addition, the Moore vs. Healthcare Authority accrued liability of $383K from FY 2016 was paid in FY 2017.

Non-current liabilities are made up of 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 $5.59 million is the result of the acquisition of Certificate of Participation (COP) debt for the new TransAlta Commons of $2.97 million and a $2.48 million increase in the net pension liability with the implementation of GASB Statement 73, reflecting the College's proportionate share of pension liability for the State Board Supplemental Retirement Plan.

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. The College had no debt related to its capital assets in 2016 but did acquire a Certificate of Participation (COP) in 2017. 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 (dollars in thousands)	**2017**	**2016**
Investment in capital assets	$81,918	$ 64,785
Restricted expendable	4,442	3,344
Unrestricted	4,309	8,154
Total Net Position	$90,669	$ 76,283

Several factors are involved in the increase in overall net positon, the net increase of $17.1 million for net investment in capital assets, after depreciation expense of $1.96 million and COP acquisition of $2.6 million, was the primary reason for the increased net position. The increase of restricted expendable is due to the increase in fees collected from students in 2017, who will be paying for the COP for the TransAlta project and are planning on the construction of an athletic mult-purpose field through the assessment of a dedicated fee. The $3.8 million decrease in unrestricted net position was the result of; 1) payment of the college's share of the Moore vs. Healthcare Authority; 2) transfer of $854K from Bookstore unrestricted funds to a restricted ASCC account for reimbursement of TACC expenses per MOU; 3) increased employer health insurance premiums in 2017; 4) continued challenges in student enrollment; and 5) employee pay raises of 1.8% in 2017.

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.

A summary of the College's Statements of Revenue, Expenses and Changes in Net Position for the years ended June 30, 2017 and 2016, follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position		
For the years ended June 30 (dollars in thousands)	**2017**	**2016**
Operating revenues	$ 20,889	$ 20,133
Operating expenses	39,824	36,504
Net operating loss	(18,935)	(16,371)
Non-operating revenues	16,981	16,044
Non-operating expenses	788	779
Loss before capital appropriations	(2,742)	(1,106)
Capital appropriations	19,141	13,812
Increase in net position	16,399	12,706
Net position, beginning of year	76,283	63,577
Cumulative effect of change in acct principle	(2,014)	
Net position, beginning of the year, restated	74,269	
Net position, end of year	$ 90,669	$ 76,283

Management's Discussion and Analysis

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, 2017 and 2016:

Revenues by Source

For the years ended June 30 (dollars in thousands)	2017	2016
Operating		
Student tuition and fees, net	$ 3,615	$ 3,766
Grants & contracts	15,817	14,910
Auxiliary enterprise sales	1,393	1,434
Other revenues	64	67
Non-operating		
State operating appropriations	12,876	12,059
Capital appropriations	19,141	13,812
Federal Pell grant	3,962	3,930
Other revenues	143	55
Total revenues	$ 57,011	$ 50,033

Revenues:

Since enrollments decreased again in FY 2017, the College's decrease in tuition and fee revenue is partially attributable to the reduced enrollment, which is down 67 annualized FTEs from FY2016. In addition, in FY 2017, bachelor's program tuition was reduced by 16% as part of the Affordable Education Act enacted by the Legislature. While this reduced the amount of BAS tuition revenue collected by the College, the Legislature did backfill a portion of this loss, which resulted in a $66K addition to the College's state operating appropriation.

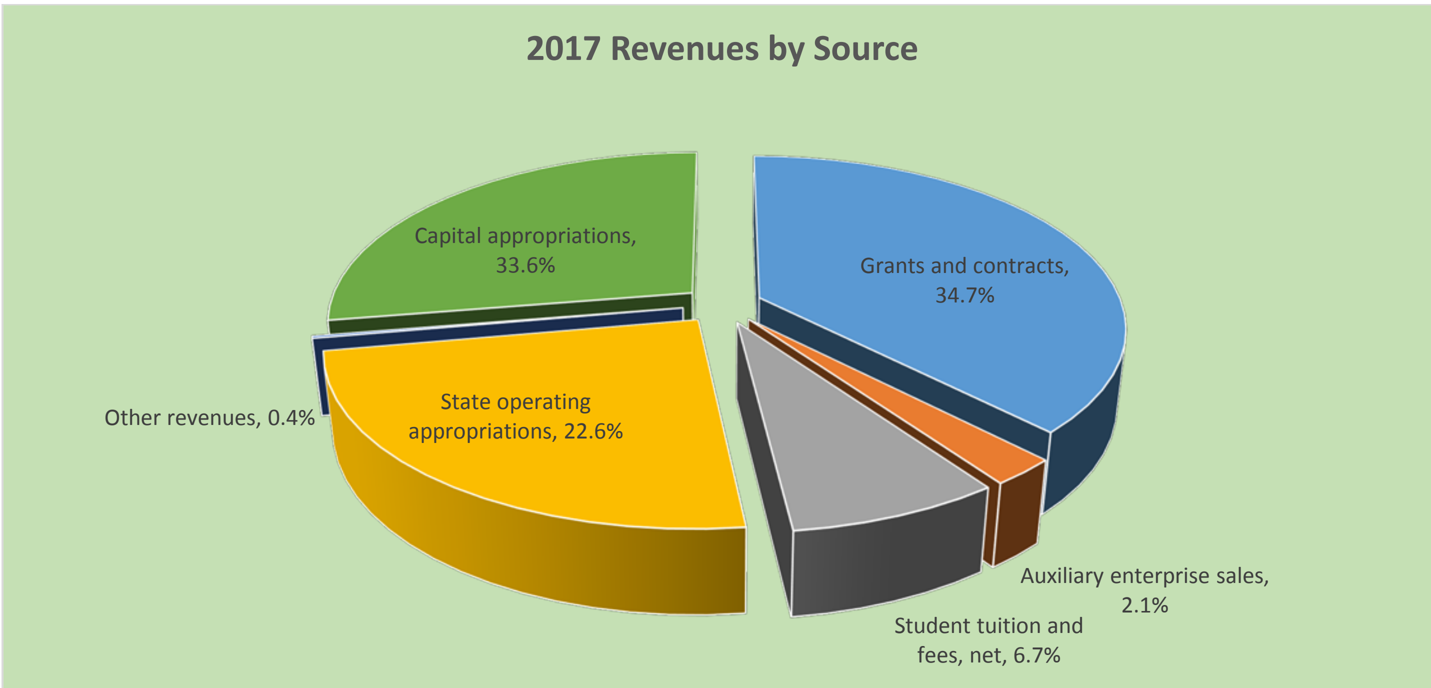
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2017, the SBCTC moved forward with a new allocation model, allocating funds to each of the 34 colleges based on 3 year average FTE actuals. In FY 2017, the College saw a decrease of $335K (year one base formula rebase loss) in its state allocation due to the implementation of this new model. However, the College did receive $1 million in state appropriation for legislative increases in health rate, pension rate and salary. In addition, the College received a one-time allocation of $566K for a portion of its share of Moore vs. HCA settlement cost. This allocation does not carry forward to future years.

Non-Pell Federal grant revenues increased by $590K as the result of increased activity on the U.S. Department of Labor WISE grant, a multi-year grant in the amount of $10 million. Non-governmental grants and contracts were up $360K. The College continued to see increased Running Start enrollments and revenues were up $142K over FY16. These contracted students earn both high school and college credit while attending the College. In addition, the College received a $189K grant from TransAlta to install solar panels on the Library building.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriations was up by more than $5 million in FY 2017 because of construction activity on the $40 million TransAlta Commons project.

Pell grant revenues generally follow enrollments trends. Although the College's enrollment declined slightly for FY 2017, there was little change in Pell grant revenues.

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, 2017, 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 2017, the College saw a large increase, $3.32 million, in total operating expenses. While salary and benefit costs increased as a result of the 1.8% salary increase by the legislature and depreciation increased with the completion of the new TransAlta Commons, the supplies, materials and purchased services increased significantly, $2.7 million, primarily as a result of increased spending related to capital projects.

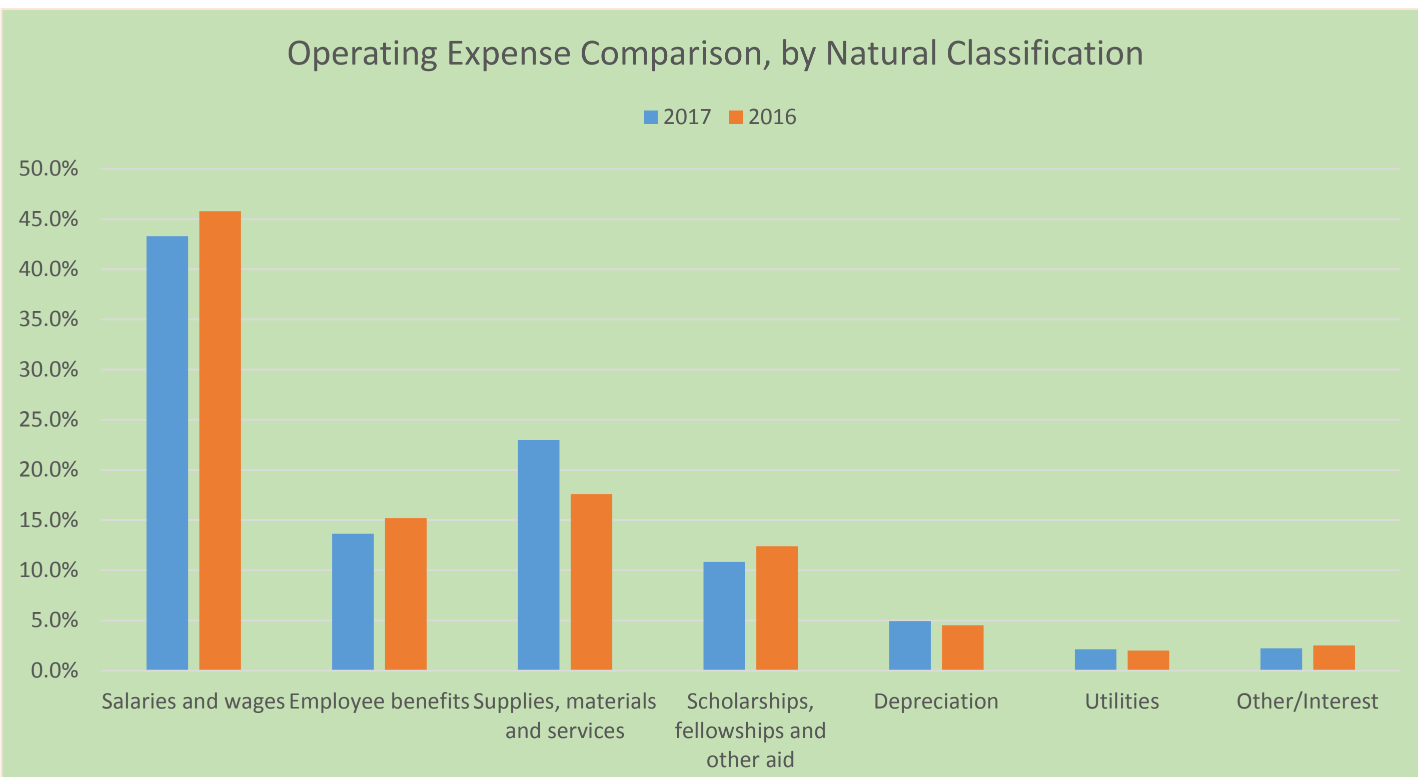
Management's Discussion and Analysis

The College has non-operating expenses, comprised solely of tuition remittances, which has been consistently around $800,000 for each of the last two years. Operating expenses, for 2017 and 2016 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages:

Operating Expenses

For the years ended June 30 (dollars in thousands)	2017	2016
Salaries and wages	$ 17,242	$ 16,708
Supplies, materials and services	9,150	6,426
Employee benefits	5,426	5,560
Scholarships, fellowships and other aid	4,315	4,527
Depreciation	1,963	1,636
Interest	24	-
Other	860	891
Utilities	844	756
Total operating expenses	$ 39,824	$ 36,504

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



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 13 and 14 of the Notes to the Financial Statements.

TransAlta Commons Project Completed

Financial Summary and Economic Factors That Will Affect the Future

Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced the lower division tuition rate by 5% at the College in FY 2016 and reduced the upper division tuition rate by 16% in FY 2017. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill a portion of this loss. In FY 2017, 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. Also, as the College nears the completion of the $40 million TransAlta project, state capital funding for the College is expected to decrease dramatically in the coming 2017-19 biennium.

It is unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations such as the McCleary Act.

Management's Discussion and Analysis

2017-18 Student Leadership Team

Statement of Net Position

June 30, 2017

Assets	
Current Assets	
Cash and cash equivalents (Note 3)	$ 7,057,678
Accounts receivable, net (Note 4)	2,067,288
Due from State Treasurer (Note 4)	2,323,415
Investments (Note 5)	1,525,502
Inventories (Note 6)	269,184
Restricted investment for COP proceeds (Note 14 and 15)	830
Other current assets (Note 4)	95,035
	13,338,932
Non-Current Assets	
Restricted cash and cash equivalents (Note 3)	3,456,872
Investments (Note 5)	4,504,991
Land and construction in progress (Note 7)	6,798,279
Capital assets, net of depreciation (Note 7)	77,714,132
	92,474,274
Total Assets	105,813,206
Deferred Outflows	
Deferred outflow of resources (Note 17)	$ 1,201,048
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses (Note 8)	$ 3,732,854
Certificate of participation (Note 13 and 14)	40,000
Compensated absences (Note 11)	84
Due to State Treasurer (Note 8)	29,889
Unearned revenues (Note 9)	293,969
Vendor payment advance (Note 20)	164,700
	4,261,496
Non-Current Liabilities	
Certificate of participation (Note 13 and 14)	2,555,000
Certificate of participation - premium (Note 13 and 14)	413,936
Compensated absences (Note 11)	1,785,297
Net pension liability (Note 16)	6,754,647
	11,508,880
Total Liabilities	15,770,376
Deferred Inflows	
Deferred inflow of resources (Note 17)	$ 575,307
Net Position	
Investment in capital assets	81,917,411
Restricted expendable	4,442,191
Unrestricted	4,308,969
Total Net Position	$ 90,668,571

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2017

Operating Revenues	
Student tuition and fees	$ 9,271,576
(Less scholarship discounts and allowances)	(5,656,438)
State and local grants and contracts	9,975,410
Federal grants and contracts	4,813,538
Auxiliary enterprise sales	1,393,217
Nongovernmental grants and contracts	1,028,070
Other operating revenues	63,895
Total operating revenues	20,889,268
Operating Expenses	
Salaries and wages	17,242,337
Supplies, materials and services	9,150,015
Employee benefits	5,425,932
Scholarships, fellowships and other aid	4,315,006
Depreciation	1,962,744
Interest	24,326
Other operating expenses	860,272
Utilities	843,860
Total operating expenses	39,824,492
	$ (18,935,224)
Non-Operating Revenues (Expenses)	
State operating appropriations	$ 12,875,692
Federal Pell grant revenue	3,962,328
Investment income	143,416
Tuition remittance	(787,951)
Net non-operating revenues	16,193,485
Loss before capital appropriations	(2,741,739)
Capital appropriations	19,140,953
Increase in net position	16,399,214
Net Position	
Net position, beginning of year	76,282,874
Cumulative effect of change in accounting principle (Note 1)	(2,013,517)
Net position, beginning of year, as restated	74,269,357
Net position, end of year	$ 90,668,571

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended June 30, 2017

Cash Flows From Operating Activities	
Tuition and fees, net of $5,656,438 scholarship discounts and allowances	$ 4,230,986
Grants and contracts	16,118,271
Payments for employees	(22,564,322)
Payments to vendors	(11,296,815)
Payments for scholarships and fellowship	(4,315,006)
Auxiliary enterprise sales	1,082,507
Agency fund receipts	20,525
Agency fund disbursements	(12,624)
Other receipts	63,895
Net cash used by operating activities	(16,672,583)
Cash Flows From Noncapital Financing Activities	
State appropriations	13,162,222
Federal Pell grant receipts	3,962,328
Tuition remittance to the State	(785,473)
Net cash provided by noncapital financing activities	16,339,077
Cash Flows From Capital Related Financing Activities	
Certificate of participation (net)	3,000,000
Capital appropriations	19,408,879
Purchase of capital assets	(21,690,360)
Net cash provided/used by capital related financing activities	718,519
Cash Flows From Investing Activities	
Purchase of investments	(1,997,903)
Sales and maturities of investments	1,000,000
Investment income	124,291
Net cash used by investing activities	(873,612)
Increase (Decrease) in Cash and Cash Equivalents	(488,599)
Cash and Cash Equivalents, Beginning of Year	11,003,149
Cash and Cash Equivalents, End of Year	$ 10,514,550

The accompanying notes are an integral part of these financial statements.

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	$	(18,935,224)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense		1,962,744
Interest on capital debt		24,326
Changes in assets, liabilities and deferrals		
Net Position - Prior period adjustment		(2,013,517)
Accounts receivable		644,742
Inventories		87,040
Compensated absences		135,227
Accounts payable and accrued expenses		(521,808)
Pension liability		2,481,624
Deferred resources		(499,386)
Other assets		(75,793)
Unearned revenues		37,442
Net cash used by operating activities	$	(16,672,583)

Supplemental Non Cash Activities Information:

Change in capital appropriation receivable	$	(267,926)
Change in operating appropriation receivable		(286,530)
Change in building and innovation fee remittance payable		2,478
	$	(551,978)

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

(Component Unit – Centralia College Foundation)

June 30, 2017

Assets	
Current Assets	
Cash	$ 728,085
Short-term investments	253,315
Pledges receivable	53,261
Current portion of note receivable	2,943
Total current assets	1,037,604
Land, building, and equipment, net of accumulated depreciation	460,998
Other assets	
Long-term pledges receivable	7,260
Long-term note receivable	92,822
Current value of life insurance policies	84,221
Long-term investments	14,468,418
Land and buildings held for the benefit of the College, at fair market value	1,409724
Total other assets	16,062,445
Total assets	$ 17,561,047
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	$ 38,340
Annuity and life income obligations	24,874
College payable	553,483
Total current liabilities	616,697
Net assets	
Unrestricted	
Undesignated	1,088,331
Board designated	
Endowment	1,390,711
Land, building, and equipment	1,409,724
Total unrestricted	3,888,766
Restricted	
Temporarily	7,462,082
Permanently	5,593,502
Total net assets	16,944,350
Total liabilities and assets	$ 17,561,047

The accompanying notes are an integral part of these financial statements.

Statement of Activities and Changes in Net Assets

(Component Unit – Centralia College Foundation)

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Contributions	$ 210,449	$ 381,101	$ 164,327	$ 755,877
Interest income	3,718	7,892	-	11,610
Dividend income	122,255	151,929	-	274,184
Rental revenue	22,010	-	-	22,010
Bequests	-	75,000	-	75,000
Sales	146,564	-	-	146,564
Other income	14,355	6,025	-	20,380
Net assets released from restriction	513,743	(513,743)	-	-
Total revenues, gains, and other support	1,033,094	108,204	164,327	1,305,625
Expenses				
Program	652,788	-	-	652,788
Management and general	335,381	-	-	335,381
Fundraising	40,450	-	-	40,450
Total expenses	1,028,619	-	-	1,028,619
Excess of revenues over expenses before realized and unrealized gains on investments	4,475	108,204	164,327	277,006
Unrealized and realized gain on investments	656,263	714,597	-	1,370,860
Change in net assets	660,738	822,801	164,327	1,647,866
Net assets, July 1, 2016	3,228,028	6,641,256	5,427,200	15,296,484
Reclassifications	-	(1,975)	1,975	-
Net assets, June 30, 2017	$ 3,888,766	$ 7,462,082	$ 5,593,502	$ 16,944,350

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

(Component Unit – Centralia College Foundation)

Year Ended June 30, 2017

Cash flows from operating activities	
Cash received from contributors and renters	$ 953,742
Interest, dividend, and realized gains/losses	737,167
Cash used in management, program, and fundraising	(1,057,909)
Net cash provided by operating activities	633,000
Cash flows from investing activities	
Purchase of assets	(161,874)
Mortgage loan receipt	2,842
Sale of property	95,000
Proceeds from the sale of securities	2,954,252
Purchase of securities	(3,695,424)
Net cash used in investing activities	(805,204)
Net decrease in cash	(172,204)
Cash, July 1	900,289
Cash, June 30	$ 728,085

Reconciliation of change in net assets to net cash provided by operating activities	
Changes in net assets	$ 1,647,866
Adjustments	
Increase in pledges receivable	(8,736)
(Increase) decrease in cash value of life insurance	(4,485)
Donated stocks received	(1,163)
Unrealized (gain) loss on investments	(838,870)
Depreciation	16,950
Donated land and equipment	(56,190)
Increase (decrease) in annuity and life income obligations	2,256
Unrealized (gain) loss on property	(78,388)
Increase in accounts payable	29,094
(Decrease) increase in college payable	(75,334)
Total adjustments	(1,014,866)
Net cash provided by operating activities	$ 633,000

The accompanying notes are an integral part of these 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

For financial reporting purposes, the College is considered a special purpose government entity engaged in business type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met.

The College reports capital assets, net of accumulated depreciation in the Statement of Net Position, and reports depreciation expense in the Statement of Revenues, Expenses and Changes in Net Position.

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.

Capital Assets

Land, buildings, equipment, and library resources are stated at cost or, if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs and renovations are also capitalized.

The capitalization threshold is $5,000 or greater for equipment and library resources, $100,000 or greater for infrastructure, buildings and improvements other than buildings, and $1 million for intangibles. Land is capitalized regardless of cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and improvements other than buildings.

Unearned Revenue

Unearned revenue occurs when funds have been collected in advance of an event, such as summer quarter tuition revenue, and unspent cash advances on certain grants.

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.

Net Pension 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 reports at fair value.

In FY17, the College also reports 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.

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

Net Position

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

> **Investment in capital assets** – The College's total investment in property, plant and equipment, net of accumulated depreciation and any outstanding debt related to those capital assets. The College had no debt related to its capital assets in 2016, however did acquire a $3 million COP in 2017. 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, 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.
>
> **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.

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.

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, e.g. Federal Pell grant, State Need grant and other revenues are recorded as either operating or non-operating revenues from these programs in the College's financial statement. To the extent that revenues from these programs are used to pay tuition, fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are $5,656,438.

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 and 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 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.

Due to and Due from State Treasurer

Amounts due from the Washington State Treasurer's office are for reimbursements owed the College for spending on state operating and capital appropriations. Amounts due to the Washington State Treasurer's office represent amounts owed for tuition remittance collected by the College, but not yet paid to the state treasurer.

Violations

The College does not have any material violations of finance-related legal or contractual provisions.

Note 2. Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of $2,013,517 as a result of the implementation of GASB Statement No. 73.

Statement No. 82 *Pension Issues*—an amendment of GASB Statements No. 67, No. 68, and No. 73. GASB Statement No. 82 amends the definition of covered payroll for pensions reported in required supplementary information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, the required supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based.

Accounting Standard Impacting the Future

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB),* which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 19, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determine OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. This Statement will have a significant impact on the College's financial statements.

Note 3. Cash and Cash Equivalents

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (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 Pooled Investments." The Office of the State

Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

The LGIP 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.

As of June 30, 2017, the carrying amount of the College's cash and equivalents was $10,514,550 as represented in the table below.

Cash and Cash Equivalents	June 30, 2017
Petty cash and change funds	$ 371,359
Bank demand and time deposits	4,492,469
Local government investment pool	5,650,722
Total Cash and Cash Equivalents	$ 10,514,550

Cash and cash equivalents includes restricted cash and cash equivalents of $3,456,872 at June 30, 2017. The majority of the restricted balances comes from the collection of student self-assessed fees for their contribution towards the construction of the TransAlta Commons and athletic multi-purpose field project.

Note 4. Accounts Receivable

Accounts receivable for 2017 consists of the following:

	June 30, 2017
Federal, state, local and private grants	$ 1,617,047
Student tuition and fees	461,302
Other operating activities	3,886
Subtotal	2,095,005
Allowance for uncollectible accounts	(14,947)
	$ 2,067,288
Restricted investment for COP proceeds	$ 830

Due from State Treasurer represents the amount due to the College for operating and capital appropriations. At June 30, 2017 this amount is $2,323,415.

Prepaid expenses at June 30, 2017 were $95,035.

Note 5. Investments

There are several factors that affect the value of investments. GASB Statement No. 40 requires disclosure of College investments, through its investment policy, on how the College manages its exposure to risks, such as custodial credit risk, concentration (and quality) of credit risk, and interest rate risk.

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. 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.

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the College to greater risks resulting from adverse economic, political, regulatory, geographic and credit developments. 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.

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. The College manages 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.

The College has $6 million in US Government sponsored enterprise bonds, with staggered maturities, in $500,000 amounts. The original maturities ranged from six months to 42 months. The College has assessed the effects of Statement No. 72 on its investments, and reports investments at fair value. Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

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

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other publicly traded securities.

Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements.

The following table summarize the investments reported at fair value within the fair value hierarchy as of June 30, 2017:

Investments by fair value level	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed income securities				
U.S. Government Agency Securities	$ 5,976,664	-	5,976,664	-

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 Value	**Investment Maturities (in months)**		
Investments - Operating Funds	**6/30/2017**	**0-12**	**13-24**	**25-42**
U.S. Government Agency Securities	$ 5,976,664	1,496,126	1,992,196	2,488,342

Note 6. Inventories

Merchandise inventories for the College Bookstore at year-end, stated at cost using the first-in, first-out (FIFO) method were $269,184 at June 30, 2017.

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2017 is summarized as follows:

	June 30, 2016	**Additions**	**Retirements**	**June 30, 2017**
Non-depreciable Capital Assets				
Land	$ 5,609,048	$ 1,187,196	$ 14,250	$ 6,781,994
Construction in progress	15,287,164	16,285	15,287,164	16,285
Total non-depreciable assets	20,896,212	1,203,481	15,301,414	6,798,279
Depreciable Capital Assets				
Buildings	63,872,731	32,765,552	-	96,638,283
Improvements other than buildings	1,140,471	1,767,778	-	2,908,249
Furniture, fixtures and equipment	2,581,826	1,243,400	-	3,825,226
Library resources	2,273,256	11,563	-	2,284,819
Total depreciable assets	69,868,284	35,788,293	-	105,656,577
Accumulated Depreciation				
Buildings	21,137,919	1,643,881	-	22,781,800
Improvements other than buildings	701,904	49,960	-	751,864
Furniture, fixtures and equipment	1,917,208	252,896	-	2,170,104
Library resources	2,222,670	16,007	-	2,238,677
Total accumulated depreciation	25,979,701	1,962,744	-	27,942,445
Capital Assets, Net of Depreciation	$ 64,784,795	$ 35,029,030	$ 15,301,414	$ 84,512,411

The College recorded depreciation expense of $1,962,744 for the year ending June 30, 2017.

Note 8. Accounts Payable and Accrued Liabilities

At June 30, 2017, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	**Amount**
Owed to employees	$ 1,385,574
Accounts Payable	1,716,177
Held for others and retainage	631,104
	$ 3,732,854

Due to State Treasurer represents the amount due for the building fee portion of tuition collected. At June 30, 2017 this amount is $29,889.

Note 9. Unearned Revenue

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

Unearned Revenue		**Amount**
Student tuition and fees	$	291,057
Auxiliary enterprise sales		1,118
Other operating revenue		1,794
Total Unearned Revenue	$	293,969

Note 10. Risk Management

During the normal course of business, the College may become involved in various legal actions for which the outcome cannot be predicted. The College participates in the state's insurance program and is indemnified and will be paid for claims from the self-insurance program. It is the opinion of management that it will not materially affect the financial statements, in addition, the College purchases insurance from the Washington State's Department of Enterprise Services. These policies cover such areas as commercial property, athletics and medical malpractice liabilities. The College self-insures unemployment compensation for all employees, and is on a pay-as-you-go basis for paying unemployment compensation claims. Unemployment compensation claims paid totaled $33,847 for 2017.

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.

Note 11. 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 $689,733 and accrued sick leave totaled $1,095,564 at June 30, 2017.

Note 12. Leases Payable

The College leases facilities under a non-cancelable operating leases. At June 30, 2017, the College lease expense totaled $63,346.

Note 13. 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.

Note 14. Annual Debt Service Requirements

Future debt service requirements at June 30, 2017 are as follows.

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2018	$ 40,000	$ 172,640	$ 212,640
2019	85,000	127,750	$ 212,750
2020	90,000	123,500	$ 213,500
2021	90,000	119,000	$ 209,000
2022-2026	530,000	522,500	$ 1,052,500
2027-2031	685,000	374,750	$ 1,059,750
2032-2037	1,075,000	195,250	$ 1,270,250
Total	**$ 2,595,000**	**$ 1,635,390**	**$ 4,230,390**

Note 15. Schedule of Long Term Liabilities

Long Term Debt Liabilities	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Certificates of Participation	-	2,595,000	-	2,595,000	40,000
Compensated Absences	1,650,154	135,227	-	1,785,381	84
Net pension obligation	4,273,023	3,812,962	1,331,338	6,754,647	-
	5,923,177	6,543,189	1,331,338	11,135,028	40,084

Note 16. Pension Liability

Pension liabilities reported as of June 30, 2017 consists of the following:

Pension Liability by Plan		
PERS 1	$	2,227,448
PERS 2/3		2,341,053
TRS 1		426,711
TRS 2/3		142,149
SBRP		1,617,286
Total	**$**	**6,754,647**

Additional information on net pension liabilities can be found in Note 18 to these financial statements.

Note 17. 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 2017, the payroll for the College's employees was $4,894,118 for PERS, $707,857 for TRS, and $9,196,442 for SBRP. Total covered payroll was $14,798,417.

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 for Centralia College, for fiscal year 2017:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ 6,754,647
Deferred outflows of resources related to pensions	$ 1,201,048
Deferred inflows of resources related to pensions	$ 575,307
Pension expense	$ 587,777

As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state. The College implemented Statement No. 73 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 for the fiscal year 2017 financial reporting. The College has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the Higher Education Supplemental Retirement Plan in alignment with the State CAFR.

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.

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, 2017, 2016, and 2015 are as follows:

PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.69%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required Contributions

	FY 2015		**FY 2016**		**FY 2017**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 18,843	$ 28,925	$ 16,202	$ 30,190	$ 12,964	$ 24,157
Plan 2	166,218	311,152	224,832	410,724	235,688	430,555
Plan 3	46,895	58,632	50,327	76,995	60,121	95,665
TRS						
Plan 1	4,296	7,440	4,305	9,398	4,240	9,279
Plan 2	6,367	13,324	7,627	16,770	6,302	13,907
Plan 3	27,339	36,408	35,149	54,203	46,354	71,696

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, 2016, 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	2.19%
PERS Plan 2/3	2.47%
TRS Plan 1	2.09%
TRS Plan 2/3	2.51%

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, 2016, 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%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
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
FY16 Pension Expense	130,281	319,367	27,401	38,759	515,808
Amortization of change in proportionate liability	9,316	(2,444)	(12,590)	11,175	5,457
Total Pension Expense	**139,597**	**316,923**	**14,811**	**49,934**	**521,265**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2015 to 2016 for each retirement plan are listed below:

	2015	2016
PERS 1	0.041306%	0.041476%
PER 2/3	0.045305%	0.046496%
TRS 1	0.012868%	0.012498%
TRS 2/3	0.010172%	0.010351%

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, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.00%
- Salary Increases 3.75%
- Investment rate of return 7.50%

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.

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 Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	2,686,089	2,227,457	1,832,776
PERS Plan 2/3	4,310,270	2,341,037	(1,218,645)
TRS Plan 1	524,558	426,711	342,430
TRS Plan 2/3	321,705	142,150	(165,135)

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in statement of net position relates to pensions.

Deferred outflows on 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 five-year period. Deferred outflows 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 state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

Deferred inflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred 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 state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

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	-	-	124,659	77,282
Difference between expected and actual earnings of pension plan investments	$ 56,084	-	286,477	-
Changes of Assumptions	-	-	24,197	-
Changes in College's proportionate share of pension liabilities	-	-	37,589	26,056
Contributions to pension plans after measurement date	$ 249,900	-	296,953	-
	$ 305,984	**$ -**	**$ 769,875**	**$ 103,338**

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-	10,753	6,307
Difference between expected and actual earnings of pension plan investments	13,534	-	22,883	-
Changes of Assumptions	-	-	1,447	-
Changes in College's proportionate share of pension liabilities	-	-	25,160	2,919
Contributions to pension plans after measurement date	9,116	-	42,296	-
	$ 22,650	**$ -**	**$ 102,539**	**$ 9,226**

The $598,264 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, 2018.

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
2018	(13,809)	(827)	(3,498)	8,899
2019	(13,809)	3,619	(3,498)	8,899
2020	51,507	228,669	12,662	24,156
2021	32,195	138,121	7,869	11,229
2022	-	-	-	(310)
2023	-	-	-	-
Total	**56,084**	**369,583**	**13,535**	**52,873**

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, 2017 were each $814,557.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $902,000. The College's share of this amount was $15,348. 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 FY 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $45,922. This amount was not used as a part of GASB73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for $13,280,150 million of the fund balance.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to the June 30, 2017, 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 2.85 percent to 3.58 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 3.58 percent for the June 30, 2017, measurement date.

Pension Expense

For the year ended June 30, 2017, the College reported $66,512 for pension expense in the State Board Retirement Plans.

Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 1.70%. 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.

Plan Membership

Membership of the State Board Supplemental Retirement Plans consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

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/(asset) of Higher Education Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans (expressed in thousands):

Change in Total Pension Liability	
Total Pension Liability	Amount
Service Cost	$ 92
Interest	60
Changes of benefit terms	-
Differences between expected and actual experience	(431)
Changes of assumptions	(102)
Benefit payments	(15)
Other	-
Net change in Total Pension Liability	(396)
Total Pension Liability - Beginning	2,013
Total Pension Liability - Ending	$ 1,617

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

Total Pension Liability	1% Decrease	Current Discount Rate	1% Increase
State Board for Community and Technical Colleges (SBCTC)	$ 109,199	95,050	83,332
Centralia College	$ 1,858	1,617	1,418

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

At June 30, 2017, the Higher Education Supplemental Retirement Plans 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	-	374,383
Changes of assumptions	-	88,360
Transactions subsequent to the measurement date	-	-
Total	-	462,743

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:

2018	$	(70,119)
2019		(70,119)
2020		(70,119)
2021		(70,119)
2022		(70,119)
Thereafter	$	(112,148)

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 18. Other Post-Employment Benefits

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

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $12.9 million, with an annual required contribution (ARC) of $1.2 million. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $250,222. The College's net OPEB obligation at June 30, 2017 was approximately $3.4 million. This amount is not included in the College's financial statements.

The College paid $2.9 million for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

Note 19. 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, 2017.

		2017
Academic support	$	6,347,506
Auxiliary enterprises		2,493,649
Institutional support		5,280,164
Instruction		8,770,221
Operations and maintenance		590,269
Scholarship, fellowship and other aid		4,315,006
Student services		10,064,933
Depreciation		1,962,744
Total operating expenses	$	39,824,492

Note 20. 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 2015, the College repaid the 13/15 biennium advance in the amount of $159,300 and was advanced $164,700 for the current 15/17 biennium.

Note 21. Component Unit

The Centralia College Foundation ("Foundation") is considered a legally separate component unit of the College and is discretely presented in the College's financial statements. The Foundation reports information on its financial position and activities according to the following three classes of net assets:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations they be maintained in perpetuity by the Foundation.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation or by passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations, including certain amounts designated by the Board of Directors.

The Foundation's financial statements can be obtained by contacting the Foundation at (360) 623-8668.

Note 22. 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 $171,870 for 2017, while the Foundation provides fundraising and financial services.

For restricted and unrestricted purposes, the Foundation distributed approximately $542,037 to the College for restricted and unrestricted purposes in 2017. Inter-entity transactions and balances between the College and Foundation are not eliminated for financial statement presentation purposes.

Note 23. 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.

Required Supplementary Information

Schedule of the College’s Proportionate Share of Net Pension Liabilities*

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

Public Employees’ Retirement System (PERS) Plan 1

Measurement Date of June 30

Fiscal Year	College’s proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College’s proportionate share of the net pension liability as a percentage of its covered payroll	Plan’s fiduciary net position as a percentage of the total pension liability
2014	0.042578%	$ 2,144,887	$ 4,268,619	50.25%	61.19%
2015	0.041307%	$ 2,160,741	$ 4,337,289	49.82%	59.10%
2016	0.041476%	$ 2,227,448	$ 4,607,963	48.34%	57.03%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

***These schedules will be built prospectively until they contain ten years of data.**

Schedule of the College's Proportionate Share of Net Pension Liabilities*

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

***These schedules will be built prospectively until they contain ten years of data.**

Schedule of the College's Proportionate Share of Net Pension Liabilities* ***continued***

Schedule of Centralia College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.013515%	$ 398,619	$ 523,662	76.12%	68.77%
2015	0.012868%	$ 407,677	$ 546,996	74.53%	65.70%
2016	0.012498%	$ 426,711	$ 570,355	74.81%	62.07%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

***These schedules will be built prospectively until they contain ten years of data.**

Schedule of the College's Proportionate Share of Net Pension Liabilities* ***continued***

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

Teachers' Retirement System (TRS) Plan 2/3

Measurement Date of June 30

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

***These schedules will be built prospectively until they contain ten years of data.**

Schedule of College Contributions*

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 188,463	$ 188,463	$ -	$ 4,268,619	4.42%
2015	$ 189,844	$ 189,844	$ -	$ 4,337,289	4.38%
2016	$ 235,208	$ 235,208	$ -	$ 4,607,963	5.10%
2017	$ 246,716	$ 246,716	$ -	$ 4,894,118	5.04%
2018					
2019					
2020					
2021					
2022					
2023					

***These schedules will be built prospectively until they contain ten years of data.**
****Includes an administrative fee of 0.18% levied by the Washington State Department of Retirement Systems to cover administrative expenses.**

Schedule of College Contributions*

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 193,752	$ 193,752	$ -	$ 3,925,044	4.94%
2015	$ 201,813	$ 201,813	$ -	$ 4,021,139	5.02%
2016	$ 268,419	$ 268,419	$ -	$ 4,338,193	6.19%
2017	$ 291,635	$ 291,635	$ -	$ 4,681,195	6.23%
2018					
2019					
2020					
2021					
2022					
2023					

***These schedules will be built prospectively until they contain ten years of data.**
****Includes an administrative fee of 0.18% levied by the Washington State Department of Retirement Systems to cover administrative expenses.**

<u>Schedule of College Contributions* *continued*</u>

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 1
Fiscal Year Ended June 30

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

***These schedules will be built prospectively until they contain ten years of data.**
****Includes an administrative fee of 0.18% levied by the Washington State Department of Retirement Systems to cover administrative expenses.**

Schedule of College Contributions* *continued*

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 2/3
Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 26,017	$ 26,017	$ -	$ 452,004	5.76%
2015	$ 27,033	$ 27,033	$ -	$ 475,173	5.69%
2016	$ 41,457	$ 41,457	$ -	$ 513,872	8.07%
2017	$ 42,800	$ 42,800	$ -	$ 637,270	6.72%
2018					
2019					
2020					
2021					
2022					
2023					

***These schedules will be built prospectively until they contain ten years of data.**
****Includes an administrative fee of 0.18% levied by the Washington State Department of Retirement Systems to cover administrative expenses.**

<u>Schedule of College Contributions* *continued*</u>

Schedule of Changes in the Total Pension Liability and Related Ratios Centralia College Fiscal Year Ended June 30 *(expressed in thousands)*	
	2017
Total Pension Liability	
Service Cost	$ 92
Interest	60
Changes of benefit terms	-
Differences between expected and actual experience	(431)
Changes of assumptions	(102)
Benefit Payments	(15)
Other	-
Net Change in Total Pension Liability	**(396)**
Total Pension Liability - Beginning	**2,014**
Total Pension Liability - Ending	**$ 1,617**
College's Proportion of the Pension Liability	1.701511%
Covered-employee payroll	$ 9,196
Total Pension Liability as a percentage of covered-employee payroll	17.58684%

***These schedules will be built prospectively until they contain ten years of data.**

<u>State Board Supplemental Defined Benefit Plans</u>

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.

2017 Graduation Day

Centralia College

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