



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Yakima Valley College

For the period July 1, 2019 through June 30, 2020

*Published March 18, 2021*

Report No. 1027937



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**Office of the Washington State Auditor  
Pat McCarthy**

March 18, 2021

Board of Trustees  
Yakima Valley College  
Yakima, Washington

**Report on Financial Statements**

Please find attached our report on the Yakima Valley College's financial statements.

We are issuing this report in order to provide information on the College's financial condition.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

### **Yakima Valley College July 1, 2019 through June 30, 2020**

Board of Trustees  
Yakima Valley College  
Yakima, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the Yakima Valley College, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 11, 2021.

Our report includes a reference to other auditors who audited the financial statements of the Foundation of Yakima Valley College, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results to the results of other auditor, is based solely on the reports of the other auditors.

The financial statements of the Yakima Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in the 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 unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2020, 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.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy  
State Auditor  
Olympia, WA

March 11, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Yakima Valley College July 1, 2019 through June 30, 2020**

Board of Trustees  
Yakima Valley College  
Yakima, Washington

#### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Yakima Valley College, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 10.

#### **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 Foundation of the Yakima Valley College, which represent 100 percent of the assets, net position and revenue of the aggregate discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation of the Yakima Valley College, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards

require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Yakima Valley College, as of June 30, 2020, 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.

## **Matter of Emphasis**

As discussed in Note 1, the financial statements of the Yakima Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in the 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 unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2021 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.



Pat McCarthy

State Auditor

Olympia, WA

March 11, 2021

## **FINANCIAL SECTION**

### **Yakima Valley College July 1, 2019 through June 30, 2020**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Foundation of Yakima Valley College Statement of Financial Position – 2020

Foundation of Yakima Valley College Statement of Activities and Changes in Net Assets  
– 2020

Notes to Financial Statements – 2020

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Yakima Valley College's Proportionate Share of Net Pension Liabilities –  
PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2020

Schedule of Contributions – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2020

Schedule of Changes in Total Pension Liability and Related Ratios – 2020

Schedule of Changes in Total OPEB Liability and Related Ratios – 2020

## **Management's Discussion and Analysis**

### **Yakima Valley College**

The following discussion and analysis provides an overview of the financial position and activities of Yakima Valley College (the College) for the fiscal year ended June 30, 2020 (FY 2020). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

### **Reporting Entity**

Yakima Valley College is one of 34 public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 8,170 students. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. The College was established in 1928 and its primary purpose is to enrich and enhance individuals and communities by delivering accessible, student-centered education. The College addresses the needs of its diverse communities by providing learning opportunities in basic literacy; academic, professional and technical education; and lifelong learning.

The College's main campus is located in Yakima, Washington, a community of about 94,000 residents. The College also has a campus in Grandview, Washington and learning centers in Ellensburg, Toppenish and Sunnyside, Washington. The College is governed by a five-member Board of Trustees appointed by the governor of the state with the consent of the state Senate. In accordance with Washington State law governing community and technical colleges, the College's board includes one member from business and one member from labor. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

### **Using the Financial Statements**

The financial statements presented in this report encompass the College and its discretely presented component unit. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2020. The Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial

position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

**Statement of Net Position**

The Statement of Net Position provides information about the College's financial position and presents the College's assets, deferred outflows, liabilities, deferred inflows, and net position at year end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position is as follows:

<b>Yakima Valley College</b>		
<b>Condensed Statement of Net Position</b>		
<b>As of June 30, 2020</b>		
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current Assets	\$ 47,870,012	\$ 22,113,016
Capital Assets, net	\$ 109,681,008	\$ 98,940,900
Other Assets, non-current	\$ 15,306,209	\$ 25,053,564
<b>Total Assets</b>	<b>\$ 172,857,229</b>	<b>\$ 146,107,480</b>
<b>Deferred Outflows of Resources</b>	<b>\$ 4,980,793</b>	<b>\$ 2,798,418</b>
<b>Liabilities</b>		
Current Liabilities	\$ 6,714,376	4,061,514
Other Liabilities, non-current	\$ 49,149,968	24,567,242
<b>Total Liabilities</b>	<b>\$ 55,864,344</b>	<b>28,628,756</b>
<b>Deferred Inflows of Resources</b>	<b>\$ 8,338,428</b>	<b>9,081,986</b>
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 92,087,256	98,940,900
Restricted	\$ 8,150,192	13,952,764
Unrestricted	\$ 13,397,801	(1,698,508)
<b>Total Net Position</b>	<b>\$ 113,635,249</b>	<b>111,195,156</b>

Current assets consist primarily of cash, short-term investments, and various accounts receivables. The increase of current assets in FY 2020 can be attributed to a new receivable

related to the Certificate of Participation (COP) for construction of the West Campus Expansion project and a reclass of long-term investments to short-term.

Net capital assets increased by \$10,740,108 from FY 2019 to FY 2020. After taking into consideration current depreciation expense of \$3,346,633, the majority of the increase is the result of the ongoing West Campus Expansion project and various improvements and property purchases for future expansion.

Non-current assets consist primarily of the long-term portion of certain investments. The decrease in non-current assets in FY 2020 can be attributed to matured investments and long-term investments reclassified as short-term.

Deferred outflows of resources and deferred inflows of resources represent deferrals in pension and post-employment benefits associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY 2018. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) for pensions due to differences between expected and actual experience related to the actuarial assumptions. The College recorded \$2,798,418 in FY 2019 and \$4,980,793 in FY 2020 of pension and post-employment-related deferred outflows. The increase in deferred outflows related to pensions reflects the change in the College's proportionate share.

The decrease in deferred inflows in FY 2020 reflects the decrease in difference between actual and projected investment earnings on the state's pension plans and other post-employment benefits.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year based on year end expenditures.

When compared to FY 2019, FY 2020 payables increased slightly by \$6,718.

FY 2020 shows a large increase in unearned revenue primarily due to the undistributed portion of CARES Act student aid funds that will be fully distributed in FY 2021.

The increase in current liabilities from FY 2019 to FY 2020 is primarily due to a \$23,739 increase in the short-term portion of the liability for post-employment benefits (OPEB) and the current portion of \$590,000 for the newly acquired COP debt.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, OPEB and pension liabilities, and the long-term portion of the newly acquired Certificate of Participation (COP) debt. The non-current liabilities significantly increased as a result of the new COP which is funding the West Campus Expansion project. Other increases are due to the changes in assumptions and the College's proportionate share of the post-employment benefit liability for the State's OPEB.

Net position represents the value of the College’s assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in four categories:

***Net Investment in capital assets*** – The College’s total investment in property, plant, equipment and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.

***Restricted-Nonexpendable*** - Consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only.

***Restricted-Expendable*** – Resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The expendable funds for the College consist of donated properties given to the College by the Estate of Margarita Hackett, earned revenue from endowments restricted for scholarships, and various grants and donations restricted for specific purposes.

***Unrestricted*** – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. 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.

<b>Net Position</b> As of June 30th	<b>FY 2020</b>	<b>FY 2019</b>
Net investment in capital assets	92,087,256	98,940,900
Restricted		
Expendable	8,126,728	13,929,299
Nonexpendable	23,465	23,465
Unrestricted (deficit)	13,397,801	(1,698,508)
<b>Total Net Position</b>	<b>\$ 113,635,249</b>	<b>\$ 111,195,155</b>

When compared to FY 2019, FY 2020 experienced a slight increase in total Net Position.

Investment in capital assets decreased this year due to the addition of debt for the College’s Certificates of Participation (COP) and its unamortized premium. The increase in Unrestricted reflects the change of pension and post-employment benefit liabilities and a reclass to fund balances previously reported as restricted. Despite the addition of COP debt, the College continues to maintain a strong financial position.

## **Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2020. The objective of the statement is to present the revenues earned, both operating and non-operating and the expenses paid or incurred by the College, along with any other revenues, expenses, and gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government entity without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment. When operating revenues, excluding state appropriations and Pell grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed comparison of the College's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2020 and 2019 is presented on the following page.

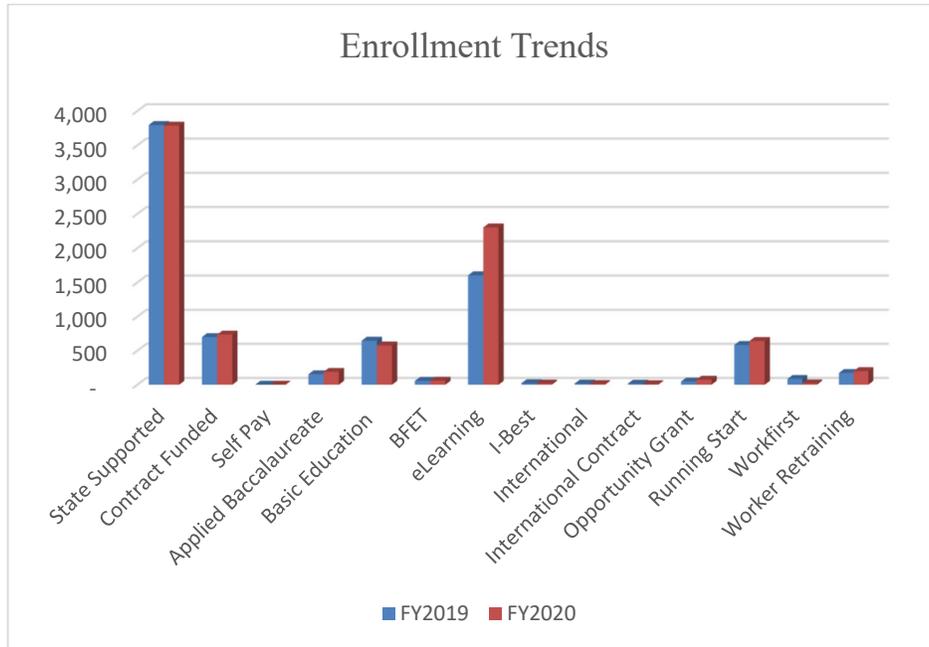
<b>Yakima Valley College</b>		
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Position</b>		
<b>For the Year Ended June 30, 2020 and 2019</b>		
	<b>2020</b>	<b>2019</b>
<b>Operating Revenues</b>		
Student tuition and fees, net	8,548,065	8,961,398
Auxiliary enterprise sales	2,061,971	2,167,622
Grants and contracts	20,059,565	17,631,544
Other operating revenues	300,682	358,385
<b>Total operating revenues</b>	<b>30,970,282</b>	<b>29,118,949</b>
<b>Non-Operating Revenues</b>		
State appropriations	21,547,763	20,402,556
Federal Pell grant revenue	10,650,238	10,551,568
Other non-operating revenues	2,817,824	1,001,217
<b>Total non-operating revenues</b>	<b>35,015,824</b>	<b>31,955,341</b>
<b>Total revenues</b>	<b>65,986,106</b>	<b>61,074,290</b>
<b>Operating Expenses</b>		
Salaries and Benefits	37,292,824	34,182,100
Scholarships	13,774,570	12,336,756
Depreciation	3,346,633	3,157,498
Other operating expenses	7,758,890	7,955,758
<b>Total operating expenses</b>	<b>62,172,916</b>	<b>57,632,112</b>
<b>Non-Operating Expenses</b>		
Building fee remittance	1,387,997	1,336,318
Other non-operating expenses	777,715	320,472
<b>Total non-operating expenses</b>	<b>2,165,712</b>	<b>1,656,790</b>
<b>Total expenses</b>	<b>64,338,629</b>	<b>59,288,902</b>
<b>Excess (deficiency) before capital contributions</b>	<b>1,647,477</b>	<b>1,785,388</b>
<b>Capital appropriations and contributions</b>	<b>792,616</b>	<b>2,695,599</b>
<b>Change in Net position</b>	<b>2,440,094</b>	<b>4,480,987</b>
<b>Net Position</b>		
Net position, beginning of year	111,195,156	106,363,809
Prior period adjustment	-	350,360
Net position, beginning of year, as restated	-	106,714,169
<b>Net position, end of year</b>	<b>113,635,249</b>	<b>111,195,156</b>

## Revenues

The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each of the 34 colleges. In FY 2017, the State Board for Community and Technical Colleges elected to move to a new allocation model, changing how 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 demand 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.

Additionally, the Supplemental Budget also reduces the general fund by the amount set aside specifically for Pension Stabilization. This method of allocation will continue in FY 2021.

Enrollments increased by one percent in FY 2020, however, there was a 4.60 percent decrease in the College’s tuition and fee revenue. The revenue decrease was due to the deduction of the scholarship and fellowship allowance calculation that increased as a result of additional funding from the Washington College grant and CARES Act student emergency aid funding.



Pell grant revenues generally follow enrollment trends. As the College’s enrollment increased slightly, so did the College’s Pell grant revenue due to additional financial aid awards in FY 2020. The College attempted to hold other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

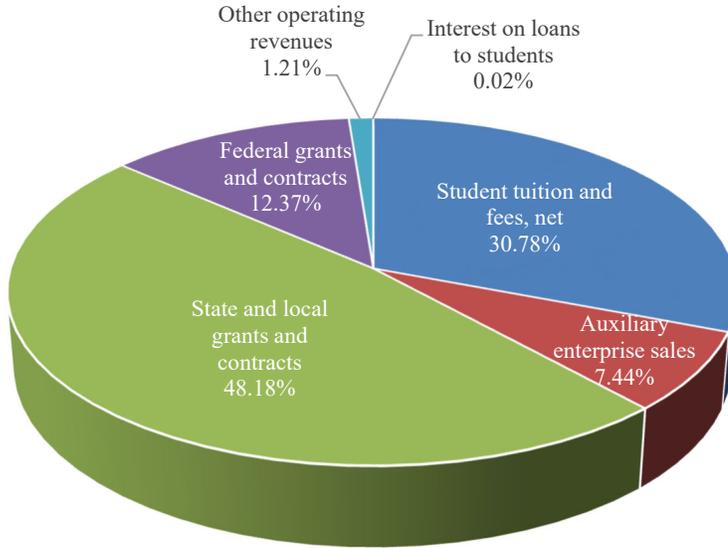
In FY 2020, grant and contract revenues increased by \$2,428,021 when compared with FY 2019 due to increased enrollment and rates for the Running Start program and an increase in Washington College grant reimbursements. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars.

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 appropriation revenue on the financial statement is the amount expended in the current year. Expenses from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenses that meet the capitalization standard are not shown as expensed in the current period and are instead recognized as a depreciation expense over the expected useful lifetime of the asset.

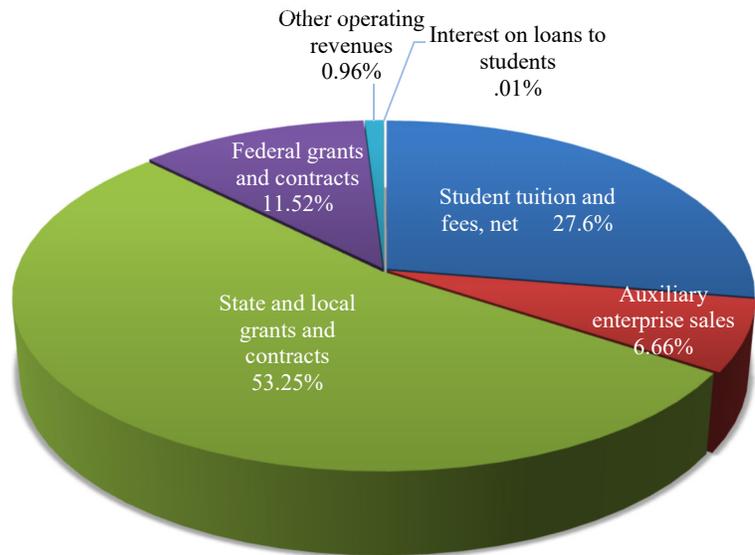
## Comparison of Operating Revenue by Category

The following charts below show comparative Operating Revenue by Category for FY 2019 and FY 2020.

### FY 19 Operating Revenue by Category



### FY 20 Operating Revenue by Category



## Expenses

While the College's state allocations have been slightly increasing since FY 2013, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College has supplemented operations by planned usage of reserves to focus on student success initiatives.

More recently, in FY 2020, salary and benefit costs increased as a result of new positions, a 3.0 percent COLA salary increase approved by the Legislature, and increased unemployment benefits due to the COVID-19 pandemic. Scholarships and fellowships increased due to an increase in grant scholarships and financial aid.

Utility costs slightly decreased as a result of the campus shutdown beginning mid-March in response to the governor’s stay-at-home order during the COVID-19 pandemic. Supplies and materials are slightly higher in FY 2020 primarily as a result of increased safety measures and supplies purchased in response to the COVID-19 pandemic.

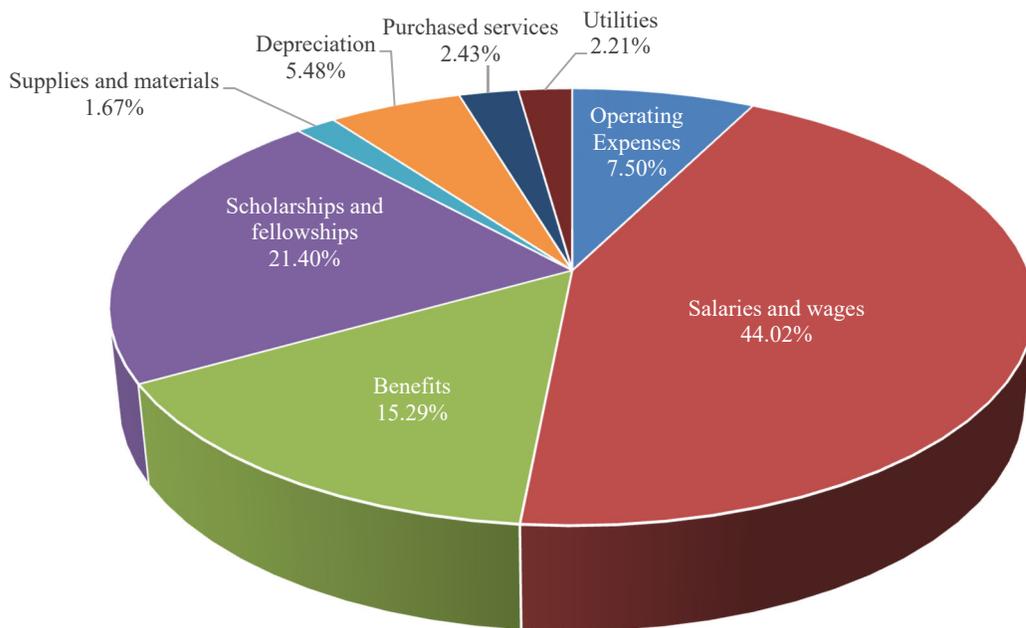
Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service.

All other costs are reported as operating expenses. Examples include travel, equipment rentals, repairs or maintenance, insurance, software maintenances or leases, etc.

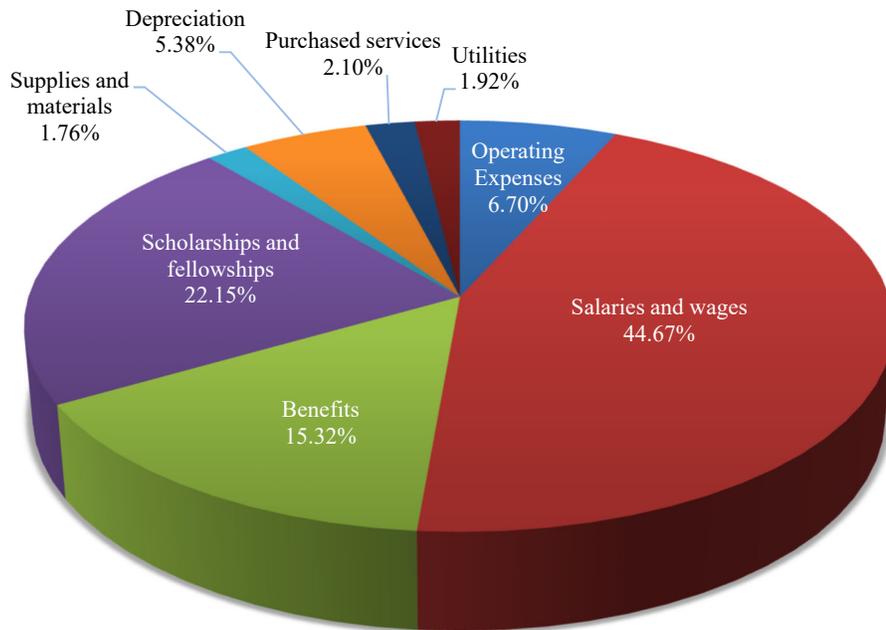
**Comparison of Selected Operating Expenses by Category**

The charts on the following page show the comparative Operating Expenses by Category for FY 2019 and FY 2020:

**FY 19 Operating Expense by Category**



## FY 20 Operating Expense by Category



### Capital Assets and Long-Term Debt Activities

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

At June 30, 2020, the College had invested \$109,681,008 in capital assets, net of accumulated depreciation. This represents an increase of \$10,740,107 from last year, as shown in the following table.

Asset Type	June 30, 2020	June 30, 2019	Change
Land	9,155,912	9,022,940	132,972
Construction in Progress	14,343,396	1,474,206	12,869,190
Buildings, net	77,545,919	79,050,906	(1,504,987)
Other Improvements and Infrastructure, net	6,682,132	7,090,348	(408,216)
Equipment, net	1,849,577	2,151,756	(302,179)
Library Resources, net	104,072	150,744	(46,672)
<b>Total Capital Assets, Net</b>	<b>\$ 109,681,008</b>	<b>\$ 98,940,900</b>	<b>\$ 10,740,107</b>

The increase in net capital assets can be attributed to the ongoing West Campus Expansion project and various improvements and property purchases for future campus expansions. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

For the first time in many years, at June 30, 2020, the College had \$18,045,000 in outstanding debt. This represents an increase of \$18,045,000 from last year, as shown in the table below. The increase in debt is due to the College entering into a Certificate of Participation (COP) for the construction of the West Campus Expansion during FY 2020.

	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>Change</b>
Certificates of Participation	18,045,000	-	18,045,000
<b>Total</b>	<b>\$ 18,045,000</b>	<b>\$ -</b>	<b>\$ 18,045,000</b>

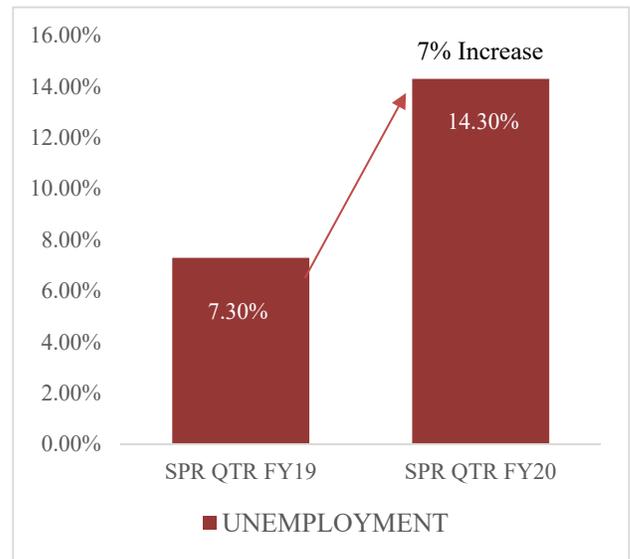
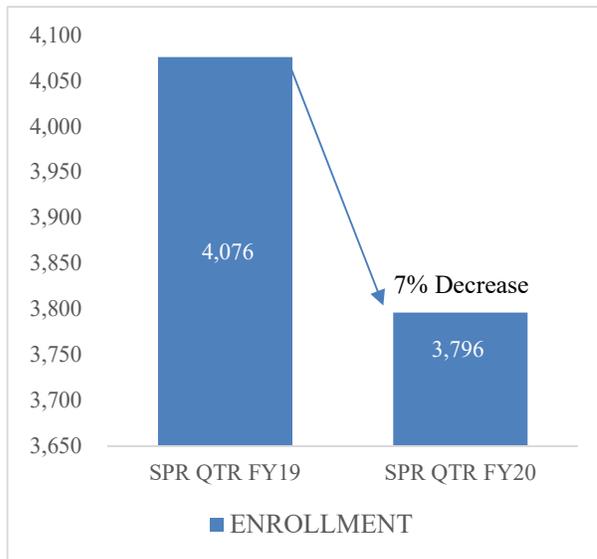
Additional information of long term debt and debt service schedules can be found in Notes 11 and 12 of the Notes to the Financial Statements.

**Economic Factors That May Affect the Future**

Due to the current allocation model, it is estimated that the College may likely see a decrease in state operating appropriations in future years due to declining enrollments. However, with our applied baccalaureate programs and increasing student success initiatives the allocation model impact may be minimal.

In FY 2020 we receive a significant increase in funding as a result of the Workforce Education Investment Act (E2SHB 2158). The bill created a new fund, the Workforce Education Investment Account. Appropriations from the account are supported by an increase in the Business and Occupation tax. These funds were allocated to the colleges as directed in the legislation. Most of these appropriations are budgeted to continue in FY 2021. There were no other significant changes to the method of allocating funds to college districts.

As the College continues to be affected by the results of the COVID-19 pandemic, a decrease in enrollments has been experienced. While historically colleges have seen an increase in enrollments in times of higher unemployment, this has not been the trend the College has experienced at this time. The College will be looking closely at ways to innovate instruction to attract more students.



In an effort to ensure fiscal sustainability, the College reduced expenses and placed a hold on filling most open positions in an effort to offset the loss of revenue due to decreased enrollment. This practice of prudent spending and monitoring budgets closely will continue into FY 2021 as the pandemic affects the College throughout the next academic year.

Yakima Valley College  
Statement of Net Position  
June 30, 2020

<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$	16,478,441
Restricted cash		
Short-term investments		15,312,617
Accounts receivable		16,072,811
Interest receivable		2,189
Inventories		3,904
Prepaid expenses		50
<b>Total current assets</b>		<u><b>47,870,012</b></u>
<b>Non-Current Assets</b>		
Long-term investments		15,306,209
Non-depreciable capital assets		23,499,309
Capital assets, net of depreciation		86,181,699
<b>Total non-current assets</b>		<u><b>124,987,217</b></u>
<b>Total assets</b>		<u><b>172,857,229</b></u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows related to pensions		2,647,589
Deferred outflows related to OPEB		2,333,204
<b>Total deferred outflows of resources</b>		<u><b>4,980,793</b></u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable		541,796
Accrued liabilities		1,547,409
Compensated absences, current portion		698,061
Deposits payable		106,059
Unearned revenue		2,840,851
Certificates of participation payable, current portion		590,000
Total pension liability, current portion		51,618
Total OPEB liability, current portion		338,584
<b>Total current liabilities</b>		<u><b>6,714,376</b></u>
<b>Non-Current Liabilities</b>		
Compensated absences		1,705,398
Certificates of participation payable		17,455,000
Unamortized premium on certificates of participation		4,042,118
Net pension liability		3,141,033
Total pension liability		3,509,051
Total OPEB liability		19,297,367
<b>Total non-current liabilities</b>		<u><b>49,149,968</b></u>
<b>Total liabilities</b>		<u><b>55,864,344</b></u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to pensions		2,267,788
Deferred inflows related to OPEB		6,070,640
<b>Total deferred inflows of resources</b>		<u><b>8,338,428</b></u>
<b>Net Position</b>		
Net Investment in Capital Assets		92,087,256
Restricted for:		
Nonexpendable		23,465
Expendable		7,168,007
Student Loans		958,720
Unrestricted (deficit)		13,397,801
<b>Total Net Position</b>		<u><b>\$ 113,635,249</b></u>

*The footnote disclosures are an integral part of the financial statements.*

Yakima Valley College  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2020

**Operating Revenues**

Student tuition and fees, net of scholarship discounts and allowances	\$	8,548,065
Auxiliary enterprise sales		2,061,971
State and local grants and contracts		16,492,159
Federal grants and contracts		3,567,406
Other operating revenues		296,863
Interest on loans to students		3,819
<b>Total operating revenue</b>		<b><u>30,970,282</u></b>

**Operating Expenses**

Salaries and wages		27,771,985
Benefits		9,520,839
Scholarships and fellowships		13,774,570
Supplies and materials		1,096,394
Depreciation		3,346,633
Purchased services		1,304,429
Utilities		1,191,942
Other operating expenses		4,166,126
<b>Total operating expenses</b>		<b><u>62,172,916</u></b>

**Operating income (loss)** **(31,202,635)**

**Non-Operating Revenues (Expenses)**

State appropriations		21,547,762
Federal non-operating revenue		1,311,510
Federal Pell grant revenue		10,650,238
Investment income, gains and losses		1,506,314
Building fee remittance		(1,387,997)
Innovation fund remittance		(334,458)
Interest on indebtedness		(443,257)
<b>Net non-operating revenue (expenses)</b>		<b><u>32,850,111</u></b>

Income or (loss) before other capital appropriations **1,647,476**

**Capital Contributions**

Capital appropriations		792,616
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**Increase (Decrease) in net position** **2,440,093**

**Net Position**

Net position, beginning of year		<u><b>111,195,156</b></u>
Net position, end of year	\$	<u><b>113,635,249</b></u>

*The footnote disclosures are an integral part of the financial statements.*

Yakima Valley College  
Statement of Cash Flows  
For the Year Ended June 30, 2020

<b>Cash flows from operating activities</b>	
Student tuition and fees	\$ 10,385,872
Grants and contracts	20,546,499
Payments to vendors	(3,075,270)
Payments for utilities	(1,173,183)
Payments to employees	(27,502,417)
Payments for benefits	(9,662,699)
Auxiliary enterprise sales	2,086,040
Payments for scholarships and fellowships	(13,774,570)
Loans issued to students and employees	3,819
Other receipts	266,073
Other payments	<u>(18,546,676)</u>
Net cash used by operating activities	<u>(40,446,512)</u>
<b>Cash flows from noncapital financing activities</b>	
State appropriations	21,931,706
Pell grants	10,650,238
Amounts for other than capital purposes	1,311,510
Building fee remittance	(1,425,520)
Innovation fund remittance	<u>(334,526)</u>
Net cash provided by noncapital financing activities	<u>32,133,408</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds of capital debt	(147,563)
Capital appropriations	1,033,760
Purchases of capital assets	(14,087,309)
Certificate of participation proceeds	22,852,424
Principal paid on capital debt	(405,000)
Interest paid	<u>(656,000)</u>
Net cash used by capital and related financing activities	<u>8,590,311</u>
<b>Cash flows from investing activities</b>	
Purchase of investments	7,608,084
Income of investments	<u>617,365</u>
Net cash provided by investing activities	<u>8,225,449</u>
<b>Increase in cash and cash equivalents</b>	8,502,656
<b>Cash and cash equivalents at the beginning of the year</b>	<u>7,975,785</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>16,478,441</u>
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
<b>Operating Loss</b>	<u>(31,202,635)</u>
<b>Adjustments to reconcile net loss to net cash used by operating activities</b>	
Depreciation expense	3,346,633
<b>Changes in assets and liabilities</b>	
Receivables, net	(13,563,120)
Inventories	(3,904)
Other assets	110
Accounts payable	8,696
Accrued liabilities	(822,110)
Unearned revenue	1,484,951
Compensated absences	394,946
Pension liability adjustment	(103,631)
Deposits payable	13,550
<b>Net cash used by operating activities</b>	<u>\$ (40,446,513)</u>
<b>Significant Noncash Transactions</b>	
Increase in fair value of investments	1,282,032
Loss on donated equipment disposals	22,521

*The footnote disclosures are an integral part of the financial statements.*

**Foundation of Yakima Valley College**  
**Statement of Financial Position**  
June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 1,045,201	\$ 1,045,201
Marketable securities	5,867	9,825,517	9,831,384
Certificates of deposit	-	484,475	484,475
<b>Total assets</b>	<b>\$ 5,867</b>	<b>\$ 11,355,193</b>	<b>\$ 11,361,060</b>
<b>Liabilities and Net Assets</b>			
<i>Liabilities</i>			
Scholarships payable	\$ 654,000	\$ -	\$ 654,000
Accrued liabilities	-	-	-
Due to related organizations	-	11,702	11,702
<b>Total liabilities</b>	<b>654,000</b>	<b>11,702</b>	<b>665,702</b>
<i>Total net assets</i>	(648,133)	11,343,491	10,695,358
<b>Total liabilities and net assets</b>	<b>\$ 5,867</b>	<b>\$ 11,355,193</b>	<b>\$ 11,361,060</b>

**Foundation of Yakima Valley College**  
**Statement of Activities and Changes in Net Assets**  
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<i>Revenues, Gains, and</i>			
<i>Other Support:</i>			
Contributions	\$ -	\$ 185,131	\$ 185,131
Administrative fees	129,060	-	129,060
Interest income	-	146,527	146,527
Dividend income	-	252,155	252,155
Realized/unrealized loss on investments	-	(357,974)	(357,974)
Net assets released from restrictions	825,281	(825,281)	-
Total revenues, gains, and support	<u>954,341</u>	<u>(599,442)</u>	<u>354,899</u>
<i>Expense</i>			
Program	872,068	-	872,068
General and administrative	20,996	-	20,996
Total expenses	<u>893,064</u>	<u>-</u>	<u>893,064</u>
<i>Changes in Net Assets</i>	61,277	(599,442)	(538,165)
<i>Net Assets, Beginning of the Year</i>	<u>(709,410)</u>	<u>11,942,933</u>	<u>11,233,523</u>
<i>Net Assets, End of the Year</i>	<u>\$ (648,133)</u>	<u>\$ 11,343,491</u>	<u>\$ 10,695,358</u>

## Notes to the Financial Statements

June 30, 2020

These notes form an integral part of the financial statements.

### Note 1. Summary of Significant Accounting Policies

#### Financial Reporting Entity

Yakima Valley College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate degrees, associates 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. These notes form an integral part of the financial statements.

The Yakima Valley College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1977 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to encourage, promote and support educational programs and scholarly pursuits at or in connection with the College. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2020, the Foundation distributed approximately \$579,573 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Office at 509-574-4645.

#### Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues,

Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the College's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

### **Basis of Accounting**

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

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

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

### **Cash, Cash Equivalents and Investments**

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

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis to the amount of operating cash being held by the fund. The internal investment pool is comprised of cash, cash equivalents, and U.S. Government Agency securities.

## **Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts and proceeds from Certificates of Participation that have not yet been received from the State Treasurer. Accounts receivable are shown net of estimated uncollectible amounts.

## **Capital Assets**

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB No. 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized.

Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the state of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources, and 2 to 10 years for most equipment.

The College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2020, no assets had been written down.

## **Unearned Revenues**

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer and fall quarter (July – September) tuition and fees, housing deposits, and housing revenue as unearned revenues.

## **Tax Exemption**

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

## **Net Pension Liability**

For purposes of measuring the net pension liability in accordance with GASB Statement No. 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB No. 68 (Accounting and Financial Reporting for Pensions)*. The reporting requirements are similar to GASB No. 68 but use current fiscal year end as the measurement date for reporting the pension liabilities.

## **OPEB Liability**

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

## **Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. 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/post-employment liability are reported as deferred outflows of resources.

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

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

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

## **Net Position**

The College's net position is classified as follows:

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

*Restricted for Nonexpendable.* This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.

*Restricted for Loans.* The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.

*Restricted for Expendable.* These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.

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

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

## **Classification of Revenues and Expenses**

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

*Operating Revenues.* This includes activities that are directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts that primarily support the operational/educational activities of the College. Examples include a contract with OSPI to offer Running Start. The College also receives Adult Basic Education grants that support the primary educational mission of the College.

*Operating Expenses.* Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.

*Non-operating Revenues.* This includes activities that are not directly related to the ongoing operations of the College, such as gifts and contributions, state appropriations, investment income, and Pell grants received from the federal government. In FY 20, non-operating revenues also included funds received through the federal CARES act.

*Non-operating Expenses.* Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on Certificate of Participation Loans.

### **Scholarship Discounts and Allowances**

Student tuition and fee revenues 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 charge for goods and services provided by the College and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2020 are \$8,143,806.

### **State Appropriations**

The State of Washington appropriates funds 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 Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of this fund is to implement new ERP software across the entire system. On a monthly basis, the College remits the portion of tuition collected for Building and Innovation Fees 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.

## Note 2. Accounting and Reporting Changes

### Accounting Standard Impacting the Future

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The college is following the State's Office of Financial Management directives on these postponements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which was to be in effect beginning FY 2021. GASB 95 postponed the effective date to FY 2022. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The College is following the State's Office of Financial Management directives to prepare for the implementation of this Statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the fiscal year ending June 30, 2021. GASB 95 has postponed the effective date to FY 2022. This Statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will no longer be included in the capitalized cost of capital assets reported by the College. The College is electing to implement this statement early, therefore no interest costs during FY 2020 construction of the West Campus project have been capitalized.

## Note 3. Deposits and Investments

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

### Investments in Local Government Investment Pool (LGIP)

The College is a participant in the Local Government Investment Pool as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The

State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200 or online at <http://www.tre.wa.gov>.

As of June 30, 2020, the carrying amount of the College’s cash and equivalents was \$16,478,441 as represented in the table below.

<b>Cash and Cash Equivalents</b>	<b>June 30, 2020</b>
Petty Cash and Change Funds	3,082
Bank Demand and Time Deposits	9,342,471
U.S. Agency Securities maturing in less than 90 days	5,245,000
Local Government Investment Pool	1,887,888
<b>Total Cash and Cash Equivalents</b>	<b>\$ 16,478,441</b>

**Custodial Credit Risks—Deposits**

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College’s deposits may not be returned to the College. The majority of the College’s demand deposits are with US Bank. All cash and cash equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

**Investments**

Investments consist of U.S. Government Agency Securities.

Fair value measurement is based on the assumptions that market participants would use in pricing the asset. The three levels of the fair value hierarchy are described as:

Level 1-Quoted market prices: Unadjusted quoted prices available in active markets for identical assets or liabilities

Level 2-Observable inputs: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other

inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3-Unobservable inputs that are significant to the fair value measurement.

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All of the College's investments fall within the hierarchy of Level 1.

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years
U.S. Government Agency Securities	35,863,827	20,553,475	15,310,352
<b>Total Investments</b>	<b>\$ 35,863,827</b>	<b>\$ 20,553,475</b>	<b>\$ 15,310,352</b>

### Interest Rate Risk—Investments

The College manages its exposure to fair value losses resulting from changes in interest rates by structuring the entire portfolio time horizon. Unless matched to a specific cash flow, the College generally will not directly invest in securities maturing more than five years from the date of purchase.

### Concentration of Credit Risk—Investments

State law limits college operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships, and negotiable certificates of deposit. College policy does not limit the amount the College may invest in any one issuer.

### Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2020, \$35,863,827 of the College's operating fund investments, held by US Bank and Key Bank as agents for the College and \$23,465 of endowment assets, held by US Bank for the account of the College, are exposed to custodial credit risk as follows:

<b>Investments Exposed to Custodial Risk</b>				<b>Fair Value</b>
US Bank	Bond	72	RFCS 07/15/20	1,046,909
US Bank	Bond	73	RFCS 01/15/21	1,056,098
US Bank	Bond	74	RFCS 07/15/20	2,090,818
Key Bank	Bond	75	FHLN 12/10/21	1,016,670
Key Bank	Bond	76	FHLN 12/08/21	1,008,770
US Bank	Bond	78	RFCS 10/15/20	2,121,183
US Bank	Bond	79	RFCS 01/15/21	3,196,243
US Bank	Bond	81	RFCS 10/15/20	2,124,180
US Bank	Bond	82	RFCS 07/15/20	2,106,817
US Bank	Bond	83	RFCS 01/15/21	2,143,140
US Bank	Bond	87	RFCS 10/15/20	1,618,613
US Bank	Bond	88	FFCB 05/18/22	1,033,638
US Bank	Bond	90	RFCS 01/15/21	2,040,325
US Bank	Bond	91	FNMA 05/06/21	1,009,150
US Bank	Bond	92	FMAC 09/16/22	2,005,462
US Bank	Bond	93	FFCB 11/01/23	2,084,452
US Bank	Bond	94	FHLM 11/12/24	2,009,830
US Bank	Bond	95	FHLM 01/13/25	1,020,139
US Bank	Bond	96	FHLM 01/16/24	1,000,608
US Bank	Bond	97	FFCB 01/23/23	2,069,246
US Bank	Bond	98	FHLB 04/14/23	1,027,416
US Bank	Bond	99	FFCB 08/07/23	1,034,121
<b>Total Investments Exposed to Custodial Risk</b>				<b>\$ 35,863,827</b>

### **Investment Expenses**

Investment income for the College is shown net of investment expenses. The College incurred \$1,301 in investment expenses for the fiscal year ended June 30, 2020.

### **Note 4. Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2020, accounts receivable were as follows on the next page.

<b>Accounts Receivable</b>	<b>Amount</b>
Student Tuition and Fees	316,047
Due from the Federal Government	646,432
Due from Other State Agencies	13,510,929
Auxiliary Enterprises	116,864
Other	1,610,915
<b>Subtotal</b>	<b>16,201,187</b>
Less Allowance for Uncollectible Accounts	(128,376)
<b>Accounts Receivable, net</b>	<b>\$ 16,072,811</b>

## Note 5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2020, is presented below. The current year depreciation expense was \$3,346,633.

<b>Capital Assets</b>	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>Non-depreciable capital assets</b>				
Land	9,022,939	132,972	-	9,155,911
Construction in progress	1,474,207	12,869,190	-	14,343,397
<b>Total non-depreciable capital assets</b>	<b>10,497,146</b>	<b>13,002,163</b>	<b>-</b>	<b>23,499,309</b>
<b>Depreciable capital assets</b>				
Buildings and improvements	110,992,537	544,064	-	111,536,601
Other improvements and infrastructure	9,782,266	-	-	9,782,266
Equipment	9,410,409	523,225	(579,238)	9,354,396
Library resources	563,970	17,861	(130,093)	451,738
<b>Subtotal depreciable capital assets</b>	<b>130,749,182</b>	<b>1,085,150</b>	<b>(709,331)</b>	<b>131,125,001</b>
<b>Less accumulated depreciation</b>				
Buildings	31,941,631	2,049,050	-	33,990,681
Other improvements and infrastructure	2,691,915	408,216	-	3,100,131
Equipment	7,258,654	802,883	(556,717)	7,504,820
Library resources	413,226	64,534	(130,093)	347,667
<b>Total accumulated depreciation</b>	<b>42,305,426</b>	<b>3,324,683</b>	<b>(686,810)</b>	<b>44,943,299</b>
<b>Total depreciable capital assets</b>	<b>88,443,756</b>	<b>(2,239,534)</b>	<b>(22,521)</b>	<b>86,181,701</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 98,940,902</b>	<b>\$ 10,762,629</b>	<b>\$ (22,521)</b>	<b>\$ 109,681,008</b>

## Note 6. Accounts Payable and Accrued Liabilities

At June 30, 2020, accrued liabilities are the following:

<b>Accounts Payable and Accrued Liabilities</b>	<b>Amount</b>
Amounts Owed to Employees	654,000
Accounts Payable	1,125,612
Amounts Held for Others and Retainage	309,592
<b>Total</b>	<b>\$ 2,089,204</b>

## Note 7. Unearned Revenue

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

Summer & Fall Quarter Tuition & Fees	1,376,757
Undisbursed CARES Student Aid Funds	1,411,738
Housing and Other Deposits	52,356
<b>Total Unearned Revenue</b>	<b>\$ 2,840,851</b>

## Note 8. Risk Management

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

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

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The College finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2019

through June 30, 2020, were \$69,256. Cash reserves for unemployment compensation for all employees at June 30, 2020, were \$28,151.

**Note 9. Compensated Absences**

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25 percent of the value of their accumulated sick leave credited to a Voluntary Employees’ Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. 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 \$1,033,077 and accrued sick leave totaled \$1,370,382 at June 30, 2020.

An estimated amount, based on a six-year average payout, is accrued as a current liability. The remaining amount of accrued annual and sick leave are categorized as non-current liabilities.

**Note 10. Notes Payable**

In FY 2020, the College obtained financing in order to fund the West Campus Expansion project through Certificates of Participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$18,450,000.

The College’s debt service requirements for this note agreement for the next five years and thereafter are as follows in Note 11.

**Note 11. Annual Debt Service Requirements**

Future debt service requirements at June 30, 2020, are as follows:

Fiscal year	Certificates of Participation		
	Principal	Interest	Total
2021	\$ 590,000	\$ 902,250	\$ 1,492,250
2022	620,000	872,750	1,492,750
2023	650,000	841,750	1,491,750
2024	685,000	809,250	1,494,250
2025	720,000	775,000	1,495,000
2026-2030	4,165,000	3,298,750	7,463,750
2031-2035	5,320,000	2,147,500	7,467,500
2036-2040	5,295,000	677,750	5,972,750
<b>Total</b>	<b>\$ 18,045,000</b>	<b>\$ 10,325,000</b>	<b>\$ 28,370,000</b>

## Note 12. Schedule of Long-Term Liabilities

	Balance outstanding			Balance outstanding 6/30/20	Current portion
	6/30/19	Additions	Reductions		
Certificates of Participation	-	18,450,000	(405,000)	18,045,000	590,000
Unamortized Premium on COP	-	4,254,861	(212,743)	4,042,118	-
Compensated Absences	2,008,513	1,402,320	(1,007,374)	2,403,459	698,061
Net pension liability	3,871,571	2,144,425	(2,874,963)	3,141,033	-
Total pension liability	2,650,031	3,612,287	(2,701,648)	3,560,670	51,618
OPEB liability	16,993,750	9,578,788	(6,936,587)	19,635,951	338,584
<b>Total</b>	<b>\$ 25,523,865</b>	<b>\$ 39,442,681</b>	<b>\$ (14,138,315)</b>	<b>\$ 50,828,231</b>	<b>\$ 1,678,263</b>

## Note 13. Retirement Plans

### A. General

The College offers three contributory pension plans: the Washington State Public Employees' Retirement System (PERS), the Washington State Teachers' Retirement System (TRS), and the State Board Retirement Plan (SBRP). PERS and TRS are cost sharing multiple-employer defined-benefit pension plans administered by the Washington State Department of Retirement Systems (DRS). The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. The SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and is available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

### Basis of Accounting

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

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for Yakima Valley College for FY 2020:

<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	6,701,702
Deferred outflows of resources related to pensions	2,643,103
Deferred inflows of resources related to pensions	2,267,788
Pension expense/expenditures	650,611

**Department of Retirement Systems**

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

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

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

Although some assets of the plans are commingled for investment purposes, each plan’s assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS and TRS plans is funded by an employer rate of 0.18 percent of employee salaries.

Pursuant to RCW 41.50.770, the College offers its employees that elect to participate a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

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

## **Higher Education**

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

### **B. College Participation in Plans Administered by the Department of Retirement System**

#### **PERS**

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

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

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

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

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

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

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

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

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

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

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

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

## **TRS**

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

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Although members can only be a member of either

Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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

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

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

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

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

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

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

## Contributions

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

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

The employer contribution rates (expressed as a percentage of covered payroll) and actual contributions for the year ended June 30, 2020, were as follows:

	PERS 1	PERS 2/3*	TRS 1	TRS 2/3*
Contribution Rate	4.88%	7.92%	7.19%	8.13%
Actual Contributions	\$ 394,259	\$ 630,284	\$ 79,944	\$ 90,423

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

## Actuarial Assumptions

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

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

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report.

The Office of the State Actuary (OSA) selected a 7.40 percent long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past

annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the WSIB.

The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2019, are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	20%	2.2%
Tangible Assets	7%	5.1%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
<b>Total</b>	<b>100%</b>	

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

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

**Discount rate**

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

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

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

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

<b>Pension Plan</b>	<b>1% Decrease (6.40%)</b>	<b>Current Discount Rate (7.40%)</b>	<b>1% Increase (8.40%)</b>
PERS 1	2,609,482	2,083,721	1,627,554
PERS 2/3	4,981,676	649,535	(2,905,273)
TRS 1	423,771	331,560	251,573
TRS 2/3	442,977	81,282	(212,801)

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

Pension Liabilities. At June 30, 2020, the College reported a total pension liability of \$3,141,033 for its proportionate share of the net pension liabilities as follows:

<b>Pension Plan</b>	<b>Liability</b>
PERS 1	\$ 2,082,045
PERS 2/3	\$ 647,178
TRS 1	\$ 331,033
TRS 2/3	\$ 80,777

The College’s proportionate share of pension liabilities for fiscal years ending June 30, 2019 and June 30, 2020 for each retirement plan are listed below:

	<b>2018</b>	<b>2019</b>	<b>Net Change</b>
PERS 1	.053357%	.054188%	.000831%
PERS 2/3	.065068%	.066870%	.001802%
TRS 1	.011224%	.013392%	.002168%
TRS 2/3	.011070%	.013490%	.002420%

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

Pension Expense.

For the year ended June 30, 2020, the College recognized pension expense as follows:

<b>Pension Plan</b>	<b>Pension Expense</b>
PERS 1	135,537
PERS 2/3	149,461
TRS 1	82,196
TRS 2/3	58,341
<b>TOTAL</b>	<b>\$ 425,536</b>

Deferred Outflows of Resources and Deferred Inflows of Resources.

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, 2020:

	<b>PERS 1</b>	
	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	139,210
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	394,259	-
<b>Totals</b>	<b>\$ 394,259</b>	<b>\$ 139,210</b>

	<b>PERS 2/3</b>	
	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Difference between expected and actual experience	186,093	139,646
Difference between expected and actual earnings of pension plan investments	-	945,459
Changes of assumptions	16,632	272,523
Changes in College's proportionate share of pension liabilities	71,010	72,978
Contributions subsequent to the measurement date	630,284	-
<b>Totals</b>	<b>\$ 904,019</b>	<b>\$ 1,430,607</b>

	TRS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	25,428
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	79,944	-
<b>Totals</b>	<b>\$ 79,944</b>	<b>\$ 25,428</b>

	TRS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	56,517	2,615
Difference between expected and actual earnings of pension plan investments	-	70,175
Changes of assumptions	30,643	21,597
Changes in College's proportionate share of pension liabilities	38,116	5,624
Contributions subsequent to the measurement date	90,423	-
<b>Totals</b>	<b>\$ 215,699</b>	<b>\$ 100,011</b>

The \$1,593,924 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 ending June 30, 2021.

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

Year ended June 30	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2020	(30,731)	(290,055)	(5,220)	(903)
2021	(72,794)	(486,634)	(13,651)	(20,518)
2022	(25,977)	(216,591)	(4,800)	(2,882)
2023	(9,708)	(116,564)	(1,757)	4,345
2024	-	(57,843)	-	10,262
Thereafter	-	10,815	-	34,961
<b>Total Net Deferred (Inflows)/Outflows</b>	<b>\$ (139,210)</b>	<b>\$ (1,156,872)</b>	<b>\$ (25,428)</b>	<b>\$ 25,265</b>

## **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 percent, 7.5 percent or 10 percent of salary and are matched by the College. Employee contributions for the year ended June 30, 2020, were \$1,283,667. Employer contributions for the year ended June 30, 2020, were \$1,287,585.

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 two 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, 2020, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of \$1,785,000. The College's share of this amount was \$43,341. 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 2020, the College paid into this fund at a rate of 0.50 percent of covered salaries, totaling \$76,075. This amount was not used as a part of GASB No. 73 calculations; its status as an asset has not been determined by the Legislature. As of June 30, 2020, the Community and Technical College system accounted for \$23,208,875 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2019, with the results rolled forward to the June 30, 2020, 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%-6.50%
<i>*Measurement reflects actual investment returns through June 30, 2018</i>	

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

Most actuarial assumptions used in the June 30, 2018, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the State Board Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate decrease from 3.50 percent to 2.21 percent.

Discount Rate. For purposes of determining the discount rate, the Bond Buyer 20-Bond general obligation index was used. Also reflected was the FY 2020 returns for the Teachers Insurance and Annuity Association of America (TIAA) and CREF investments which are used to determine a member’s assumed income.

Pension Expense. Pension expense for the fiscal year ending June 30, 2020, was \$225,075.

<b>Proportionate Share (%)</b>	<b>2.42758%</b>
Service Cost	\$ 85,364
Interest	96,025
Amortization of Differences Between Expected and Actual Experience	(61,408)
Amortization of Changes of Assumptions	89,834
Changes of Benefit Terms	-
Administrative Expenses	-
Other Changes in Fiduciary Net Position	-
<b>Proportionate Share of Collective Pension Expense</b>	<b>209,816</b>
Amortization of the Change in Proportionate Share of TPL	15,260
<b>Total Pension Expense</b>	<b>\$ 225,075</b>

Proportionate Shares of Pension Liabilities. The College’s proportionate share of pension liabilities for fiscal year ending June 30, 2020, was 2.43 percent. The College’s proportion of the

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

<b>Proportionate Share (%) 2019</b>	<b>2.40%</b>
<b>Proportionate Share (%) 2020</b>	<b>2.43%</b>
Total Pension Liability - Ending 2019	2,650,031
Total Pension Liability - Beginning 2020	2,679,686
Total Pension Liability - Change in Proportion	29,655
Total Deferred Inflow/Outflows - 2019	316,805
Total Deferred Inflow/Outflows - 2020	320,350
Total Deferred Inflows/Outflows - Change in Proportion	3,545
<b>Total Change in Proportion</b>	<b>\$ 33,200</b>

Plan Membership. Membership of the State Board Supplemental Retirement Plans consisted of the following at June 30, 2019, the most recent actuarial valuation date:

Number of Participating Members				
Plan	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
SRP	3	5	141	149

Change in Total Pension Liability. The following table presents the change in total pension liability of the State Board Supplemental Retirement Plans at June 30, 2020:

<b>Schedule of Changes in Total Pension Liability</b>	
	<b>Amount</b>
Service Cost	85,364
Interest	96,025
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	202,326
Changes in Assumptions	540,609
Benefit Payments	(43,341)
Change in Proportionate Share of TPL	29,653
Other	-
Net Change in Total Pension Liability	910,636
Total Pension Liability - Beginning	2,650,031
<b>Total Pension Liability - Ending</b>	<b>\$ 3,560,667</b>

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

<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
<b>2.50%</b>	<b>3.50%</b>	<b>4.50%</b>
\$ 4,094,459	\$ 3,560,669	\$ 3,120,876

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2020, the State Board Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Supplemental Benefit Retirement Plan</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference Between Expected and Actual Experience	287,768	449,167
Changes of Assumptions	677,707	122,150
Changes in College's proportionate share of pension liability	83,703	1,215
Transactions Subsequent to the Measurement Date	-	-
<b>Total</b>	<b>\$ 1,049,178</b>	<b>\$ 572,532</b>

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

**State Board Supplemental  
Retirement Plan**

FY Ending	Pension Expense
2021	43,686.47
2022	43,686.47
2023	43,686.47
2024	83,692.97
2025	143,727.00
Thereafter	118,174.92

**Note 14. Other Post-Employment Benefits**

Plan Description. In addition to pension benefits as described in Note 13, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other post-employment benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees’ Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

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

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

Employees Covered by Benefit Terms. Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units. Additionally, there are 76 of the state’s K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments not included in the state’s financial reporting who participate in the PEBB plan. The plan is also available to the retirees of the remaining 227 K-12 schools, charter schools, and ESDs, Membership in the PEBB plan for the College consisted of the following:

<b>Summary of Plan Participants As of June 30, 2019</b>	
Active Employees	413
Retirees Receiving Benefits*	139
Retirees Not Receiving Benefits**	20
Total Active Employees and Retirees	572

\*Reflects active employees eligible for PEBB program participation as of June 30, 2018.

\*\*Headcounts exclude spouses of retirees that are participating in a PEBB program as a dependent

\*\*\*This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. No benefits are allowed to them unless they choose to join in the future. In order to do so, they must show proof of continuous medical coverage since their separation of employment with the State of Washington that meets the requirements set forth in Washington Administrative Code 182-12-205.

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

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2018, the average weighted implicit subsidy was valued at \$347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be \$367 per adult unit per month. In calendar year 2020, the average weighted implicit subsidy is projected to be \$373 per adult unit per month.

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

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

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

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

<b>Required Premium*</b>	
Medical	\$ 1,100
Dental	81
Life	4
Long-term Disability	2
Total	1,187
Employer contribution	1,024
Employee contribution	162
Total	\$ 1,186

\*Per 2020 PEBB Financial Projection Model 3.3. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2020 which includes projected claims cost at the time of this reporting.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

**Total OPEB Liability.** As of June 30, 2020, the state reported a total OPEB liability of \$5.804 billion. The College’s proportionate share of the total OPEB liability is \$19,635,951. This liability was determined based on a measurement date of June 30, 2019.

**Actuarial Assumptions.** Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of June 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

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

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

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

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

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

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018, measurement date and 3.50 percent for the June 30, 2019, measurement date.

Additional detail on assumptions and methods can be found on OSA’s website:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

Changes in Total OPEB Liability. As of June 30, 2020, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

**Yakima Valley College**

<b>Proportionate Share (%)</b>	<b>0.3383257662%</b>
Service Cost	795,071
Interest Cost	689,679
Differences Between Expected and Actual Experience	-
Changes in Assumptions*	1,284,362
Changes of Benefit Terms	-
Benefit Payments	(315,486)
Changes in Proportionate Share	188,575
Other	-
Net Change in Total OPEB Liability	2,642,201
Total OPEB Liability - Beginning	16,993,750
<b>Total OPEB Liability - Ending</b>	<b>\$ 19,635,951</b>

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

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

**Discount Rate Sensitivity**

Current		
1% Decrease	Discount Rate	1% Increase
\$ 23,778,480	\$ 19,635,951	\$ 16,418,434

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

**Health Care Cost Trend Rate Sensitivity**

Current		
1% Decrease	Discount Rate	1% Increase
\$ 15,892,321	\$ 19,635,951	\$ 24,674,309

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ending June 30, 2020, the College will recognize OPEB expense of \$832,158. OPEB expense consists of the following elements:

<b>Proportionate Share (%)</b>	<b>0.3383257662%</b>
Service Cost	795,071
Interest Cost	689,679
Amortization of Differences Between Expected and Actual Experience	74,906
Amortization of Changes in Assumptions	(719,086)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	(8,412)
Administrative Expenses	-
<b>Total OPEB Expense</b>	<b>\$ 832,158</b>

As of June 30, 2020, the deferred inflows and deferred outflows of resources for the College are as follows:

<b>Proportionate Share (%)</b>	<b>0.3383257662%</b>	
<b>Deferred Inflows/Outflows of Resources</b>	<b>Deferred Inflows</b>	<b>Deferred Outflows</b>
Difference between expected and actual experience	524,342	-
Changes in assumptions	1,141,656	5,693,308
Transactions subsequent to the measurement date	338,584	-
Changes in proportion	328,622	377,332
<b>Total Deferred Inflows/Outflows</b>	<b>\$ 2,333,204</b>	<b>\$ 6,070,640</b>

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2021. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

<b>Proportionate Share (%)</b>	<b>0.3383257662%</b>	
2021	\$	(652,591)
2022	\$	(652,591)
2023	\$	(652,591)
2024	\$	(652,591)
2025	\$	(652,591)
Thereafter	\$	(813,065)

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

<b>Proportionate Share (%) 2018</b>	<b>0.3346126556%</b>
<b>Proportionate Share (%) 2019</b>	<b>0.3383257662%</b>
Total OPEB Liability - Ending 2018	16,993,750
Total OPEB Liability - Beginning 2019	17,182,325
Total OPEB Liability Change in Proportion	188,575
Total Deferred Inflows/Outflows - 2018	(5,578,463)
Total Deferred Inflows/Outflows - 2019	(5,640,366)
Total Deferred Inflows/Outflows Change in Proportion	(61,903)
<b>Total Change in Proportion</b>	<b>\$ 250,478</b>

### Note 15. 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, 2020.

<b>Expenses by Functional Classification</b>	
Instruction	21,372,066
Academic Support Services	4,791,601
Student Services	7,495,229
Institutional Support	5,323,580
Operations and Maintenance of Plant	4,937,615
Scholarships and Other Student Financial Aid	12,579,448
Auxiliary Enterprises	2,422,777
Depreciation	3,250,600
<b>Total operating expenses</b>	<b>\$ 62,172,916</b>

### Note 16. Commitments and Contingencies

The College has commitments of \$14,317,812 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

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

### Pension Plan Information

#### Cost Sharing Employer Plans

Schedules of Yakima Valley College's Proportionate Share of the Net Pension Liability

<b>Schedule of Yakima Valley College's Share of the Net Pension Liability</b> <b>Public Employees' Retirement System (PERS) Plan 1</b> Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College's 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	0.058736%	\$ 2,958,854	\$ 5,961,718	49.63%	61.19%	
2015	0.056501%	\$ 2,955,528	\$ 6,137,320	48.16%	59.10%	
2016	0.055989%	\$ 2,928,745	\$ 6,436,652	45.50%	57.03%	
2017	0.055621%	\$ 3,006,873	\$ 6,790,590	44.28%	61.24%	
2018	0.053357%	\$ 2,382,955	\$ 6,908,754	34.49%	63.22%	
2019	0.054188%	\$ 2,082,045	\$ 7,432,592	28.01%	67.12%	
2020						
2021						
2022						
2023						

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

## Cost Sharing Employer Plans

Schedules of Yakima Valley College's Proportionate Share of the Net Pension Liability

<b>Schedule of Yakima Valley College's Share of the Net Pension Liability</b> <b>Public Employees' Retirement System (PERS) Plan 2/3</b> Measurement Date of June 30						
Fiscal Year	College's proportion of the net pension liability	College's 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	0.064745%	\$ 1,308,730	\$ 5,603,855	23.35%	93.29%	
2015	0.061170%	\$ 2,362,399	\$ 5,866,535	40.27%	89.20%	
2016	0.066783%	\$ 2,386,195	\$ 6,235,164	38.27%	85.82%	
2017	0.067517%	\$ 3,362,471	\$ 6,619,420	50.80%	90.97%	
2018	0.065068%	\$ 1,110,976	\$ 6,770,302	16.41%	95.77%	
2019	0.066870%	\$ 647,178	\$ 7,298,402	8.87%	97.77%	
2020						
2021						
2022						
2023						

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

## Cost Sharing Employer Plans

Schedules of Yakima Valley College's Proportionate Share of the Net Pension Liability

<b>Schedule of Yakima Valley College's Share of the Net Pension Liability</b> <b>Teachers' Retirement System (TRS) Plan 1</b> Measurement Date of June 30						
Fiscal Year	College's proportionate share of the net pension liability	College's 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	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	0.006949%	\$ 204,958	\$ 298,791	68.60%	68.77%	
2015	0.007460%	\$ 236,343	\$ 353,980	66.77%	65.70%	
2016	0.010915%	\$ 345,803	\$ 527,068	65.61%	62.07%	
2017	0.010023%	\$ 372,664	\$ 548,621	67.93%	65.58%	
2018	0.011224%	\$ 327,807	\$ 659,005	49.74%	66.52%	
2019	0.013392%	\$ 331,033	\$ 906,979	36.50%	70.37%	
2020						
2021						
2022						
2023						

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

## Cost Sharing Employer Plans

Schedules of Yakima Valley College's Proportionate Share of the Net Pension Liability

<b>Schedule of Yakima Valley College's Share of the Net Pension Liability</b> <b>Teachers' Retirement System (TRS) Plan 2/3</b> Measurement Date of June 30						
Fiscal Year	College's proportionate share of the net pension liability	College's 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	0.006665%	\$ 21,527	\$ 282,941	7.61%	96.81%	
2015	0.007319%	\$ 61,758	\$ 341,300	18.09%	92.48%	
2016	0.010504%	\$ 88,633	\$ 514,008	17.24%	88.72%	
2017	0.009764%	\$ 144,251	\$ 535,321	26.95%	93.14%	
2018	0.011070%	\$ 49,828	\$ 649,470	7.67%	96.88%	
2019	0.013490%	\$ 80,777	\$ 906,979	8.91%	96.36%	
2020						
2021						
2022						
2023						

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

## Pension Plan Information

### Cost Sharing Employer Plans

#### Schedules of 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	
2015	\$ 259,678	\$ 259,678	\$ -	\$ 6,137,320	4.23%	
2016	\$ 317,511	\$ 317,511	\$ -	\$ 6,436,652	4.93%	
2017	\$ 334,577	\$ 334,577	\$ -	\$ 6,790,590	4.93%	
2018	\$ 357,882	\$ 357,882	\$ -	\$ 6,908,754	5.18%	
2019	\$ 390,245	\$ 390,245	\$ -	\$ 7,432,592	5.25%	
2020	\$ 394,259	\$ 394,259	\$ -	\$ 8,080,040	4.88%	
2021						
2022						
2023						

\*These schedules will be built prospectively until they contain 10 years of data.

**Cost Sharing Employer Plans**

Schedules of Contributions

<b>Schedule of Contributions</b> <b>Public Employees' Retirement System (PERS) Plan 2/3</b> 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	
2015	\$ 294,521	\$ 294,521	\$ -	\$ 5,866,535	5.02%	
2016	\$ 385,529	\$ 385,529	\$ -	\$ 6,235,164	6.18%	
2017	\$ 412,390	\$ 412,390	\$ -	\$ 6,619,420	6.23%	
2018	\$ 507,101	\$ 507,101	\$ -	\$ 6,770,302	7.49%	
2019	\$ 548,506	\$ 548,506	\$ -	\$ 7,298,402	7.52%	
2020	\$ 630,284	\$ 630,284	\$ -	\$ 7,959,486	7.92%	
2021						
2022						
2023						

\* These schedules will be built prospectively until they contain 10 years of data.

**Cost Sharing Employer Plans**

Schedules of Contributions

<p align="center"><b>Schedule of Contributions</b>  <b>Teachers' Retirement System (TRS) Plan 1</b>                      Fiscal Year Ended June 30</p>						
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	
2015	\$ 16,693	\$ 16,693	\$ -	\$ 353,980	4.72%	
2016	\$ 24,632	\$ 24,632	\$ -	\$ 527,068	4.67%	
2017	\$ 35,072	\$ 35,072	\$ -	\$ 548,621	6.39%	
2018	\$ 47,719	\$ 47,719	\$ -	\$ 659,005	7.24%	
2019	\$ 67,034	\$ 67,034	\$ -	\$ 906,979	7.39%	
2020	\$ 79,944	\$ 79,944	\$ -	\$ 1,111,702	7.19%	
2021						
2022						
2023						

\* These schedules will be built prospectively until they contain 10 years of data.

**Cost Sharing Employer Plans**

Schedules of Contributions

<p align="center"><b>Schedule of Contributions</b>  <b>Teachers' Retirement System (TRS) Plan 2/3</b>                      Fiscal Year Ended June 30</p>						
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	
2015	\$ 19,449	\$ 19,449	\$ -	\$ 341,300	5.70%	
2016	\$ 42,826	\$ 42,826	\$ -	\$ 514,008	8.33%	
2017	\$ 35,974	\$ 35,974	\$ -	\$ 535,321	6.72%	
2018	\$ 50,444	\$ 50,444	\$ -	\$ 649,470	7.77%	
2019	\$ 71,016	\$ 71,016	\$ -	\$ 906,979	7.83%	
2020	\$ 90,423	\$ 90,423	\$ -	\$ 1,111,702	8.13%	
2021						
2022						
2023						

\* These schedules will be built prospectively until they contain 10 years of data.

**State Board Supplemental Defined Benefits Plans**

<b>Schedule of Changes in the Total Pension Liability and Related Ratios</b>				
<b>Yakima Valley College</b>				
Fiscal Year Ended June 30				
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Total Pension Liability</b>				
Service Cost	\$ 126,216	\$ 91,927	\$ 68,455	\$ 85,364
Interest	81,876	84,481	82,803	96,025
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(590,329)	(249,864)	156,114	202,326
Changes of assumptions	(139,334)	(84,529)	293,537	540,609
Benefit Payments	(21,017)	(31,227)	(43,654)	(43,341)
Change in Proportionate Share		68,412	(1,186)	29,653
Other	-	96	-	-
<b>Net Change in Total Pension Liability</b>	<b>(542,587)</b>	<b>(120,704)</b>	<b>556,069</b>	<b>910,636</b>
<b>Total Pension Liability - Beginning</b>	<b>2,757,252</b>	<b>2,214,665</b>	<b>2,093,961</b>	<b>2,650,030</b>
<b>Total Pension Liability - Ending</b>	<b>\$ 2,214,665</b>	<b>\$ 2,093,961</b>	<b>\$ 2,650,030</b>	<b>\$ 3,560,666</b>
<b>College's Proportion of the Pension Liability</b>	2.3300%	2.4021%	2.4007%	2.4276%
<b>Covered-employee payroll</b>	\$ 13,024,256	\$ 13,717,762	\$ 14,025,526	\$ 15,150,642
<b>Total Pension Liability as a percentage of covered-employee payroll</b>	17.0042%	15.2646%	18.8943%	23.5017%

**State Board Supplemental Defined Benefit Plans  
Notes to Required Supplementary Information**

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

Required Supplementary Information

**Other Post-employment Benefits Information**

<b>Schedule of Changes in Total OPEB Liability and Related Ratios</b>			
<b>Measurement Date of June 30</b>			
<b>Total OPEB Liability</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Service cost	\$ 795,071.00	\$ 1,062,476	\$ 1,350,887
Interest cost	689,679.00	730,446	632,764
Difference between expected and actual experience	-	666,755	-
Changes in assumptions	1,284,362.00	(4,651,362)	(3,086,633)
Changes in benefit terms	-	-	-
Benefit payments	(315,486.00)	(308,504)	(322,467)
Changes in proportionate share	188,575.00	(432,443)	161,399
Other	-	-	-
<b>Net Changes in Total OPEB Liability</b>	<b>\$ 2,642,201.00</b>	<b>\$ (2,932,632)</b>	<b>\$ (1,264,050)</b>
<b>Total OPEB Liability - Beginning</b>	<b>\$ 16,993,750.00</b>	<b>\$ 19,926,382</b>	<b>\$ 21,190,432</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 19,635,951.00</b>	<b>\$ 16,993,750</b>	<b>\$ 19,926,382</b>
<b>College's proportion of the Total OPEB Liability (%)</b>	<b>0.338326%</b>	<b>0.334613%</b>	<b>0.34203600%</b>
<b>Covered-employee payroll</b>	<b>27,390,031</b>	<b>\$ 23,034,221</b>	<b>\$ 21,086,125</b>
<b>Total OPEB Liability as a percentage of covered-employee payroll</b>	<b>71.690138%</b>	<b>73.776101%</b>	<b>94.4999710%</b>

\*This schedule is to be built prospectively until it contains 10 years of data.

**Notes to Required Supplementary Information**

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

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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