Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Bates Technical College

For the period July 1, 2018 through June 30, 2019

Published October 4, 2021

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Office of the Washington State Auditor
Pat McCarthy

October 4, 2021

Board of Trustees
Bates Technical College
Tacoma, Washington

Report on Financial Statements

Please find attached our report on the Bates Technical 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

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Bates Technical College
July 1, 2018 through June 30, 2019

2019-001 The College lacked adequate internal controls for ensuring accurate preparation and review of financial statements.

Background

The State Board for Community and Technical Colleges (SBCTC) oversees community colleges throughout the state, providing general guidance and centrally tracked financial statement figures. College management, however, is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure the College follows all generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) statements.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- College management did not keep supporting documentation for the year-end adjustments
- The College lacked an effective internal control system for ensuring it completed necessary year-end financial entries. The College did not keep supporting documentation for entries it did complete.
- The College's review of financial statements and required footnote disclosures was inadequate for detecting and correcting errors before the audit

Cause of Condition

In July 2019, the College was victim to a ransomware attack against critical servers on its network. A significant loss of documentation is attributed to the attack.

The College experienced staff turnover in key positions, and did not dedicate sufficient resources to ensure staff had adequate training and accounting knowledge for reporting financial statements that were supported adequately and presented in accordance with GAAP.

Effect of Condition

During the audit, we identified:

- $13,412,874 in year-end adjusting journal entries lacked supporting documentation
- The Statement of Cash Flows had $978,368 in adjustments that lacked support, which was an uncorrected misstatement
- Benefits were understated by $126,449, which was an uncorrected misstatement
- A high number of presentation errors throughout the statements, which the College corrected

Recommendation

We recommend the College:

- Keep sufficient support for all journal entries posted to the accounting system, and have someone who can properly assess the effects of entries on the overall financial statements review and approve them

- Dedicate necessary time and resources for ensuring financial statements are accurately supported and prepared in compliance with GAAP

College's Response

Bates Technical College acknowledges the identified deficiencies identified by the Audit Findings. The impact of staff turnover in key administrative positions and a cyber-security data breach, which resulted in the loss of significant electronic documentation, contributed to the conditions identified in the report. College administration is working to maintain consistent staffing and continuity of operations through cross-training. As well, emerging from the cyber-attack, the college has created redundancy through use of cloud-based servers and data recovery services.

Auditor's Remarks

We appreciate the steps the College is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

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*

Bates Technical College
July 1, 2018 through June 30, 2019

Board of Trustees
Bates Technical College
Tacoma, 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 units of the Bates Technical College, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 28, 2021.

Our report includes a reference to other auditors who audited the financial statements of the Bates Technical College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

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

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 to be material weaknesses.

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

COLLEGE'S RESPONSE TO FINDINGS

The College's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

September 28, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Bates Technical College
July 1, 2018 through June 30, 2019

Board of Trustees
Bates Technical College
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Bates Technical College, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 13.

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 Bates Technical College Foundation (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

Matters of Emphasis

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 13 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 September 28, 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

September 28, 2021

FINANCIAL SECTION

Bates Technical College
July 1, 2018 through June 30, 2019

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management’s Discussion and Analysis

Bates Technical College

The following discussion and analysis provides an overview of the financial position and activities of Bates Technical College (the College) for the fiscal year ended June 30, 2019 (FY 2019). 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.

The College first opened by the Tacoma School District with vocational training on Sept 4, 1940, the program became known as the Tacoma Vocational School. The school’s name was changed to the Tacoma Vocational-Technical Institute in 1947. In 1969, the name was changed to the L.H. Bates Vocational Technical Institute. In 1991, state legislation separated the state’s vocational technical institutes from local school districts and merged them under the State Board for Community and Technical Colleges (SBCTC). The College’s primary purpose is to enrich diverse communities by inspiring student learning, challenging greater achievement, and educating for employment.

Bates Technical College is one of thirty public community and technical college districts in the state of Washington overseen by SBCTC. The College annually serves approximately 3,000 career training students and 10,000 more community members on three campuses in programs such as; continuing education, child studies, high school, general education, and basic studies. Classroom settings mirror the workplace, providing students with opportunities to practice and develop skills to levels required for successful employment. The College offers two-year associate of applied science degrees, certificates of competency, certificates of training, industry certifications, and in specific programs, prepares students for the achievement of state licensure. The College maintains articulation degrees with several four-year universities, making some of the College’s two-year degrees transferable.

The College has three campuses which are located in Tacoma, Washington, a community of about 205,000 residents. 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 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 it's discretely presented component unit Bates Technical College Foundation. 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, 2019. The Statement of Revenue, 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 of resources, liabilities, deferred inflows of resources, and net position of the College as of the end of the fiscal year. A condensed comparison of the Statement of Net Position is as follows:

Bates Technical College
Condensed Statement of Net Position
(in thousands)
As of June 30, 2019

	2019	2018	Increase (Decrease)	% varianc
Assets				
Current Assets	$ 20,092	$ 21,490	$ (1,398)	-6.5%
Capital Assets, net	53,220	53,026	$ 194	0.4%
Total Assets	73,312	74,516	(1,204)	-1.6%
Deferred Outflows of Resources	3,029	2,504	525	21.0%
Liabilities				
Current Liabilities	6,592	8,263	(1,671)	-20.2%
Other Liabilities, non-current	21,089	24,574	(3,485)	-14.2%
Total Liabilities	27,681	32,837	(5,156)	-15.7%
Deferred Inflows of Resources	8,000	3,951	4,049	102.5%
Net Position				
Net Investment in Capital Assets	52,795	52,464	331	0.6%
Restricted	106	61	45	73.8%
Unrestricted	(12,239)	(12,293)	54	-0.4%
Total Net Position, as restated	$ 40,662	$ 40,232	$ 430	1.1%

Current assets consist primarily of cash, various accounts receivables and inventories. Total current assets remained steady as compared to last year. The decrease in cash offset an increase in accounts receivable, net and due from the state treasurer. This increase in is mainly attributable to the timing of Federal financial aid assistance reimbursements.

Net capital assets remained consistent from FY 2018 to FY 2019. After taking into consideration current depreciation expense of $1.8 million, it is offset by the $1.7 million construction in process for the construction of Allied Health Science Building which is expected to be completed in 2021.

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/decrease in deferred outflows reflect the College's proportionate share of an increase/decrease in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $2.5 million in FY 2018 and $3 million in FY2019 of pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the increase in deferred inflows in 2019 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and 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 depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

Current liabilities decreased this year compared to last year primarily as a result of the decrease in OPEB liability reported in GASB statement 75.

There was a decrease in unearned revenue, as the Washington State Legislature did not pass a budget until the end of June, causing a delay in the availability of financial aid funds to pay summer quarter tuition.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt.

The College's non-current liabilities decreased $3.5 million in 2019. This due to the GASB Statement 75, reflecting the College's proportionate share of the postemployment benefit liability for state's OPEB. Specifically, the change in benefit terms and proportionate share which has reduced the total liability.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College experienced no material change in net position from 2018 to 2019 which is reported per accounting standards in the following 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:

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 primary expendable funds for the College are institutional financial aid which increased $0.4 million from 2018 to 2019 due to the timing of matching federal work-study funds.

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. The unrestricted portion had no material change from 2018 to 2019.

Bates Technical College
CONDENSED NET POSITION
(in thousands)
As of June 30, 2019

	FY2019	FY2018	Increase (Dcrease)	% variance
Net investment in capital assets	$ 52,795	$ 52,464	$ 331	0.6%
Restricted				
Expendable (description)	$ 106	$ 61	$ 45	73.8%
Unrestricted	$ (12,239)	$ (12,293)	$ 54	0.4%
Total Net Position	**$40,662**	**$40,232**	**$430**	**1.1%**

The College had a strong balance sheet for both 2018 and 2019. One measure of the College's ability to pay its short-term obligations is the current quick ratio. This is calculated by dividing current assets over current liabilities. The College's current ratio increased from 2.60 in 2018 to 3.05 in 2019. The quick ratio is another financial measure to assess the College's ability to pay its short-term obligations using its most liquid assets, which is calculated by dividing cash, accounts receivable and due from the state treasurer over current liabilities. The College's quick ratio also increased from 2.59 in 2018 to 3.03 in 2019. These increases may be attributable to the reduction in GASB Statement 75, OPEB liability.

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 2019. 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 revenue, expenses, 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 without directly giving equal value to that government in return. GASB 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 assets. 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 revenues, expense and changes in net position for the years ended June 30, 2019 and 2018 are presented below.

Bates Technical College
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019 and 2018

Operating Revenues	**2019**	**2018**	**Increase (Decrease)**	**% variance**
Student tuition and fees, net	7,147	6,764	383	6%
Auxiliary enterprise sales	575	648	(73)	-11%
State & local grants and contracts	12,901	12,463	438	4%
Other operating revenues	526	827	(301)	-36%
Total operating revenues	**21,148**	**20,702**	**446**	2%
Non-Operating Revenues				
State appropriations	19,476	20,125	(649)	-3%
Federal Pell grant revenue	2,459	3,428	(969)	-28%
Other non-operating revenues	-	1	(1)	-100%
Total non-operating revenues	21,935	**23,554**	**(1,619)**	**-7%**
Total revenues	**43,083**	**44,256**	**(1,173)**	**-3%**
Operating Expenses				
Salaries and Benefits	29,484	31,079	(1,595)	-5%
Scholarships	3,138	3,954	(816)	-21%
Depreciation	1,835	1,804	31	2%
Other operating expenses	10,864	9,387	1,477	16%
Total operating expenses	**45,321**	**46,224**	**(903)**	**-2%**
Non-Operating Expenses				
Building fee remittance	601	612	(11)	-2%
Other non-operating expenses	237	217	20	9%
Total non-operating expenses	**838**	**829**	**9**	**1%**
Total expenses	**46,159**	**47,053**	**(894)**	**-2%**
Deficiency before capital contributions	**(3,075)**	**(2,797)**	**(278)**	**10%**
Capital appropriations	**3,506**	**625**	**2,881**	**461%**
Change in Net position	**431**	**(2,172)**	**2,603**	**-120%**
Net Position				
Net position, beginning of year	40,232	42,404	(2,172)	-5%
Net position, end of year	**40,662**	**40,232**	**430**	**1%**

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 the appropriations to each college. In FY 2018, the SBCTC allocated funds to each of the 34 college's based on 3 year average FTE actuals. 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 FY2019.

Since enrollments decreased in FY 2018, when compared to FY 2017, the College's increase in tuition and fee revenue is primarily attributable to the increased tuition rates.

Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2019 so did the College's Pell Grant revenue. For FY 2019, 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. Examples include, apprenticeships and continuing education.

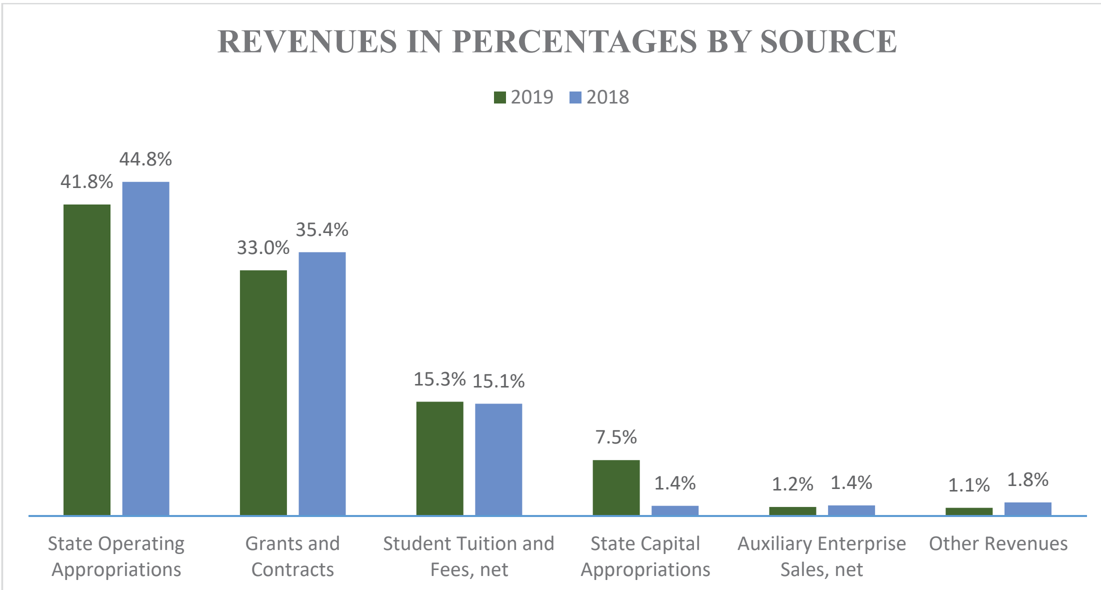
In FY 2019, grant and contract revenues increased by $0.4 million when compared with FY 2018. The College continued to serve students under the terms of contracted programs. The College is the site of a technical high school that serves the Tacoma area. The College receives direct apportionment dollars from the Office of the Superintendent of Public Instruction (OSPI) to serve these students. Annual increases to per student funding rates from OSPI contribute to the growth in grant funds year over year.

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 expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

REVENUE BY SOURCE
(in thousands)
Years ended June 30,

	2019	2019	2018	2018
State Operating Appropriations	$ 19,476	41.8%	$ 20,125	44.8%
Grants and Contracts	15,360	33.0%	15,891	35.4%
Student Tuition and Fees, net	7,147	15.3%	6,764	15.1%
State Capital Appropriations	3,506	7.5%	625	1.4%
Auxiliary Enterprise Sales, net	575	1.2%	648	1.4%
Other Revenues	526	1.1%	828	1.8%
Total Revenues	$ 46,589	100%	$ 44,881	100%

The following chart show a comparison of revenues in percentages by source, both operating and non-operating used to fund the College's programs for years ended June, 30, 2018 and 2019.



Expenses
Over sixty percent of the college's expenditures are made towards employee salary and benefit costs. When faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

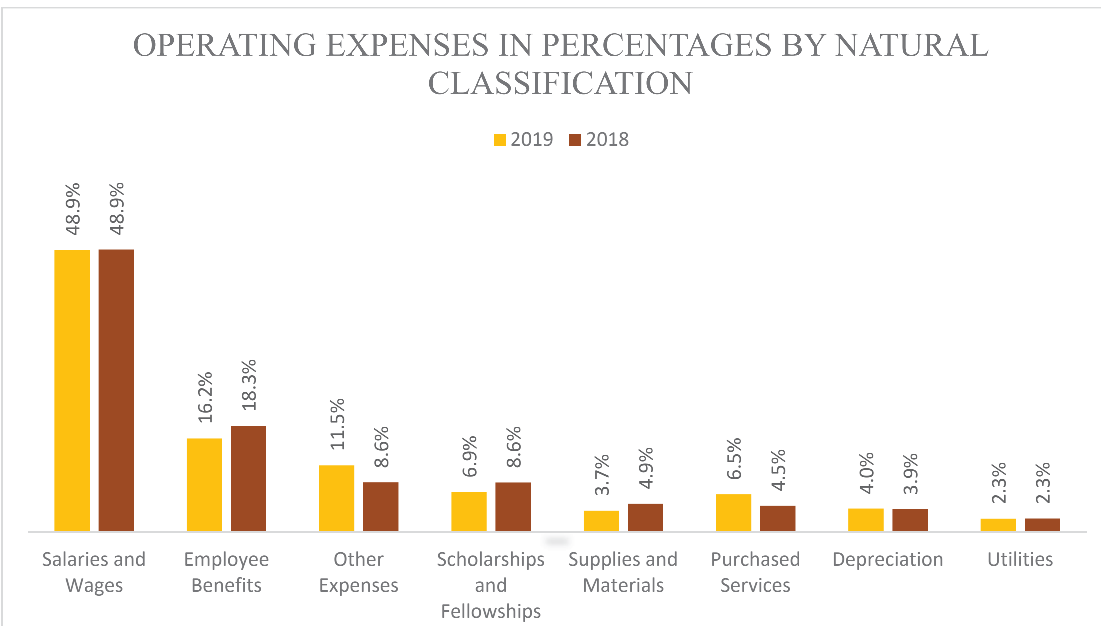
More recently, in FY 2019, despite an authorized 2 percent Cost of Living Increase to salary and increases in health insurance benefit costs, the college decreased salary and benefit expenditures by almost $1.6 mil. This came as result of reductions in staffing levels.

The college has been able to maintain expenditure levels with utilities, primarily due to fluctuations in rates charged for electricity and natural gas. Purchased services are significantly lower higher in FY 2018, primarily as a result of a reduced increased spending related to capital projects. 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.

OPERATING EXPENSES
(in thousands)
Years ended June 30,

	2019	2019	2018	2018
Salaries and Wages	$ 22,156	48.9%	$ 22,619	48.9%
Employee Benefits	7,328	16.2%	8,460	18.3%
Other Expenses	5,215	11.5%	3,968	8.6%
Scholarships and Fellowships	3,138	6.9%	3,954	8.6%
Supplies and Materials	1,663	3.7%	2,259	4.9%
Purchased Services	2,947	6.5%	2,096	4.5%
Depreciation	1,835	4.0%	1,805	3.9%
Utilities	1,039	2.3%	1,063	2.3%
Total Expenses	$ 45,320	100%	$ 46,224	100.0%

Comparison of Selected Operating Expenses by Natural Classification
The chart below shows the amount, in percentages, by selected natural classification of operating expenses for FY 2019 and FY 2018.



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single, prioritized request to state decision makers in the administrative and legislative branches, for appropriated capital funds, including :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, the state has changed its method for determining state-wide debt levels, which has resulted in slower growth in available capital resources on a year over year basis.

At June 30, 2019, the College had invested $53,220,000 in capital assets, net of accumulated depreciation. This represents an increase of $194,000 from last year, as shown in the table below.

Asset Type		June 30, 2019		June 30, 2018
Land	$	4,506	$	4,506
Construction in Progress	$	1,747	$	12
Buildings, net	$	44,781	$	46,042
Equipment, net	$	2,034	$	2,314
Library Resources, net	$	152	$	152
Total Capital Assets, Net	**$**	**53,220**	**$**	**53,026**

The increase in net capital assets can be attributed to the construction in process for the Allied Health Science Building mentioned previously. Additional information on capital assets can be found in Note #6 of the Notes to the Financial Statements.

At June 30, 2019, the College had $424,824 in outstanding debt. This represents a decrease of $137,700 from last year, as shown in the table below. This decrease is attributable to principal and interest payment made.

		June 30, 2019		June 20, 2018		Change
Certificates of Participation		424,824		562,524		(137,700)
Total	**$**	**424,824**	**$**	**562,524**	**$**	**(137,700)**

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

Economic Factors That May Affect the Future

As the College ends its fiscal year 2019, it is experiencing crossing trends. The state has made significant investments into the college's infrastructure. This is reflected as a capital construction project dedicated to housing our allied health programs, and operating budget appropriations

Through the passage of the Workforce Education Investment Act (WEIA). There is an above average possibility that both the trend to invest in capital and operating will continue. This is evidenced by; the high priority placement of an additional state-level funded college capital project to modernize our fire services program, the community college system's request to the legislature, and future investments through WEIA.

These investments are made at a time when enrollments at community and technical colleges continue a multi-year decline in tuition paying enrollments. The 2019 school year saw 12.1% fewer full-time equivalent (FTE) students than in 2018. Technical colleges like Bates are experiencing the impacts at rates greater than the average. Professional technical programs state-wide experienced a 15% decline in FTE enrollments in spring 2019, when compared to the same quarter in 2018. With 70% of our enrollments in the professional technical programs, this trend and the impacts on revenue in the form of tuition and other operating fees cannot be sustained.

Addressing the changes in our enrollment patterns are made more daunting by the demographics of our student body. The median age of a professional technical student tends toward the older side of the 'stereo-typical' college student's age. At Bates, the median age of a student on our campus is 32 years old. In the same period examined above, FTE enrollments by students over thirty years of age declined by 32% from 2018 to 2019. This demographic shift establishes a double 'whammy' for college leadership to address as we look for strategies to stabilize enrollments and the operating revenue related to their education.

The 2019 academic year was the first full year as college president for Dr. Lin Zhou. This was not her first year with the college, as she has performed multiple senior administrative functions for the college since her first day on campus in January 2013. This experience and the leadership she is providing offers a stabilization of college operations for students, faculty and staff who are at the end of multiple years of budget reductions and leadership changes. This promotion of stable leadership will position the college to better take advantage of state investments and address the ongoing issues surrounding enrollment.

The challenges weighing on the minds of leadership as fiscal year 2020 began, were quickly overshadowed by a massive data breach crippling the colleges IT infrastructure. Occurring in July 2019 the breach eliminated campus access to all of the data recently generated by the college locally in the mid- and short-term. Operational systems were offline for multiple weeks.

The fiscal year 2020 ended with a more daunting operational challenge for the college, as the COVID-19 pandemic exacerbated enrollment losses, as well increased costs due to new health focused challenges. On the resource side, the pandemic will provide the college access to federal relief funding that will help offset impacts to the college's net position related to the pandemic, with college passing much of the relief to students in the form of direct aid financial needs.

Bates Technical College
Statement of Net Position
June 30, 2019

Assets	
Current assets	
Cash and cash equivalents	$ 14,882,788
Accounts receivable	3,496,418
Due from State Treasurer	1,616,437
Inventories	87,419
Prepaid expenses	9,109
Total current assets	20,092,171
Non-Current Assets	
Land and construction in progress	6,253,066
Capital assets, net of depreciation	46,966,508
Total non-current assets	53,219,575
Total assets	**73,311,746**
Deferred Outflows of Resources	
Deferred outflows related to pensions	1,712,342
Deferred outflows related to OPEB	1,316,756
Total deferred outflows of resources	3,029,098
Liabilities	
Current Liabilities	
Accounts payable	641,023
Due to State Treasurer	22,855
Accrued liabilities	2,663,736
Compensated absences, current portion	769,976
Unearned revenue	2,060,991
Certificates of participation payable, current portion	138,456
Total pension liability, current portion	47,120
OPEB liability, current portion	247,364
Total current liabilities	6,591,520
Non-Current Liabilities	
Compensated absences	1,216,638
Certificates of participation	286,368
Net pension liability	4,114,231
Total pension liability	2,246,643
OPEB liability	13,224,790
Total non-current liabilities	21,088,670
Total liabilities	**27,680,190**
Deferred Inflows of Resources	
Deferred inflows related to pensions	2,401,580
Deferred inflows related to OPEB	5,596,925
Total deferred inflows of resources	7,998,505
Net Position	
Net Investment in Capital Assets	52,794,751
Restricted for:	
Student Loans	106,137
Unrestricted (deficit)	(12,238,739)
Total Net Position	**$ 40,662,148**

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

Bates Technical College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

Operating Revenues		
Student tuition and fees, net of scholarship discounts and allowances	$	7,146,670
Auxiliary enterprise sales		574,624
State and local grants and contracts		12,757,691
Federal grants and contracts		143,355
Other operating revenues		523,153
Interest on loans to students		2,515
Total operating revenue		21,148,008
Operating Expenses		
Salaries and wages		22,156,464
Benefits		7,327,764
Scholarships and fellowships		3,138,158
Supplies and materials		1,662,523
Depreciation		1,834,573
Purchased services		2,946,972
Utilities		1,039,317
Repairs & maintenance		1,710,355
Non-capitalized equipment		913,965
Professional development & training		616,332
Software Maintenance		398,031
Printing		298,219
Communications		284,251
Rental		264,882
Travel		250,110
Other operating expenses		478,566
Total operating expenses		45,320,481
Operating loss		(24,172,474)
Non-Operating Revenues (Expenses)		
State appropriations		19,475,894
Federal Pell grant revenue		2,459,276
Building fee remittance		(600,546)
Innovation fund remittance		(208,920)
Interest on indebtedness		(28,126)
Net non-operating revenue (expenses)		**21,097,579**
Loss before capital appropriations		(3,074,895)
Capital Contributions		
Capital appropriations		3,505,669
Increase in net position		430,774
Net Position		
Net position, beginning of year		40,231,374
Net position, end of year	$	40,662,148

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

Bates Technical College
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities		
Student tuition and fees	$	6,945,668
Grants and contracts		13,171,966
Payments to vendors		(5,022,537)
Payments for utilities		(1,035,102)
Payments to employees		(21,973,478)
Payments for benefits		(7,210,164)
Auxiliary enterprise sales		408,564
Payments for scholarships and fellowships		(3,138,158)
Loans issued to students and employees		2,515
Other payments		(5,300,811)
Other receipts		526,219
Net cash used by operating activities		(22,625,318)
Cash flows from noncapital financing activities		
State appropriations		18,166,685
Pell grants		3,197,568
Building fee remittance		(597,973)
Innovation fund remittance		(197,849)
Net cash provided by noncapital financing activities		20,568,431
Cash flows from capital and related financing activities		
Capital appropriations		2,978,758
Purchases of capital assets		(2,158,584)
Principal paid on capital debt		(137,700)
Interest paid		(28,126)
Net cash used by capital and related financing activities		654,348
Decrease in cash		(1,402,539)
Cash at the beginning of the year		16,285,327
Cash at the end of the year		14,882,788
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss		(24,172,474)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense		1,834,573
Changes in assets and liabilities		
Receivables, net		168,605
Other assets		3,065
Accounts payable		(491,650)
Accrued liabilities		(168,553)
Unearned revenue		(350,846)
Compensated absences		544,182
Pension liability adjustment		7,780
Net cash used by operating activities	$	(22,625,318)

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

BATES TECHNICAL COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2019

	2019	
ASSETS		
CURRENT ASSETS		
Cash	$ 192,406	$
Short-term investments	1,788,759	
Prepaid expenses	8,412	
Total Current Assets	1,989,577	
FIXED ASSETS		
Equipment		
Less accumulated depreciation		
Total Fixed Assets		
TOTAL ASSETS	$ 1,989,577	$
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable		$
NET ASSETS		
Without donor restrictions	$ (2,172)	
With donor restrictions	1,991,749	
Total Net Assets	1,989,577	
TOTAL LIABILITIES AND NET ASSETS	$ 1,989,577	$

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

BATES TECHNICAL COLLEGE FOUNDATION

STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2019

	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS	
Support	$ 334,144
Expenses	(564,180)
Net assets released from donor restrictions	255,503
Increase in Net Assets without Donor Restrictions	25,467
NET ASSETS WITH DONOR RESTRICTIONS	
Contributions	524,157
Realized and unrealized losses on short-term investments	(28,245)
Investment income	58,210
Net assets released from donor restrictions	(255,503)
Increase in Net Assets with Donor Restrictions	298,619
Increase in Net Assets	324,086
Net Assets at Beginning of Year	1,665,491
NET ASSETS AT END OF YEAR	$ 1,989,577

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

Notes to the Financial Statements

June 30, 2019

These notes form an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

Bates Technical College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers 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 Bates Technical College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1992 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to support student and program success by securing resources through building community relationships and awareness. Because the majority of the Foundation's income and resources, are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity, which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2019, the Foundation distributed approximately $267,647 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at (253) 680-7160.

Basis of Presentation

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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, and bank demand deposits. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets

Accounts Receivable

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

Inventories

Inventories, consisting primarily of merchandise for resale in the college bookstore and course-related supplies, are valued at cost using the First-in-First-out (FIFO) valuation method.

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction.

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 2 to 10 years for equipment, 15 to 50 years for buildings, 3 to 50 years for infrastructure and land improvements and 5 years for Library Resources.

In accordance with GASB Statement No. 42, 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. As of June 30, 2019, 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 quarter tuition and fees, and advanced grant proceeds 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.

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.

Beginning fiscal year 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 Accounting and Financial Reporting for

Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions). The reporting requirements are similar to GASB 68 but use current fiscal year-end as the measurement date for reporting the pension liabilities.

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

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

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

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

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

Net Position
The College's net position is classified as follows.
• Net Investment in Capital Assets. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

- Restricted 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, and sales and services of educational departments and auxiliary enterprises.

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) federal, state and local grants and contracts that primarily support the operational/educational activities of the colleges. Examples include a contract with OSPI to offer programs for our Technical High School. 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.

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the 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 Statements 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, fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2019 are $3,790,709.

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 Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance
Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation account was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The State Board is authorized to direct up to 3 percent of tuition collected, system wide, to be deposited into the fund. The current authorized set aside is 3 percent. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College's remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position.

Note 2 - Accounting and Reporting Changes

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

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

Note 3 - Deposits

Deposits

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

As of June 30, 2019, the carrying amount of the College's cash and equivalents was $14,882,788 as represented in the table below.

Cash and Cash Equivalents		**June 30, 2019**
Petty Cash and Change Funds		5,218
Bank Demand and Time Deposits	$	14,877,570
Total Cash and Cash Equivalents	**$**	**14,882,788**

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 it. The majority of the College's demand deposits are with Key Bank. All cash and 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).

Note 4 - Accounts Receivable

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

Accounts Receivable		Amount
Student Tuition and Fees	$	2,792,368
Due from State Treasurer	$	1,616,437
Due from the Federal Government		324,180
Due from Other State Agencies		511,166
Due from Other Governments		1,125,960
Auxiliary Enterprises		298,580
Other		(14,039)
Subtotal		6,654,652
Less Allowance for Uncollectible Accounts		(1,541,797)
Accounts Receivable, net	**$**	**5,112,855**

Note 5 – Inventories

Inventories as of June 30, 2019, were as follows:

Inventories	Method		Amount
Consumable Inventories		$	67,756
Merchandise Inventories			19,662
Inventories		**$**	**87,418**

Note 6 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2019 is presented as follows. The current year depreciation expense was $1,834,573.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Capital assets, non-depreciable				
Land	$ 4,506,414	$ -	$ -	$ 4,506,414
Construction in progress	12,105	1,734,548	-	1,746,653
Total capital assets, non-depreciable	4,518,519	1,734,548	-	6,253,067
Capital assets, depreciable				
Buildings	83,599,709	-	-	83,599,709
Equipment	7,792,654	293,341		8,085,995
Library resources	400,236	-	-	400,236
Total capital assets, depreciable	91,792,599	293,341	-	92,085,940
Less accumulated depreciation				
Buildings	37,557,436	1,261,825		38,819,261
Equipment	5,478,844	572,749		6,051,593
Library resources	248,579	-	-	248,579
Total accumulated depreciation	43,284,859	1,834,573	-	45,119,432
Total capital assets, depreciable, net	48,507,740	(1,541,232)	-	46,966,508
Capital assets, net	**$ 53,026,259**	**$ 193,315**	**$ -**	**$ 53,219,574**

The College is in the process of constructing the Allied Health Science Building, an Allied Health and STEM building housing classroom and lab space approximately 68,000 to 70,000 GSF. This is a replacement project where existing West Annex building has been demolished. The total project budget is $43,700,000 and has been in construction since July 2019 with anticipated substantial completion by November 2021.

The project with utilize a progressive design-build approach for the procurement and delivery of the project. This approach brings the contractor, architect, the College and DES together early in the process to allow for a more collaborative project, resulting in greater innovation and collaboration, creating a streamlined, efficient project delivery method, reducing project delivery time and bringing instruction on line sooner than traditional delivery methods.

Note 7 - Accounts Payable and Accrued Liabilities

Accrued liabilities as of June 30, 2019, were as follows:

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 839,736
Accounts Payable	641,023
Owed to State Treasurer	22,855
Amounts Held for Others and Retainage	1,824,000
Total	**$ 3,327,613**

Note 8 - Unearned Revenue

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

Unearned Revenue	Amount	
Summer Quarter Tuition & Fees	$	2,049,333
Fall Quarter Tuition & Fees	$	11,657
Total Unearned Revenue	$	2,060,991

Note 9 - Risk Management

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

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

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2018 through June 30, 2019, were $94,695.

Note 10 - Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which 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 $1,088,272 and accrued sick leave totaled $898,342 at June 30, 2019.

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

Leave Type	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Short-term portion
Sick	$ 1,131,343	$ 148,731	$ 381,732	$ 753,177	145,165.33
Vacation	$ 1,113,047	$ 1,097,515	$ 1,122,290	$ 463,461	624,811.00
Total	**$ 2,244,390**	**$1,246,246**	**$1,504,022**	**$ 1,216,637**	

Note 11 - Leases Payable

Operating Leases

The College has leases for office equipment, parking and childcare with various vendors. These leases are classified as operating leases.

As of June 30, 2019, the minimum lease payments under capital leases and operating leases consist of the following:

Fiscal year	Operating Leases
2020	$ 224,541
2021	116,996
2022	117,098
2023	114,442
2024	114,442
2025-2029	572,212
Total minimum lease payments	**$ 1,259,731**

Note 12 - Notes Payable

In August 2012, the College obtained financing in order to upgrade Lighting HVAC controls for the Downtown Campus, Mohler Campus and South Campus facilities through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $1,360,582 at 1.88% interest rate.

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

.

Note 13 - Annual Debt Service Requirements

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

Certificates of Participation

Fiscal year	Principal	Interest	Total
2020	$ 138,456	$ 21,241	$ 159,697
2021	136,751	14,318	151,069
2022	149,617	7,481	157,098
Total	**$ 424,824**	**$ 43,040**	**$ 467,864**

Note 14 - Schedule of Long Term Liabilities

The following table shows the long-term activity during the year ended June 30, 2019:

	Balance outstanding 6/30/18	Additions	Reductions	Balance outstanding 6/30/19	Current portion
Certificates of Participation	$ 562,524	$ -	$ 137,700	$ 424,824	$ 138,456
Compensation absences	2,244,390	1,246,246	1,504,022	1,986,614	769,976
Net pension liability	5,700,479	1,374,935	2,961,182	4,114,231	-
Total pension liability	2,017,568	2,293,763	2,064,687	2,293,764	47,120
OPEB liability	15,912,774	3,465,293	6,153,277	13,472,154	247,364
Total	**$ 26,437,735**	**$ 8,380,237**	**$ 12,820,869**	**$ 22,291,587**	**$ 1,202,916**

Note 15 - Retirement Plans

A. General

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

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

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

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

Aggregate Pension Amounts - All Plans

Pension Liabilities	$	6,407,995
Deferred outflows of resources related to pensions	$	1,712,342
Deferred inflows of resources related to pensions	$	2,401,580
Pension Expense	$	249,085

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 in which the College participates:

- 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 are 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 and is administered by the state).

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

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 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

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

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

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

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

Contributions. Proceeds from the PERS defined benefit retirement option 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 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

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

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

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

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

Contributions

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

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

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

	PERS 1	PERS 2/3*	TRS 1	TRS 2/3*
Contribution Rate	12.83%	12.83%	15.41%	15.41%
Actual Contributions	393,956	565,721	37,188	39,542

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

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

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

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

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

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

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	7%	4.9%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
Total	**100%**	

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

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

Discount rate

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

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

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

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$3,164,436	$2,574,936	$2,064,311
PERS 2/3	$5,547,179	$1,212,756	($2,340,985)
TRS 1	$352,851	$282,296	$221,232
TRS 2/3	$275,719	$44,241	($143,806)

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

Pension Liabilities. At June 30, 2019, the College reported a total pension liability of $4,114,231.44 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$2,574,936.35
PERS 2/3	$1,212,756.61
TRS 1	$282,296.55
TRS 2/3	$44,241.94

The College's proportionate share of pension liabilities for fiscal years ending June 30, 2018 and June 30, 2019, for each retirement plan, are listed below:

	2017	2018	Change
PERS 1	0.058497%	0.057656%	-0.000841%
PERS 2/3	0.072535%	0.071029%	-0.001506%
TRS 1	0.010191%	0.009666%	-0.000525%
TRS 2/3	0.010448%	0.009828%	-0.000620%

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

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

	Pension Expense
PERS 1	$ 187,006
PERS 2/3	5,980
TRS 1	13,872
TRS 2/3	18,581
Total	**225,440**

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, 2019:

	PERS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	102,327
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	393,956	-
Totals	**$ 393,956**	**$ 102,327**

	PERS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	148,652	212,331
Difference between expected and actual earnings of pension plan investments	-	744,204
Changes of assumptions	14,187	345,141
Changes in College's proportionate share of pension liabilities	145,191	53,508
Contributions subsequent to the measurement date	565,721	-
Totals	**$ 873,751**	**$ 1,355,184**

	TRS 1	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	-	12,072
Changes of assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions subsequent to the measurement date	37,188	-
Totals	**$ 37,188**	**$ 12,072**

	TRS 2/3	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	20,788	3,266
Difference between expected and actual earnings of pension plan investments	-	37,413
Changes of assumptions	752	17,777
Changes in College's proportionate share of pension liabilities	14,370	12,333
Contributions subsequent to the measurement date	39,542	-
Totals	**$ 75,452**	**$ 70,789**

The $1,036,407 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2020.

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

Year ended June 30:	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**
2020	4,477	(70,830)	1,208	(1,727)
2021	(22,369)	(228,876)	(2,499)	(4,801)
2022	(67,124)	(443,343)	(8,585)	(18,181)
2023	(17,311)	(156,505)	(2,196)	(5,838)
2024		(50,257)		(572)
Thereafter		(97,341)		(3,760)
Total	**$ (102,327)**	**$ (1,047,152)**	**$ (12,072)**	**$ (34,879)**

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 and reports its proportionate share of the total pension liability. 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), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2019 were each $1,041,957.53.

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

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

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

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

The SRP pension benefits are unfunded. For the year ended June 30, 2019, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of $1,818,000. The College's share of this amount was $37,785. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund. The new supplemental benefit is to be managed by the State Investment Board, for the purpose of funding future obligations. During fiscal year 2019, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $61,735. This amount was not used as a part of GASB 73 calculations; its status as an asset has not been determined by the Legislature. As of June 30, 2019, the Community and Technical College system accounted for $19,733,342 of the fund balance.

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

Salary increases 3.50%-4.25%
Fixed Income and Variable Income Investment Returns* 4.25%-6.50%

**Measurement reflects actual investment returns through June 30, 2018*

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

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

Material assumption changes during the measurement period include the discount rate decrease from 3.87 percent to 3.50 percent.

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

Pension Expense. Pension expense for the fiscal year ending June 30, 2019 was $23,645

Proportionate Share (%)		**2.07797%**
Service Cost	$	59,252
Interest		71,671
Amortization of Differences Between Expected and Actual Experience		(78,033)
Amortization of Changes of Assumptions		8,845
Changes of Benefit Terms		-
Administrative Expenses		-
Other Changes in Fiduciary Net Position		-
Proportionate Share of Collective Pension Expense		**61,735**
Amortization of the Change in Proportionate Share of TPL		(38,090)
Total Pension Expense	**$**	**23,645**

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2019 was 2.08%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

Proportionate Share (%) 2018		**2.31%**
Proportionate Share (%) 2019		**2.08%**
Total Pension Liability - Ending 2018	$	2,017,568
Total Pension Liability - Beginning 2019		1,811,425
Total Pension Liability - Change in Proportion		(206,143)
Total Deferred Inflow/Outflows - 2018		815,979.51
Total Deferred Inflow/Outflows - 2019		732,607.61
Total Deferred Inflows/Outflows - Change in Proportion		(83,372)
Total Change in Proportion	**$**	**(289,515)**

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

	Number of Participating Members			
Plan	**Inactive Members or Beneficiaries Currently Receiving Benefits**	**Inactive Members Entitled to But Not Yet Receiving Benefits**	**Active Members**	**Total Members**
SRP	0	7	89	96

Change in Total Pension Liability. The following table presents the change in total pension liability of the State Board Supplemental Retirement Plan at June 30, 2019:

Schedule of Changes in Total Pension Liability

	Amount
Service Cost	$ 59,252
Interest	71,671
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	135,126
Changes in Assumptions	254,074
Benefit Payments	(37,785)
Change in Proportionate Share of TPL	(206,143)
Other	-
Net Change in Total Pension Liability	276,195
Total Pension Liability - Beginning	2,017,568
Total Pension Liability - Ending	**$ 2,293,763**

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

1% Decrease (2.50%)	**Current Discount Rate (3.50%)**	**1% Increase (4.50%)**
$ 2,620,959	$ 2,293,763	$ 2,022,068

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 116,866	$ 480,772
Changes of Assumptions	219,740	$ 130,048
proportionate share of pension liability	6,201	$ 250,391
Transactions Subsequent to the Measurement Date	-	-
Total	**$ 342,806**	**$ 861,211**

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

	State Board Supplemental Retirement Plan
2020	(107,277.99)
2021	(107,277.99)
2022	(107,277.99)
2023	(107,277.99)
2024	(73,028.08)
Thereafter	(16,264.79)

Note 16 - Other Post-Employment Benefits

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

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

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

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

Summary of Plan Participants
As of June 30, 2018

Active Employees*	331
Retirees Receiving Benefits**	-
Retirees Not Receiving Benefits***	-
Total Active Employees and Retirees	331

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

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

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

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

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

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

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

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

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

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

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

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

Total OPEB Liability

As of June 30, 2019, the state reported a total OPEB liability of $5.08 billion. The College's proportionate share of the total OPEB liability is $13,472,153 This liability was determined based on a measurement date of June 30, 2018.

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

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

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

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

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

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

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

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

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

Changes in Total OPEB Liability

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

Bates Technical College

Proportionate Share (%)	**0.2652712378%**
Service cost	842,300
Interest Cost	579,076
Differences Between Expected and Actual Experience	528,584
Changes in Assumptions	(3,687,465)
Changes of Benefit Terms	-
Benefit payments	(244,573)
Change in Proportionate Share	(458,543)
Other	-
Net Change in Total OPEB Liability	(2,440,621)
Total OPEB liability - Beginning	15,912,774
Total OPEB liability - Ending	**$ 13,472,153**

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

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

Discount Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 16,244,250	$ 13,472,154	$ 11,309,318

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

Health Care Cost Trend Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 11,059,333	$ 13,472,154	$ 16,680,748

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

For the year ending June 30, 2019, the College will recognize OPEB expense of $832,893. OPEB expense consists of the following elements:

Bates Technical College		
Proportionate Share (%)		**0.2652712378%**
Service Cost	$	842,300
Interest Cost		579,076
Amortization of Differences Between Expected and Actual Experience		58,732
Amortization of Changes in Assumptions		(675,706)
Changes of Benefit Terms		-
Amortization of Changes in Proportion		28,491
Administrative Expenses		-
Total OPEB Expense		**832,893**

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

Bates Technical College		
Proportionate Share (%)	**0.2652712378%**	
Deferred Inflows/Outflows of Resources	**Deferred Inflows**	**Deferred Outflows**
Difference between expected and actual experience	$ -	$ 469,853
Changes in assumptions	5,139,660	-
Transactions subsequent to the measurement date	-	247,364
Changes in proportion	457,265	599,539
Total Deferred Inflows/Outflows	**$ 5,596,925**	**$ 1,316,756**

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

Bates Technical College	
Proportionate Share (%)	**0.2652712378%**
2020	$ (588,483)
2021	(588,483)
2022	(588,483)
2023	(588,483)
2024	(588,483)
Thereafter	(1,585,118)

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

Proportionate Share (%) 2017	**0.2731421068%**
Proportionate Share (%) 2018	**0.2652712378%**
Total OPEB Liability - Ending 2017	$ 15,912,774
Total OPEB Liability - Beginning 2018	15,454,231
Total OPEB Liability Change in Proportion	(458,543)
Total Deferred Inflows/Outflows - 2017	(1,939,208)
Total Deferred Inflows/Outflows - 2018	(1,883,328)
Total Deferred Inflows/Outflows Change in Proportion	55,880
Total Change in Proportion	**$ (514,423)**

Note 17 - Operating Expenses by Program

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

Expenses by Functional Classification	Amount
Instruction	$ 16,819,678
Academic Support	3,018,508
Student Services	7,914,659
Institutional Support	5,308,457
Operations and Maintenance of Plant	3,592,660
Scholarships and Other Financial Aid	2,881,338
Auxiliary Enterprises	3,950,608
Depreciation	1,834,573
Total Operating Expenses	**$ 45,320,481**

Note 18 - Commitments and Contingencies

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

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Bates Technical College's Proportionate Share of the Net Pension Liability

Schedule of Bates Technical College's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.052878%	$ 2,663,753	$ 5,689,341	46.82%	61.19%
2015	0.053645%	$ 2,806,132	$ 5,972,353	46.99%	59.10%
2016	0.057339%	$ 3,079,411	$ 6,641,070	46.37%	57.03%
2017	0.058497%	$ 2,775,734	$ 7,264,209	38.21%	61.24%
2018	0.057656%	$ 2,574,937	$ 7,599,435	33.88%	63.22%

Schedule of Bates Technical College's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.065029%	$ 1,314,471	$ 5,570,197	23.60%	93.29%
2015	0.065719%	$ 2,348,178	$ 5,831,407	40.27%	89.20%
2016	0.069297%	$ 3,489,064	$ 6,471,812	53.91%	85.82%
2017	0.072535%	$ 2,520,228	$ 7,140,869	35.29%	90.97%
2018	0.071029%	$ 1,212,757	$ 7,527,910	16.11%	95.77%

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

Cost Sharing Employer Plans

Schedules of Bates Technical College's Proportionate Share of the Net Pension Liability

Schedule of Bates Technical College's Share of the Net Pension Liability

Teachers' Retirement System (TRS) Plan 1

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.008408%	$ 247,990	$ 387,602	63.98%	68.77%
2015	0.700000%	$ 221,770	$ 345,941	64.11%	65.70%
2016	0.010100%	$ 344,830	$ 516,271	66.79%	62.07%
2017	0.010191%	$ 308,092	$ 574,096	53.67%	65.58%
2018	0.009666%	$ 282,304	$ 505,007	55.90%	66.52%

Schedule of Bates Technical College's Share of the Net Pension Liability

Teachers' Retirement System (TRS) Plan 2/3

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.008644%	$ 27,920	$ 377,752	7.39%	96.81%
2015	0.007396%	$ 62,408	$ 345,941	18.04%	92.48%
2016	0.010374%	$ 142,471	$ 516,271	27.60%	88.72%
2017	0.010448%	$ 96,425	$ 574,096	16.80%	93.14%
2018	0.009828%	$ 44,237	$ 505,007	8.76%	96.88%

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

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Bates Technical College's Contributions

Schedule Bates Technical College's Contributions

Public Employees' Retirement System (PERS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 234,057	$ 234,057	$ -	$ 5,689,341	4.11%
2015	$ 246,551	$ 246,551	$ -	$ 5,972,353	4.13%
2016	$ 325,172	$ 325,172	$ -	$ 6,641,070	4.90%
2017	$ 351,875	$ 351,875	$ -	$ 7,264,209	4.84%
2018	$ 385,387	$ 385,387	$ -	$ 7,490,428	5.15%
2019	$ 393,956	$ 393,956	$ -	$ 7,599,435	5.18%

Schedule Bates Technical College's Contributions

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

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 274,710	$ 274,710	$ -	$ 5,570,197	4.93%
2015	$ 292,749	$ 292,749	$ -	$ 5,831,407	5.02%
2016	$ 400,047	$ 400,047	$ -	$ 6,471,812	6.18%
2017	$ 443,033	$ 443,033	$ -	$ 7,140,869	6.20%
2018	$ 548,070	$ 548,070	$ -	$ 7,364,624	7.44%
2019	$ 565,721	$ 565,721	$ -	$ 7,527,910	7.51%

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

Cost Sharing Employer Plans

Schedules of Bates Technical College's Contributions

Schedule of Bates Technical College's Contributions

Teachers' Retirement System (TRS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 16,628	$ 16,628	$ -	$ 387,602	4.29%
2015	$ 15,665	$ 15,665	$ -	$ 345,941	4.53%
2016	$ 23,129	$ 23,129	$ -	$ 516,271	4.48%
2017	$ 35,661	$ 35,661	$ -	$ 574,096	6.21%
2018	$ 40,201	$ 40,201	$ -	$ 576,992	6.97%
2019	$ 37,188	$ 37,188	$ -	$ 505,007	7.36%

Schedule of Bates Technical College's Contributions

Teachers' Retirement System (TRS) Plan 2/3

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 21,210	$ 21,210	$ -	$ 377,752	5.61%
2015	$ 19,655	$ 19,655	$ -	$ 345,941	5.68%
2016	$ 41,428	$ 41,428	$ -	$ 516,271	8.02%
2017	$ 38,494	$ 38,494	$ -	$ 574,096	6.71%
2018	$ 43,694	$ 43,694	$ -	$ 576,992	7.57%
2019	$ 39,542	$ 39,542	$ -	$ 505,007	7.83%

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

State Board Supplemental Defined Benefit Plans

Schedule of Bates Technical College's Total Pension Liability and Related Ratios

Schedule of Changes in the Total Pension Liability and Related Ratios Bates Technical College Fiscal Year Ended June 30, 2019			
	2017	2018	2019
Total Pension Liability			
Service Cost	$ 125,007	$ 88,574	$ 59,252
Interest	81,092	81,399	71,671
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(584,674)	(240,749)	135,126
Changes of assumptions	(137,999)	(81,445)	254,074
Benefit Payments	(20,815)	(30,088)	(37,785)
Change in Proportionate Share		6,429	(206,143)
Other	-	-	-
Net Change in Total Pension Liability	**(537,389)**	**(175,880)**	**276,195**
Total Pension Liability - Beginning	**2,730,837**	**2,193,448**	**2,017,568**
Total Pension Liability - Ending	**$ 2,193,448**	**$ 2,017,568**	**$ 2,293,763**
College's Proportion of the Pension Liability	2.31%	2.31%	2.08%
Covered-employee payroll	$ 12,151,514	$ 12,496,777	$ 11,820,876
Total Pension Liability as a percentage of covered-employee payroll	18.05%	16.14%	19.40%

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

State Board Supplemental Defined Benefit Plans

Notes to Required Supplementary Information

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

Other Postemployment Benefits Information

Schedule of Bates Technical College’s Changes in OPED Liability and Related Ratios

Schedule of Changes in Total OPEB Liability and Related Ratios Measurement Date of June 30*		
Total OPEB Liability	**2018**	**2019**
Service cost	$ 1,078,789	$ 842,300
Interest cost	505,312	579,076
Difference between expected and actual experience	(2,464,918)	528,584
Changes in assumptions	-	(3,687,465)
Changes in benefit terms	-	-
Benefit payments	(257,515)	(244,573)
Changes in proportionate share	782,657	(458,543)
Other	-	-
Net Changes in Total OPEB Liability	$ (355,675)	$ (2,440,621)
Total OPEB Liability - Beginning	$ 16,268,449	$ 15,912,774
Total OPEB Liability - Ending	$ 15,912,774	$ 13,472,153
College's proportion of the Total OPEB Liability (%)	0.27314211%	0.26527124%
Covered-employee payroll	$ 22,566,213	$ 21,859,932
Total OPEB Liability as a percentage of covered-employee payroll	70.52%	61.63%

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

Notes to Required Supplementary Information

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

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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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