Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

South Puget Sound Community College

For the period July 1, 2021 through June 30, 2022

Published December 26, 2023

Report No. 1033806

Scan to see another great way we're helping advance #GoodGovernment

Office of the Washington State Auditor
Pat McCarthy

December 26, 2023

Board of Trustees
South Puget Sound Community College
Olympia, Washington

Report on Financial Statements

Please find attached our report on the South Puget Sound Community College's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

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*

South Puget Sound Community College
July 1, 2021 through June 30, 2022

Board of Trustees
South Puget Sound Community College
Olympia, 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 South Puget Sound Community College, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 18, 2023.

Our report includes a reference to other auditors who audited the financial statements of the south Puget Sound Community College Foundation (the Foundation), as described in our report on the College's financial statements. 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 compliance and other matters associated with the Foundation or that are reported on separately by those auditors who audited the financial statements.

REPORT ON 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

Our consideration of internal control was for the limited purpose described above 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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted certain other matters that we will report to the management of the College in a separate letter dated December 18, 2023.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

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, State Auditor

Olympia, WA

December 18, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

South Puget Sound Community College
July 1, 2021 through June 30, 2022

Board of Trustees
South Puget Sound Community College
Olympia, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the South Puget Sound Community College, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying 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 South Puget Sound Community College, as of June 30, 2022, 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.

We did not audit the financial statements of the Foundation, which represent 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. The financial statements of the Foundation were not audited in accordance with Government Auditing Standards.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters of Emphasis

As discussed in Note 1, the financial statements of the South Puget Sound Community 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, 2022, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2022, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College’s ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 December 18, 2023 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 the effectiveness of the College's 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

Pat McCarthy, State Auditor

Olympia, WA

December 18, 2023

FINANCIAL SECTION

South Puget Sound Community College
July 1, 2021 through June 30, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

College Statement of Net Position – 2022
College Statement of Revenues, Expenses and Changes in Net Position – 2022
College Statement of Cash Flows – 2022
Foundation Statement of Financial Position – 2021
Foundation Statement of Activities – 2021
Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of South Puget Sound Community College's Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2022
Schedules of Contributions – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2022
Schedule of Changes in the Net Pension Liability and Related Ratios – State Board Supplemental Defined Benefit Plans – 2022
Notes to Required Supplementary Information
Schedule of Employer Contributions – State Board Supplemental Retirement Plan – 2022
Schedule of Changes in the Total OPEB Liability and Related Ratios – Other Postemployment Benefit Information – 2022
Notes to Required Supplementary Information

Management’s Discussion and Analysis

South Puget Sound Community College

The following discussion and analysis provides an overview of the financial position and activities of South Puget Sound Community College (the College) for the fiscal year ended June 30, 2022 (FY 2022). 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.

South Puget Sound Community College is one of thirty-four public community and technical colleges in 30 districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 7,595 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1962 and its primary purpose is to support student success in post-secondary academic transfer and workforce education that responds to the needs of the South Sound region.

The College’s main campus is located in Olympia, Washington, a community of about 56,000 residents. The College has a smaller campus in the neighboring town of Lacey, Washington, a community with about 53,000 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, the South Puget Sound Community 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, 2022. 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 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:

Condensed Statement of Net Position As of June 30th	**FY 2022**	**FY 2021**
Assets		
Current Assets	$ 32,723,240	$ 27,491,570
Capital Assets, net	145,353,329	141,281,809
Net pension asset	8,207,918	-
Other Assets, non-current	3,525,826	-
Total Assets	**$ 189,810,313**	**$ 168,773,379**
Deferred Outflows	**$ 6,146,862**	**$ 6,279,214**
Liabilities		
Current Liabilities	10,296,396	7,686,996
Other Liabilities, non-current	48,565,711	46,056,707
Total Liabilities	**$ 58,862,107**	**$ 53,743,703**
Deferred Inflows	**$ 15,461,875**	**$ 7,833,873**
Net Position	**$ 121,633,193**	**$ 113,475,017**

Current assets consist primarily of cash, cash equivalents, investments and various accounts receivables. The significant increase in current assets in FY 2022 can be attributed primarily to an increase in the amounts due from other state agencies due to transition in staffing and system conversion along with a new receivable related to the Certificate of Participation (COP) for construction of the Bowen building, an energy efficiency project also partially funded by a grant from the Washington State Department of Commerce.

Non-Current assets increased due to the addition of capital assets and the shift from net pension liability to a net pension asset in the amount of $8,207,918. Per the DRS 2021 PEFI report, many of the plans are now fully funded, and the excess is reported as a net pension asset. GASB 87 *Leases* was implemented in FY 2022 resulting in a lease asset and lease payable and are now being shown as a separate line item. The lease asset was $2,726,712 at the time of implementation and has decreased to $2,415,087 in FY 2022 because of lease amortization. Other Assets also increased due to the purchase of long-term investments.

Net capital assets increased by $4,071,520 from FY 2021 to FY 2022. This net increase is primarily due to the capitalized assets related to the Bowen building.

Deferred outflows of resources represent deferrals in pension and postemployment benefits related to GASB Statement No. 68 and GASB Statement No. 75. The decrease in deferred outflows reflect the College's proportionate share of a 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 $6,279,214 in FY 2021 and $6,146,862 in FY 2022 of pension and postemployment-related deferred outflows. The decrease reflects the change in proportionate share.

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, leases, 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. Unearned revenue decreased due to changes and timing of enrollment for the summer and fall semesters and the use of CARES/HEERF funds.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, the long-term portion of Certificates of Participation debt, leases, the College's share of the pension liabilities, and the College's share of the total OPEB liability. The COP increased by $3,980,000 for construction of the Bowen building, an energy efficiency project. The net pension liability has decreased due to the shift of the net pension liability to a net pension asset. GASB No. 68 notes that the presentation of net pension liabilities/assets are reported separately on the Statement of Net Position. In FY 2022, the portion attributable to net pension liability is $935,047.

Non-Current liabilities also includes leases due to the implementation of GASB 87 *Leases*, which caused a restatement of FY 2021 beginning balance of $2,726,712 and has a current balance of $2,459,932 in FY 2022. Per GASB 87, the College is required to record a lease asset and a lease liability. The lease asset was reported above. This amount is included in the Leases and COP line in the non-current liabilities with a portion included in current liabilities.

Deferred inflows of resources represent deferrals in pensions and other postemployment benefits (OPEB) related to GASB Statement No. 68 and GASB Statement No. 75. The College recorded $7,833,873 in FY 2021 and $15,461,875 in FY 2022 of pension and OPEB-related deferred inflows. The increase in deferred inflows in FY 2022 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and OPEB.

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

> ***Net Investment in Capital Assets –*** The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.
>
> ***Restricted:***
>
> > ***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 funds required to be set aside from tuition revenue, capital project funds and the expendable portion of endowments.

Net Pension Assets - This component of net position consists of the net pension asset, without addition for deferred outflows of resources related to pensions or reduction for deferred inflows of resources related to pensions.

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.

Condensed Statement of Net Position As of June 30	**FY 2022**	**FY 2021**
Net investment in capital assets	$ 121,498,484	$ 120,641,809
Restricted		
Nonexpendable	-	-
Expendable	1,180,473	1,143,878
Net pension asset	8,207,918	-
Unrestricted	(9,253,682)	(8,310,670)
Net Position	**$ 121,633,193**	**$ 113,475,017**

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 2022. 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.

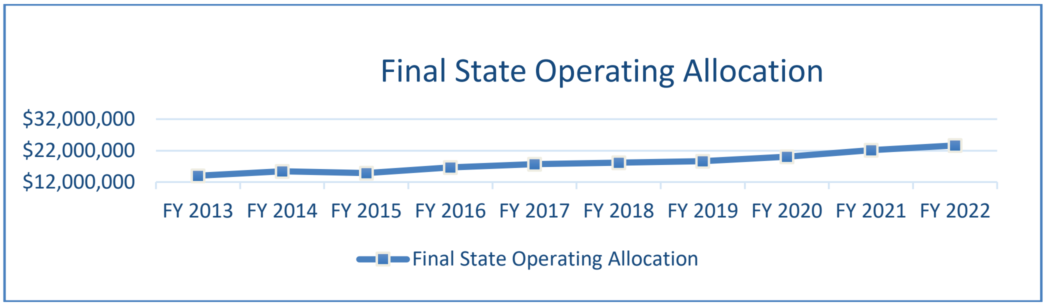
Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government without directly giving equal value to that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

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment 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, 2022, and 2021 is presented below.

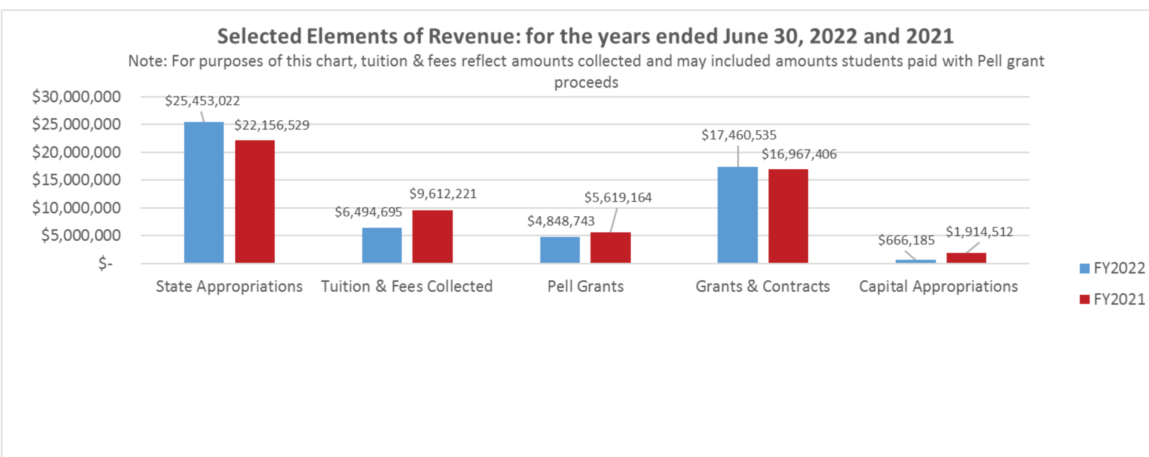
Condensed Statement of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2022 and 2021		
	2022	**2021**
Operating Revenues		
Student tuition and fees, net of scholarship discounts and allowances	$ 6,494,695	$ 9,612,221
Auxiliary enterprise sales	135,185	394,412
Grants and contracts	17,460,535	16,967,406
Other operating revenues	14,637,186	15,628,710
Total operating revenues	**38,727,601**	**42,602,749**
Non-Operating Revenues		
State appropriations	25,453,022	22,156,529
Federal Pell grant revenue	4,848,743	5,619,164
Federal non-operating revenue	11,153,620	4,338,467
Other non-operating revenues	1,085,513	13,553
Total non-operating revenues	**42,540,898**	**32,127,713**
Total Revenue	**81,268,499**	**74,730,462**
Operating Expenses		
Salaries and benefits	34,065,238	35,616,726
Scholarships, net of discounts	10,665,297	19,701,006
Depreciation	4,901,478	4,357,766
Other operating expenses	21,499,166	10,033,013
Total operating expenses	**71,131,179**	**69,708,511**
Non-Operating Expenses		
Building fee remittance	1,311,925	1,292,349
Other non-operating expenses	1,333,404	1,303,134
Total non-operating expenses	**2,645,329**	**2,595,483**
Total Expense	**73,776,508**	**72,303,994**
Excess (Deficiency) before Capital Contributions	**7,491,991**	**2,426,468**
Capital Appropriations and Contributions	**666,185**	**1,914,512**
Change in Net Position	**8,158,176**	**4,340,980**
Net Position		
Net position, beginning of year	113,475,017	109,134,037
Net Position, End of the Year	**$ 121,633,193**	**$ 113,475,017**

Revenues
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. See the below schedule representing the allocation of funds to the College.



Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2022, so did the College's Pell Grant revenue. Student tuition and fees decreased by $3.1 million due to decrease in the total number of enrollment of students. In FY21 total students enrolled was 8,320 while for FY22 total students enrolled is 7,595.

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.



Expenses

Faced with severe budget cuts over the past six years due to declining enrollment and staff reductions, the College has continually sought opportunities to identify cost savings and other efficiencies. Over time, the College has decreased spending and services primarily through reduced programmatic offerings and reduction of staff and faculty.

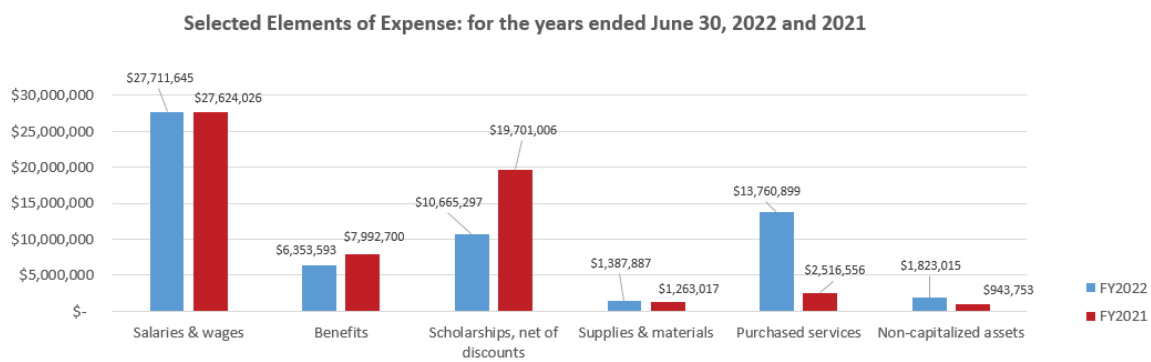
In FY 2022, overall operating expense increased by $1,422,668. Benefits decreased as a result of retirement benefits adjustment for GASB 68 DRS, GASB 68 SBRP and GASB 75 OPEB. Scholarship and fellowships decreased as a result of a decrease in financial aid grants:

	2021	2022	Increase(Decrease)
Financial Aid grants	**26,647,966**	**18,630,911**	**(8,017,055)**
Less: Scholarship Allowance	**(6,946,960)**	**(7,965,614)**	**(1,018,654)**
Net Scholarship and Fellowship expenses	**19,701,006**	**10,665,297**	**(9,035,709)**

The increase is due mainly to payments made to service providers for CCE programs that increased in FY 2022. Payments made for direct client services were $7,940,594 and payments to provider less than $25K were $3,135,511, for a total of $11,076,105.

Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2022 and FY 2021.



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state’s debt capacity and are expected to continue to impact the number of new projects that can be financed. In addition, the College has one of four projects that were funded through a Certificate of Participation (COP) against which system-wide building fee monies were pledged.

At June 30, 2022, the College had invested $145,353,329 in capital assets, net of accumulated depreciation. This represents an increase of $4,071,519 from last year, as shown in the table below.

Asset Type	June 30, 2022	June 30, 2021	Change
Land	$ 3,436,782	$ 3,436,782	$ -
Construction in Progress	183,007	183,007	-
Buildings, net	134,918,445	132,427,718	2,490,727
Other Improvements and Infrastructure, net	2,437,113	1,919,644	517,469
Equipment, net	4,343,733	3,268,436	1,075,297
Library Resources, net	34,249	46,223	(11,974)
Total Capital Assets, Net	**$ 145,353,329**	**$ 141,281,810**	**$ 4,071,519**

Net capital assets increased by $4,071,519 from FY 2021 to FY 2022. This net increase is primarily the result of additional capitalized assets related to the Bowen building. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

In FY 2022, the College implemented GASB 87, *Leases* and recorded the following right-to-use leased assets as part of its capital assets. As required by GASB 87, FY 2021 has been restated to show a comparison of the two years. Right-to-use lease assets decreased due to amortization recorded in FY 2022 for $311,624. This amount is reported as part of Depreciation on the Statement of Changes in Net Position. The amounts in the table below are reported net of accumulated amortization.

Lease Assets	Beginning Balance*	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Nondepreciable capital assets				
Leased Buildings	$ 2,726,712	$ -	$ -	$ 2,726,712
Total nondepreciable capital assets	2,726,712	-	-	2,726,712
Less accumulated amortization				
Accum. Amort. Leased Buildings	-	311,624	-	311,624
Subtotal depreciable capital assets	-	311,624	-	311,624
Leased assets, net	**$ 2,726,712**	**$ (311,624)**	**$ -**	**$ 2,415,088**

** Change from prior year due to GASB 87 implementation.*

At June 30, 2022, the College had $23,810,000 in outstanding debt comprised entirely of Certificates of Participation. The College implemented GASB 87 *Leases* in FY 2022 and restated FY 2021 for lease liabilities outstanding. Additional information of notes payable, long-term debt and debt service schedules can be found in Notes 11 and 12 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

The State Board for Community and Technical Colleges (SBCTC) allocates out to each college/district funds received in the state's budget. The model is based on performance in several key indicators, from general enrollments to enrollments in high-cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Enrollment increases/decreases are directly related to level of state operating appropriations in future years.

In FY 2021 the College received an increase in state funding as a result of the Workforce Education Investment Act (E2SHB 2158). The bill created a new fund, the Workforce Education Investment Account. Appropriations from the account are supported by an increase in the Business and Occupation tax. These funds were allocated to the colleges as directed in the legislation. Most of these appropriations continued in FY 2022. There were no other significant changes to the method of allocating funds to college districts.

As the College continues to be affected by the results of the COVID-19 pandemic, a decrease in enrollments has been experienced. While historically colleges have seen an increase in enrollments in times of higher unemployment, that has not been the trend the College has experienced at this time. The College will look closely at budgets and ways to innovate instruction toward continued student success.

The Legislature's mandate to fully fund K-12 public education leaves little discretionary funding left for the community and technical college system. As a result, it is likely that South Puget Sound Community College will only realize new revenue through increases in tuition rates and Running Start reimbursement rates, both of which are set at the state level. Running Start enrollment growth which has increased significantly in past years, may begin to stabilize.

Forecasts for the US and State economy are pointing to a slowdown in economic activity, with some forecasts going as far to predict a recession in late 2023. This would also have a similar effect on revenue collection by the State of Washington, since the general fund for the state is heavily reliant on sales taxes. Coupled with higher interest rates, inflation increases, and higher costs for energy and petroleum products, overall pressure on consumer finances are increasingly negative over the near-term forecast horizon.

The Washington State Economic and Revenue Forecast Council (EFRC) estimates revenues collections for the 2023-25 biennium state budget are 7% below initial projections. With lower personal incomes, the current residential construction forecasts, and the current economic forecast of a potential recession; there are concerns of lower revenue collections of state general funds in the 2025-2027 biennia as well.

South Puget Sound Community College
Statement of Net Position
As of Fiscal Year End June 30, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets	
Current assets	
Cash and cash equivalents	$ 12,043,226
Restricted cash	1,196,653
Short-term investments	982,057
Net Accounts receivable	18,501,304
Total current assets	32,723,240
Non-Current Assets	
Long-term investments	1,110,738
Non-depreciable capital assets	3,619,789
Capital assets, net of depreciation	141,733,540
Leased assets, net of amortization	2,415,088
Net pension asset	8,207,918
Total non-current assets	157,087,073
Total Assets	**189,810,313**
Deferred Outflows of Resources	
Deferred outflows related to pensions	3,533,833
Deferred outflows related to OPEB	2,613,029
Total Deferred Outflows of Resources	**6,146,862**

South Puget Sound Community College
Statement of Net Position
As of Fiscal Year End June 30, 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Current Liabilities	
Accounts payable	4,924,276
Accrued liabilities	2,784,728
Compensated absences	149,489
Deposits Payable	30
Unearned revenue	820,499
Leases and certificates of participation payable, current portion	1,264,896
Total pension liability, current portion	38,826
Total OPEB liability, current portion	313,652
Total current liabilities	10,296,396
Noncurrent Liabilities	
Compensated absences	2,571,029
Leases and certificates of participation payable	25,005,036
Net pension liability	2,303,047
Total OPEB liability	18,686,599
Total non-current liabilities	48,565,711
Total Liabilities	**58,862,107**
Deferred Inflows of Resources	
Deferred inflows related to pensions	10,625,518
Deferred inflows related to OPEB	4,836,357
Total Deferred Inflows of Resources	**15,461,875**
Net Position	
Net Investment in Capital Assets	121,498,484
Restricted for:	
Expendable	1,180,473
Net Pension Asset	8,207,918
Unrestricted (deficit)	(9,253,682)
Total Net Position	**$ 121,633,193**

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

South Puget Sound Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

Operating Revenues	
Student tuition and fees, net of scholarship discounts and allowances	$ 6,494,695
Auxiliary enterprise sales	135,185
State and local grants and contracts	17,090,723
Federal grants and contracts	369,812
Charge for services	14,343,514
Other operating revenues	293,672
Total operating revenue	38,727,601
Operating Expenses	
Salaries and wages	27,711,645
Benefits	6,353,593
Scholarships and fellowships	10,665,297
Supplies and materials	1,387,887
Depreciation and amortization	4,901,478
Purchased services	13,760,899
Utilities	1,091,769
Non-capitalized assets	1,823,015
Other operating expenses	3,435,596
Total operating expenses	71,131,179
Operating income (loss)	(32,403,578)
Non-Operating Revenues (Expenses)	
State appropriations	25,453,022
Federal non-operating revenue	11,153,620
Federal Pell grant revenue	4,848,743
Investment income, gains and losses	(11,938)
Other non-operating revenue	1,097,451
Building fee remittance	(1,311,925)
Innovation fund remittance	(209,812)
Interest on indebtedness	(1,123,592)
Net Non-Operating Revenues (Expenses)	39,895,569
Income or (loss) before capital revenues	7,491,991
Capital Contributions	
Capital appropriations	666,185
Total capital revenues	666,185
Increase (Decrease) in net position	8,158,176
Net Position	
Net position, beginning of year	113,475,017
Net position, end of year	$ 121,633,193

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

South Puget Sound Community College
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flow from operating activities	
Student tuition and fees	$ 3,964,495
Grants and contracts	8,380,601
Payments to vendors	(17,001,943)
Payments for utilities	(859,368)
Payments to employees	(27,479,428)
Payments for benefits	(8,799,420)
Auxiliary enterprise sales	240,305
Payments for scholarships and fellowships	(10,665,297)
Other receipts	14,886,325
Net cash used by operating activities	(37,333,730)
Cash flow from noncapital financing activities	
State appropriations	25,453,022
Pell grants	4,848,743
Federal nonoperating revenue	9,319,323
Building fee remittance	(1,311,925)
Innovation fund remittance	(209,812)
Other nonoperating revenue	1,097,450
Net cash provided by noncapital financing activities	39,196,801
Cash flow from capital and related financing activities	
Capital appropriations	666,185
Purchases of capital assets	(8,661,373)
Certificate of participations proceeds	3,980,000
Principal paid on debt	(1,076,780)
Interest paid	(1,123,592)
Net cash used by capital and related financing activities	(6,215,560)
Cash flow from investing activities	
Purchase of investments	(2,127,395)
Investment expense	22,662
Net cash provided by investing activities	(2,104,733)
Increase (decrease) in cash and cash equivalents	(6,457,222)
Cash and cash equivalents at the beginning of the year	19,697,101
Cash and cash equivalents at the end of the year	$ 13,239,879

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

South Puget Sound Community College
Statement of Cash Flows
For the Year Ended June 30, 2022

Operating Loss	$ (32,403,578)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation and amortization expense	4,901,478
Changes in assets and liabilities	
Receivables, net	(10,706,835)
Accounts payable	3,967,877
Accrued liabilities	650,388
Unearned revenue	(549,040)
Compensated absences	(503,091)
Pension asset	(8,207,918)
Pension liability adjustment expense	5,002,112
OPEB liability adjustment expense	514,877
Net cash used by operating activities	$ (37,333,730)

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

South Puget Sound Community College Foundation
Statement of Financial Position
December 31, 2021

ASSETS	
Current Assets	
Cash and cash equivalents	$ 1,001,195
Certificates of deposit	150,000
Promises to give	1,297,018
Investments	13,940,640
Prepaid expenses	16,398
Total Assets	$ 16,405,251
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	$ 48,020
Total Liabilities	48,020
Net Assets	
Without donor restrictions	
Unrestricted	3,403,865
Board-designated - endowment	450,000
With donor restrictions	12,503,366
Total net assets	16,357,231
Total Liabilities and Net Assets	$ 16,405,251

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

South Puget Sound Community College Foundation
Statement of Activities
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions			
Individuals	$ 370,301	$ 1,949,780	$ 2,320,081
In-kind contributions	629,528	-	629,528
Net investment income	408,629	874,995	1,283,624
Special events income	159,832	-	159,832
Net assets released from restrictions	760,374	(760,374)	-
Total Revenue and Support	2,328,664	2,064,401	4,393,065
FUNCTIONAL EXPENSES			
Program Services	1,691,388	-	1,691,388
Supporting Services			
General and administrative	66,399	-	66,399
Fundraising	121,297	-	121,297
Total Functional Expenses	1,879,084	-	1,879,084
Change in Net Assets	449,580	2,064,401	2,513,981
Net assets - Beginning of Year	3,404,285	10,438,965	13,843,250
Net assets - End of Year	$ 3,853,865	$ 12,503,366	$ 16,357,231

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

Notes to the Financial Statements

June 30, 2022
These notes form an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity
South Puget Sound Community 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 South Puget Sound Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to enhance the educational quality and accessibility at the College by soliciting financial and in-kind support for the institution**.** 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

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 calendar year ended December 31, 2021, the Foundation distributed approximately $1,879,084 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at (360) 596-5430.

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

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

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

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

Cash and Cash Equivalents and Investments
Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, and cash equivalents at fair value. Investments in the state's LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. All other investments are reported at fair value.

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 receivables are shown net of estimated uncollectible amounts.

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

Right-to-use lease assets are recorded at the initial measurement of the lease liability, plus lease payment made at/or before the commencement of the lease term, less any incentives received from the lessor at/or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2022, 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 the following fiscal year's summer and fall quarter tuition and fees 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/asset in accordance with GASB Statement No 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The College also reports its share of the net pension liability for the State Board Retirement Plan in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and Related Assets*.

Total OPEB Liability

The College reports its share of OPEB liability in accordance with 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 Expendable. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties. The expendable balance for the College consists of institutional aid funds established for the explicit purpose of providing student support as prescribed by RCW 28B15.820.

Restricted for Pensions. This component of net position consists of the net pension asset, without addition for deferred outflows of resources related to pensions or reduction for deferred inflows of resources related to pensions.

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

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

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 Running Start and/or 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. In FY 2022, non-operating revenues also included funds received through the federal CARES Act.

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on 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 and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2022 are $7,965,614.

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 College remits collected Building Fee to the State Treasurer after the close of a fiscal month. The

Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the Statement of Revenues, Expenses and Changes in Net Position.

Note 2 - Accounting and Reporting Changes

In June 2017, GASB issued Statement No. 87, *Leases,* which had an effective date for reporting periods beginning after December 15, 2019. This Statement 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. GASB 87 was adopted on July 1, 2021 resulting in a recognition of an intangible right-to-use lease asset of $2,726,712 and lease liability of $2,752,216, which were reported at present value using the State of Washington incremental borrowing rate unless otherwise noted in the contract.

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

Accounting Standards Impacting the Future

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. The provisions of this statement are effective for fiscal year 2023. This statement provides a single method of reporting conduit debt obligations by issuers and eliminates the diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of conduit obligations, establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures. The impact of this Statement has not yet been determined.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* effective for FY23. This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases,* as amended, if certain conditions apply. The impact of this Statement has not yet been determined.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements,* effect for FY23. This Statement provides guidance on the accounting and financial reporting for Subscription-based information technology arrangements (SBITAs) for government end users (governments). A SBITA is defined as a contract that conveys control of the right-to-use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The College is following the State's Office of Financial Management directives to prepare for the implementation of this Statement.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, effective FY25. It provides guidance for measuring liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. The college is following the State's Office of Financial management directives to prepare for the implementation of this Statement.

Note 3 - Deposits and Investments

Deposits

Cash and cash equivalents include bank demand deposits, petty cash and change funds 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.

Investments in Local Government Investment Pool (LGIP)

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

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

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

As of June 30, 2022, the carrying amount of the College's cash and equivalents was $13,239,879. Cash and cash equivalents are as represented in the table below.

Cash and Cash Equivalents	June 30, 2022
Petty Cash & Change Funds	$ 4,225
Bank Demand and Time Deposits	8,222,276
Local Government Investment Pool	5,013,378
Total Cash and Cash Equivalents	**$ 13,239,879**

Of the $13,239,879 cash and cash equivalents, $1,196,653 is restricted for expendable institutional aid funds – to be used for the explicit purpose of providing student support as prescribed by RCW 28B15.820.

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 U.S. 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).

Investments
Investments consist of U.S. Treasury and Agency securities.

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

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

Level 2 – Observable inputs: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

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

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All of the College's investments fall within the hierarchy of Level 2.

Investment Maturities	Fair Value	One Year or Less	1-5 Years	6-10 Years	10 or More Years
U.S. Agency Obligations	2,092,795	982,057	1,110,738	-	-
Total Investments	$ 2,092,795	$ 982,057	$ 1,110,738	$ -	$ -

Interest Rate Risk—Investments
The College manages its exposure to changes in interest rates by staggering portfolio maturity dates.

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2022, $2,092,795 of the College's operating fund investments, held by U.S. Bank in the bank's name as agent for the College, are exposed to custodial credit risk as follows:

Investments Exposed to Custodial Risk	Fair Value
U.S. Bank	$ 2,092,795
Total Investments Exposed to Custodial Risk	$ 2,092,795

Investment Expenses

Investment income for the College is shown net of investment expenses. There were no investment expenses incurred for the fiscal year ended June 30, 2022.

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, 2022, accounts receivable were as follows:

Accounts Receivable	Amount
Student Tuition and Fees	$ 2,533,070
Due from the Federal Government	2,945,331
Due from Other State Agencies	12,519,020
Unbilled Tuition	227,986
Other	657,475
Subtotal	18,882,882
Less Allowance for Uncollectible Accounts	(381,578)
Accounts Receivable, net	$ 18,501,304

Note 5 - Capital and Right of Use Lease Assets

A summary of the changes in capital assets for the year ended June 30, 2022 is presented as follows. The current year depreciation expense was $4,589,854.

Capital Assets	**Beginning Balance**	**Additions/ Transfers**	**Retirements/ Transfers**	**Ending Balance**
Nondepreciable capital assets				
Land	$ 3,436,782	$ -	$ -	$ 3,436,782
Construction in progress	183,007	-	-	183,007
Total nondepreciable capital assets	3,619,789	-	-	3,619,789
Depreciable capital assets				
Buildings	173,852,799	6,196,710	-	180,049,509
Other improvements and infrastructure	6,808,990	609,979	-	7,418,969
Equipment	9,923,257	1,854,684	-	11,777,941
Library resources	2,364,812	-	-	2,364,812
Subtotal depreciable capital assets	192,949,858	8,661,373	-	201,611,231
Less accumulated depreciation				
Buildings	41,425,082	3,705,982	-	45,131,064
Other improvements and infrastructure	4,889,346	92,510	-	4,981,856
Equipment	6,654,820	779,388	-	7,434,208
Library resources	2,318,589	11,974	-	2,330,563
Total accumulated depreciation	55,287,837	4,589,854	-	59,877,691
Total depreciable capital assets	137,662,021	4,071,519	-	141,733,540
Capital assets, net of accumulated depreciation	**$ 141,281,810**	**$ 4,071,519**	**$ -**	**$ 145,353,329**

Right of Use lease assets and activity as of June 30, 2022, are summarized below:

Lease Assets	**Beginning Balance***	**Additions/ Transfers**	**Retirements/ Transfers**	**Ending Balance**
Nondepreciable capital assets				
Leased Buildings	$ 2,726,712	$ -	$ -	$ 2,726,712
Total nondepreciable capital assets	2,726,712	-	-	2,726,712
Less accumulated amortization				
Accum. Amort. Leased Buildings	-	311,624	-	311,624
Subtotal depreciable capital assets	-	311,624	-	311,624
Leased assets, net	**$ 2,726,712**	**$ (311,624)**	**$ -**	**$ 2,415,088**

** Change from prior year due to GASB 87 implementation.*

Note 6 - Accounts Payable and Accrued Liabilities

Accrued liabilities as of June 30, 2022, were as follows:

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 2,188,714
Accounts Payable	4,924,276
Amounts Held for Others and Retainage	596,014
Total	$ 7,709,004

Note 7 - Unearned Revenue

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

Unearned Revenue	Amount
Summer & Fall Quarter Tuition & Fees	$ 820,499
Total Unearned Revenue	$ 820,499

Note 8 - 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, 2021 through June 30, 2022, were $57,465.

Note 9 - Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Depending upon employment type, employees who retire receive 25% of the value of their accumulated sick leave and 100% of their accumulated vacation leave either as a cash payment or 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 $1,593,839 and accrued sick leave totaled $1,126,679 at June 30, 2022.

Compensatory time is categorized as a current liability since it must be used before other leave. The College had no balance in compensatory time at June 30,2022.

A four-year average of vacation leave and sick leave paid out annually to employees is used to estimate the current portion of those liabilities. The remaining accrued vacation and sick leave are categorized as non-current liabilities.

Note 10 - Leases Payable

Right-to-Use Lease Liabilities

The College has a lease for a building. The College adopted GASB Statement No. 87 and recorded a lease liability of $2,752,216 as of July 1, 2021 as a change from prior year. The lease liability is reported at net present value using the State of Washington's incremental borrowing rate unless otherwise noted in the contract term. The amount of variable lease payments for FY 2022 were $315,588. This lease expires in March 2030.

As of June 30, 2022, the maturities of lease liabilities for the right of use leases consist of the following:

Fiscal Year	Principal	Interest	Total
2023	$ 294,896	$ 20,692	$ 315,588
2024	297,531	18,057	315,588
2025	305,299	15,394	320,693
2026	323,422	12,586	336,008
2027	326,312	9,696	336,008
Thereafter	912,472	11,551	924,023
Total minimum lease payments	**$2,459,932**	**$ 87,976**	**$2,547,908**

Note 11 - Notes Payable

In February 2019, the College obtained financing in order to replace a building, renovate a building, and construct a Health and Wellness Center through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $14,340,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting Fall Quarter 2017. The interest rate charged is 3.356%. Student fees and obligation transfers related to the Health and Wellness Building COP are accounted for in dedicated accounts, which are used to pay principal and interest, not coming out of the general operating budget.

In August 2014, the College obtained financing in order to remodel Lacey Campus Building 1 through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $4,700,000. The interest rate charged is 3.181%.

In February 2019, the college obtained financing in order for property acquisition at 2421 Heritage Court through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $3,465,000. The interest rate charged is 3.359%.

In 2022, the college obtained financing for Bowen building construction through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $3,980,000. The interest rate charged is 2.49%.

The College's debt service requirements for these note agreements for the next five years and thereafter are as follows in Note 12.

Note 12 - Annual Debt Service Requirements

Future debt service requirements at June 30, 2022 are as follows:

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2023	$ 970,000	$ 1,131,675	$ 2,101,675
2024	1,020,000	1,082,300	2,102,300
2025	1,065,000	1,030,425	2,095,425
2026	1,130,000	975,925	2,105,925
2027	1,180,000	918,425	2,098,425
2028-2032	6,800,000	3,707,325	10,507,325
2033-2037	7,510,000	1,959,050	9,469,050
2038-2042	4,135,000	319,375	4,454,375
Total	**$ 23,810,000**	**$ 11,124,500**	**$ 34,934,500**

Note 13 - Schedule of Long-Term Liabilities

	Beginning Balance* 7/1/2021	**Additions**	**Reductions**	**Ending Balance 6/30/2022**	**Current Portion**
Certificates of Participation	$ 20,640,000	$ 3,980,000	$ 810,000	$ 23,810,000	$ 970,000
Compensated Absences	2,937,344	265,649	482,475	2,720,518	149,489
Lease Liability	2,752,216	-	292,284	2,459,932	294,896
Net Pension Liability - DRS	4,024,613		3,089,565	935,048	-
Net Pension Liability - SBRP	783,785	623,040	-	1,406,825	38,826
Total OPEB Liability	18,777,091	223,160	-	19,000,251	313,652
Total	$ 49,915,049	$ 5,091,849	$ 4,674,324	$ 50,332,574	$ 1,766,863
** Change from prior year due to GASB 87 implementation.*					

Note 14- 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 Services (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 net pension liability as it is a part of the community and technical 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/(asset), 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 for the College, for FY 2022:

Aggregate Pension Amounts - All Plans	**Total**
Net pension assets	$ (8,207,918)
Net pension liabilities	$ 2,341,873
Deferred outflows of resources related to pensions	$ 3,533,833
Deferred inflows of resources related to pensions	$ (10,625,518)
Pension expense	$ (1,777,645)

Department of Retirement Systems (DRS)

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

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

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

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

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

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

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

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

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

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

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

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

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

TRS

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

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

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

<u>Benefits Provided.</u> 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, 2022 were as follows:

	PERS 1	PERS 2/3*	TRS 1	TRS 2/3*
Contribution Rate	10.25%	10.25%	14.42%	14.42%
Actual Contributions	$ 358,003	$ 598,486	$ 171,985	$ 220,933

*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, 2020 with the results rolled forward to the June 30, 2021 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 Society of Actuaries' Pub. H-2010 Mortality rates, which vary by member status (active, retiree, or survivor), as our base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. 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, 2020 valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report.

The Office of the State Actuary (OSA) selected a 7.40 percent long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the WSIB.

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

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Fixed Income	20%	2.2%
Tangible Assets	7%	5.1%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
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 net pension liability was 7.40%. 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.

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 and TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% on pension plan investments was applied to determine the net pension liability.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate

The following table presents the net pension liability of the College calculated using the discount rate of 7.40%, 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%) or 1-percentage-point higher (8.40%) than the current rate.

Pension Plan		1% Decrease (6.40%)		Current Discount Rate (7.40%)		1% Increase (8.40%)
PERS Plan 1	$	1,219,305	$	715,741	$	276,581
PERS Plan 2/3	$	(2,083,024)	$	(7,311,917)	$	(11,617,919)
TRS Plan 1	$	420,355	$	219,307	$	43,857
TRS Plan 2/3	$	156,243	$	(896,001)	$	(1,754,366)

Pension Liabilities/(Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities/(Assets). At June 30, 2022, the College reported a total pension liability/(asset) of $7,272,870, for its proportionate share of the net pension liabilities/(assets) as follows:

Pension Plan		Liability
PERS 1	$	715,741
PERS 2/3		(7,311,917)
TRS 1		219,307
TRS 2/3		(896,001)

The College's proportionate share of pension for fiscal years ending June 30, 2020, and June 30, 2021 for each retirement plan are listed below:

Pension Plan	2020	2021	Change
PERS 1	0.056107%	0.058608%	0.002501%
PERS 2/3	0.071102%	0.073401%	0.002299%
TRS 1	0.028547%	0.032572%	0.004025%
TRS 2/3	0.029085%	0.032596%	0.003511%

The College's proportion of the net pension liability/(asset) 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, 2022 the College recognized pension expense as follows:

Pension Plan	Pension Expense
PERS 1	$ (43,695)
PERS 2/3	(1,591,794)
TRS 1	34,970
TRS 2/3	(106,101)
Total	**$ (1,706,620)**

Deferred Outflows 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, 2022:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ -	$ -	$ 355,129	$ 89,637
Difference between expected and actual earnings of pension plan investments	-	794,233	-	6,111,051
Changes of assumptions	-	-	10,685	519,267
Changes in College's proportionate share of pension liabilities	-	-	248,269	-
Contributions subsequent to the measurement date	358,003	-	598,486	-
	$ 358,003	**$ 794,233**	**$ 1,212,569**	**$ 6,719,955**

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ -	$ -	$ 278,362	$ 7,252
Difference between expected and actual earnings of pension plan investments	-	328,783	-	1,044,626
Changes of assumptions	-	-	55,734	47,085
Changes in College's proportionate share of pension liabilities	-	-	54,142	-
Contributions subsequent to the measurement date	171,985	-	220,933	-
	$ 171,985	**$ 328,783**	**$ 609,171**	**$ 1,098,963**

The $1,349,407 reported as total 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, 2022.

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
2021	$ (210,392)	$ (1,606,871)	$ (87,127)	$ (227,910)
2022	(192,796)	(1,497,075)	(79,726)	(210,446)
2023	(182,296)	(1,436,170)	(75,452)	(196,149)
2024	(208,749)	(1,575,565)	(86,478)	(226,168)
2025	-	(1,943)	-	44,543
Thereafter	-	11,752	-	105,405
Total	**$ (794,233)**	**$ (6,105,872)**	**$ (328,783)**	**$ (710,725)**

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 net pension liability. House Bill 1661, effective FY 2021, created separate Supplemental Retirement Plan (SRP) funds by institution that met the definition of a trust or equivalent arrangement. As a result, this is the second year these plans will be reported under GASB Statement No. 67/68. Prior to this, the SRP was reported under GASB Statement No. 73.

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.

Actuarial Assumptions. The net pension liability was determined by an actuarial valuation as of June 30, 2021, with the results rolled forward to the June 30, 2022 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increases	3.50%-4.00%
Fixed Income and Variable Income Investment Returns*	N/A

**Measurement reflects actual investment returns through June 30, 2020*

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary applied age offsets, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most actuarial assumptions used in the June 30, 2021 valuation were based on the results of the August 2021 Higher Education SRP Experience Study. Additional assumptions related to the salary growth were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes. Some significant changes in plan provisions and actuarial assumptions from prior fiscal year impacted the total pension liability (TPL). House Bill 1661 (Chapter 103 Laws of

2020) created dedicated funds to pay SRP benefits that mimic trust arrangement for the rest of the state retirement system. The change results in the SRP reporting under GASB 67/68 instead of GASB 73. As a result of this change:

- The discount rate is based on the long-term expected rate of return on the pension plan investments. This resulted in an increase in the discount rate used to measure the TPL from 2.21 percent as of June 30, 2020 to 7.40%.

The total pension liability is now compared against the plan's fiduciary net position to determine the net pension liability (NPL). Additionally, OSA recently completed an experience study which modified multiple assumption to estimate future plan experience.

Discount Rate. The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligations 20-Bond Municipal Index, or 7.4 percent for the June 30, 2022 measurement date.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2022 were each $921,612.

Pension Expense. The Pension Expense is the summation of a number of components, including benefits earned during the fiscal year and interest on the TPL. These numbers are sensitive to assumption changes and plan experience and can be volatile from year to year.

Pension expense(income) for the fiscal year ending June 30, 2022 was $ (71,025).

Plan Membership. Membership in the State Board Supplemental Retirement Plan consisted of the following as of June 30, 2021, the most recent actuarial valuation date. Since FY22 was a roll forward year, consistent participant data was used for the roll-forward.

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
State Board for Community and Technical Colleges (SBCTC) - SBRP	5	5	104	114

Net Pension Liability/(Asset). The following table presents the change in net pension liability(/asset) of the State Board Supplemental Retirement Plan as of June 30, 2022:

Schedule of Development of Net Pension Liability		
Total Pension Liability		**Amount**
Service Cost	$	30,843
Interest		103,910
Changes of benefit terms		-
Differences between expected and actual experience		459,193
Changes of assumptions		149,162
Benefit payments		(61,707)
Changes in proportionate share of TPL		(40,247)
Other		-
Net Change In Total Pension Liability		641,154
Total Pension Liability - Beginning		1,479,759
Total Pension Liability - Ending (a)	**$**	**2,120,913**

Plan Fiduciary Net Position		
Net Pension Liability		**Amount**
Contributions - Employer	$	17,049
Contributions - Member		-
Net investment income		1,064
Benefit payments		-
Administrative expense		-
Other		-
Net Change in Plan Fiduciary Net Position		18,113
Plan Fiduciary Net Position - Beginning		695,975
Plan Fiduciary Net Position - Ending (b)		714,088
Plan's Net Pension Liability/(Asset) - Ending (a) - (b)	**$**	**1,406,825**

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following table presents the net pension liability/(asset), calculated using the discount rate of 7.40 percent, as well as what the employers' net pension liability/(asset) 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 (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
$ 1,635,439	$ 1,406,825	$ 1,210,753

Deferred Outflows and Inflows of Resources Related to Pensions. At June 30, 2022, 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	Deferred Inflows
Difference between expected and actual experience	$ 586,864	$ 706,575
Changes of Assumptions	496,892	843,804
Changes in College's proportionate share of pension liability	98,349	133,205
Difference between Projected and Actual Earnings on Plan Investments		-
Transactions subsequent to the measurement date	-	-
	$ 1,182,105	**$ 1,683,584**

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
2023	$ (156,330)
2024	(122,600)
2025	(71,986)
2026	(51,215)
2027	(158,061)
Thereafter	58,713

Note 15- Other Post-Employment Benefits

Plan Description. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumptions used in valuations presented in this footnote assume that this substantive plan will be carried forward into the future.

The PEBB OPEB plan is funded on a pay-as-you-go basis. In the state ACFR 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. The PEBB 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 systems. Membership in the PEBB plan for the College consisted of the following:

Summary of Plan Membership As of June 30, 2021	
Active Employees*	382
Retirees Receiving Benefits**	114
Retirees Not Receiving Benefits***	18
Total Active Employees and Retirees	514

*Reflects active employees eligible for PEBB program participation as of June 30, 2021.

**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.

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 selfpay 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.

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 2022 the explicit subsidy was $183 per member per month and it will remain $183 per member per month in calendar year 2023.

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	$	1,120
Dental		81
Life		4
Long-term Disability		2
Total		1,207
Employer contribution		1,041
Employee contribution		166
Total	$	1,207

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

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

Total OPEB Liability

As of June 30, 2022, the state reported a total OPEB liability of $6.472 billion. The College's proportionate share of the total OPEB liability is $19,000,251. This liability was determined based on a measurement date of June 30, 2021.

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 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 ranges from about 2-11%, reaching an ultimate rate of approximately 4.3% in 2075
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

For additional detail on the health care trend rates, please see the Office of the State Actuary's 2020 Public Employees' Benefits Board Other Postemployment Benefits Actuarial Valuation report.

In projecting the growth of the explicit subsidy, after 2022 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 developed using the Society of Actuaries' Pub.H-2010 mortality rates which vary by member status (e.g. active, retiree, or survivor) as the base table. The Office of the State Actuary (OSA) applied for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality a member is 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 2013-2018 Demographic 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 *2019 Report on Financial Condition and Economic Experience Study*.

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

Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2021
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 2.21 percent for the June 30, 2020 measurement date and 2.16 percent for the June 30, 2021 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, 2022, 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:

South Puget Sound Community College		
Proportionate Share (%)		**0.2935909556%**
Service Cost	$	949,652
Interest Cost		410,434
Differences Between Expected and Actual Experience		-
Changes in Assumptions*		175,359
Changes of Benefit Terms		-
Benefit Payments		(312,694)
Changes in Proportionate Share		(999,591)
Other		-
Net Change in Total OPEB Liability		223,160
Total OPEB Liability - Beginning		18,777,091
Total OPEB Liability - Ending	**$**	**19,000,251**

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 2.16 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 (1.16 percent) or 1 percentage point higher (3.16 percent) than the current rate:

Discount Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 23,020,153	$ 19,000,251	$ 15,874,808

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 2-11 percent reaching an ultimate range of 4.3 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 (1-10 percent) or 1 percentage point higher (3-12 percent) than the current rate:

Health Care Cost Trend Rate Sensitivity		
1% Decrease	Current Discount Rate	1% Increase
$ 15,328,948	$ 19,000,251	$ 23,961,420

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

For the year ending June 30, 2022, the College will recognize OPEB expense of $828,531. OPEB expense consists of the following elements:

South Puget Sound Community College		
Proportionate Share (%)		**0.2935909556%**
Service Cost	$	949,652
Interest Cost		410,434
Amortization of Differences Between Expected and Actual Experience		54,494
Amortization of Changes in Assumptions		(560,074)
Changes of Benefit Terms		-
Amortization of Changes in Proportionate Share		(25,975)
Administrative Expenses		-
Total OPEB Expense		**828,531**

As of June 30, 2022, the deferred inflows and deferred outflows of resources for the College are as follows:

South Puget Sound Community College		
Proportionate Share (%)		**0.2935909556%**
Deferred Inflows/Outflows of Resources	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience	325,008	73,551
Changes in assumptions	1,210,031	3,444,830
Changes in benefit terms	-	-
Transactions subsequent to the measurement date	313,652	-
Change in proportion	764,337	1,317,977
Total Deferred (Inflows)/Outflows	**2,613,028**	**4,836,358**

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, 2022. 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:

South Puget Sound Community College		
Proportionate Share (%)		**0.2935909556%**
2023	$	(531,554)
2024		(531,554)
2025		(531,554)
2026		(531,557)
2027		(217,446)
Thereafter		(193,317)

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

South Puget Sound Community College		
Proportionate Share (%) 2020		**0.3100098940%**
Proportionate Share (%) 2021		**0.2935909556%**
Total OPEB Liability - Ending 2020	$	18,777,091
Total OPEB Liability - Beginning 2021 (chg in prop)		17,777,500
Total OPEB Liability Change in Proportion		(999,591)
Total Deferred (Inflows)/Outflows - 2020		(2,483,812)
Total Deferred (Inflows)/Outflows - 2021		(2,351,587)
Total Deferred (Inflows)/Outflows Change in Proportion		132,225
Total Change in Proportion	**$**	**(1,131,816)**

Note 16 - 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, 2022.

Expenses by Functional Classification	Amount
Instruction	$34,532,266
Academic Support Services	2,934,092
Student Services	4,678,758
Institutional Support	6,745,847
Operations and Maintenance of Plant	5,954,640
Scholarships and Other Student Financial Aid	10,665,297
Auxiliary Enterprises	718,801
Depreciation and Amortization	4,901,478
Total Operation Expenses	$71,131,179

Note 17 - Commitments and Contingencies

The College has commitments of $5,121,842 for various capital improvement projects that include completion of construction and renovations of existing buildings.

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

Note 18 – Subsequent Events

September 2022, the College experienced a water line break and subsequent flooding in Bldg. 20. Emergency relief funds were received from the State Board of Community and Technical Colleges (SBCTC). The $500K in emergency relief funds are included within Note 17 – commitment for capital projects.

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College's Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community 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's proportionate share of the net pension liability	College's 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	0.052957%	$ 2,667,734	$ 5,472,399	48.75%	61.19%
2015	0.051549%	$ 2,696,492	$ 5,582,041	48.31%	59.10%
2016	0.051867%	$ 2,785,502	$ 5,836,223	47.73%	57.03%
2017	0.052032%	$ 2,468,959	$ 6,239,824	39.57%	61.24%
2018	0.054662%	$ 2,441,224	$ 6,961,008	35.07%	63.22%
2019	0.055118%	$ 2,119,483	$ 7,562,238	28.03%	67.12%
2020	0.056107%	$ 1,980,880	$ 8,404,284	23.57%	68.64%
2021	0.058608%	$ 715,741	$ 8,891,497	8.05%	88.74%
2022					
2023					

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

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College's Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community College's Share of the Net Pension Liability (Assets) Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College's proportionate share of the net pension (asset) liability	College's covered payroll	College's proportionate share of the net pension (asset) liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.060480%	$ 1,222,519	$ 5,176,602	23.62%	93.29%
2015	0.059970%	$ 2,142,762	$ 5,321,288	40.27%	89.20%
2016	0.059459%	$ 2,993,714	$ 5,552,743	53.91%	85.82%
2017	0.061133%	$ 2,124,080	$ 5,993,461	35.44%	90.97%
2018	0.065068%	$ 1,110,978	$ 6,746,685	16.47%	95.77%
2019	0.068502%	$ 665,387	$ 7,445,632	8.94%	97.77%
2020	0.071102%	$ 909,357	$ 8,318,753	10.93%	97.22%
2021	0.073401%	$ (7,311,917)	$ 8,805,549	-83.04%	120.29%
2022					
2023					

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

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College's Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community 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's proportionate share of the net pension liability	College's 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	0.020366%	$ 600,686	$ 756,975	79.35%	68.77%
2015	0.022672%	$ 718,281	$ 1,056,980	67.96%	65.70%
2016	0.023497%	$ 802,243	$ 1,141,641	70.27%	62.07%
2017	0.024144%	$ 729,938	$ 1,337,496	54.57%	65.58%
2018	0.026816%	$ 783,186	$ 1,565,078	50.04%	66.52%
2019	0.027168%	$ 672,626	$ 1,826,991	36.82%	70.37%
2020	0.028547%	$ 687,636	$ 2,101,802	32.72%	70.55%
2021	0.032572%	$ 219,307	$ 2,419,562	9.06%	91.42%
2022					
2023					

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

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans

Schedules of South Puget Sound Community College’s Proportionate Share of the Net Pension Liability

Schedule of South Puget Sound Community College's Share of the Net Pension Liability (Assets) Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College’s proportion of the net pension liability	College's proportionate share of the net pension (asset) liability	College's covered payroll	College’s proportionate share of the net pension (asset) liability as a percentage of its covered payroll	Plan’s fiduciary net position as a percentage of the total pension liability
2014	0.014518%	$ 46,892	$ 617,329	7.60%	96.81%
2015	0.021518%	$ 181,569	$ 1,005,320	18.06%	92.48%
2016	0.022781%	$ 312,851	$ 1,117,467	28.00%	88.72%
2017	0.024073%	$ 222,180	$ 1,320,014	16.83%	93.14%
2018	0.027304%	$ 122,899	$ 1,565,078	7.85%	96.88%
2019	0.027369%	$ 164,908	$ 1,826,991	9.03%	96.36%
2020	0.029085%	$ 446,740	$ 2,101,802	21.26%	91.72%
2021	0.032596%	$ (896,001)	$ 2,419,562	-37.03%	113.72%
2022					
2023					

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

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 234,405	$ 234,405	$ -	$ 5,472,399	4.28%
2015	$ 236,918	$ 236,918	$ -	$ 5,582,041	4.24%
2016	$ 294,140	$ 294,140	$ -	$ 5,836,223	5.04%
2017	$ 312,988	$ 312,988	$ -	$ 6,239,824	5.02%
2018	$ 365,370	$ 365,370	$ -	$ 6,961,008	5.25%
2019	$ 395,219	$ 395,219	$ -	$ 7,562,238	5.23%
2020	$ 406,818	$ 406,818	$ -	$ 8,404,284	4.84%
2021	$ 438,241	$ 438,241	$ -	$ 8,891,497	4.93%
2022	$ 358,003	$ 358,003	$ -	$ 9,498,114	3.77%
2023					

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

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 255,493	$ 255,493	$ -	$ 5,176,602	4.94%
2015	$ 267,140	$ 267,140	$ -	$ 5,321,288	5.02%
2016	$ 343,250	$ 343,250	$ -	$ 5,552,743	6.18%
2017	$ 373,392	$ 373,392	$ -	$ 5,993,461	6.23%
2018	$ 502,073	$ 502,073	$ -	$ 6,746,685	7.44%
2019	$ 559,477	$ 559,477	$ -	$ 7,445,632	7.51%
2020	$ 658,846	$ 658,846	$ -	$ 8,318,753	7.92%
2021	$ 697,371	$ 697,371	$ -	$ 8,805,549	7.92%
2022	$ 598,486	$ 598,486	$ -	$ 9,409,964	6.36%
2023					

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

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

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

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 40,274	$ 40,274	$ -	$ 756,975	5.32%
2015	$ 50,734	$ 50,734	$ -	$ 1,056,980	4.80%
2016	$ 71,410	$ 71,410	$ -	$ 1,141,641	6.26%
2017	$ 84,490	$ 84,490	$ -	$ 1,337,496	6.32%
2018	$ 111,527	$ 111,527	$ -	$ 1,565,078	7.13%
2019	$ 134,922	$ 134,922	$ -	$ 1,826,991	7.38%
2020	$ 151,269	$ 151,269	$ -	$ 2,101,802	7.20%
2021	$ 178,938	$ 178,938	$ -	$ 2,419,562	7.40%
2022	$ 171,985	$ 171,985	$ -	$ 2,742,218	6.27%
2023					

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

Required Supplementary Information

Retirement Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2014	$ 35,621	$ 35,621	$ -	$ 617,329	5.77%
2015	$ 57,184	$ 57,184	$ -	$ 1,005,320	5.69%
2016	$ 74,359	$ 74,359	$ -	$ 1,117,467	6.65%
2017	$ 88,699	$ 88,699	$ -	$ 1,320,014	6.72%
2018	$ 121,388	$ 121,388	$ -	$ 1,565,078	7.76%
2019	$ 143,054	$ 143,054	$ -	$ 1,826,991	7.83%
2020	$ 170,773	$ 170,773	$ -	$ 2,101,802	8.13%
2021	$ 197,195	$ 197,195	$ -	$ 2,419,562	8.15%
2022	$ 220,933	$ 220,933	$ -	$ 2,742,218	8.06%
2023					

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

Required Supplementary Information

Retirement Plan Information

State Board Supplemental Defined Benefit Plans

Schedules of Contributions

Schedule of South Puget Sound Community College's Contributions State Board Retirement Plan Fiscal Year Ended June 30					
Fiscal Year	Statutorily Determined Contributions	Actual Contributions in relation to the above	Contribution deficiency (excess)	College's covered payroll	Contributions as a percentage of covered–employee payroll
2021	$ 17,886	$ 15,667	$ 2,219	$ 13,758,340	0.11%
2022	$ 17,379	$ 15,707	$ 1,672	$ 13,368,410	0.12%
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					

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

Required Supplementary Information

Retirement Plan Information

State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios

Schedule of Changes in the Net Pension Liability and Related Ratios South Puget Sound Community College Fiscal Year Ended June 30 *(expressed in thousands)*	2017	2018	2019	2020	2021	2022
Total Pension Liability						
Service cost	$ 114	$ 80	$ 58	$ 74	$ 100	$ 31
Interest	74	74	70	83	72	104
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(535)	(218)	133	175	(646)	459
Changes of assumptions	(126)	(74)	249	469	(1,167)	149
Benefit payments	(19)	(27)	(37)	(38)	(43)	(62)
Change in proportionate share of TPL/NPL	-	(16)	(51)	73	78	(40)
Net Change in Total Pension Liability (Asset)	**(492)**	**(181)**	**422**	**836**	**(1,606)**	**641**
Total Pension Liability - Beginning	**2,500**	**2,008**	**1,827**	**2,250**	**3,086**	**1,480**
Total Pension Liability - Ending (a)	**$ 2,008**	**$ 1,827**	**$ 2,249**	**$ 3,086**	**$ 1,480**	**$ 2,121**
Plan Fiduciary Net Position **						
Contributions - Employer	N/A	N/A	N/A	N/A	$ 14	$ 17
Contributions - Member	N/A	N/A	N/A	N/A	-	-
Net investment income	N/A	N/A	N/A	N/A	177	1
Benefit Payments	N/A	N/A	N/A	N/A	-	
Administrative Expense	N/A	N/A	N/A	N/A	-	
Other	N/A	N/A	N/A	N/A	-	
Net Change in Plan Fiduciary Net Position					$ 191	$ 18
Plan Fiduciary Net Position - Beginning					505	696
Plan Fiduciary Net Position - Ending (b)					$ 696	$ 714
Plan's Net Pension Liability (Asset) - Ending (a)-(b)					$ 784	$ 1,407
Fiduciary Net Position as a % of Total Pension Liability (b)/(a)					47.03%	33.66%
Covered Payroll					$ 13,758	$ 13,368
Net Pension Liability as a % of Covered Payroll					10.76%	15.87%

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

N/A indicates data not available.

Required Supplementary Information

Retirement Plan Information

State Board Supplemental Defined Benefit Plans

Schedule of Employer Contributions State Board Supplemental Retirement Plan South Puget Sound Community College Fiscal Year Ended June 30, 2022	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Statutorily determined contribution	$ 17,886	$ 17,379								
Actual contributions in relation to the above	15,667	15,707								
Contribution deficicency (excess)	$ (2,219)	$ (1,672)								
Covered payroll	$ 13,758,340	13,368,410								
Contribution as a % of covered payroll	0.11%	0.12%								

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.

Effective fiscal year 2021, House Bill 1661 created dedicated funds to pay SBRP benefits that mimic the trust arrangement for the rest of the state retirement systems. As a result, the plan, previously reported under GASB Statement No. 73 is now being reported under GASB Statement No. 68.

The Schedule of Employer Contributions contains actual amounts, while the notes report contributions as a proportionate share of plan total contributions.

Required Supplementary Information

Retirement Plan Information

Other Post Employment Benefits

Schedule of Changes in the Total OPEB Liability and Related Ratios

Schedule of Changes in the Total OPEB Liability and Related Ratios
South Puget Sound Community College
Fiscal Year Ended June 30
expressed in thousands

Total OPEB Liability	2018	2019	2020	2021	2022
Service cost	$ 1,159	$ 999	$ 739	$ 779	$ 949
Interest cost	543	686	641	652	410
Difference between expected and actual experience	-	627	-	(100)	-
Changes in assumptions	(2,648)	(4,371)	1,193	422	175
Changes in beneft terms	-	-	-	-	-
Benefit payments	(277)	(290)	(293)	(310)	(312)
Changes in proportionate share	(180)	1,226	(3)	(249)	(999)
Other	-	-	-	(664)	-
Net Change in Total OPEB Liability	**(1,403)**	**(1,123)**	**2,277**	**530**	**223**
Total OPEB Liability - Beginning	**18,496**	**17,093**	**15,970**	**18,247**	**18,777**
Total OPEB Liability - Ending	**$17,093**	**$ 15,970**	**$ 18,247**	**$ 18,777**	**$ 19,000**
College's Proportion of the OPEB Liability	0.29%	0.31%	0.31%	0.31%	0.29%
College's Covered payroll	$ 19,841	$ 21,240	$ 22,678	$ 24,046	$ 25,126
Total OPEB Liability as a percentage of covered-employee payroll	86.15%	75.19%	80.46%	78.09%	75.62%

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

Notes to Required Supplementary Information

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

Stay connected at sao.wa.gov

- Find your audit team
- Request public records
- Search BARS Manuals (GAAP and cash), and find reporting templates
- Learn about our training workshops and on-demand videos
- Discover which governments serve you — enter an address on our map
- Explore public financial data with the Financial Intelligence Tool

Other ways to stay in touch

- Main telephone: (564) 999-0950
- Toll-free Citizen Hotline: (866) 902-3900
- Email: webmaster@sao.wa.gov