Whatcom
COMMUNITY COLLEGE

2015 Financial Report

Table of Contents

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Trustees and Administrative Officers

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Whatcom Community College (the College) for the fiscal year ended June 30, 2015 (FY 2015). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

Whatcom Community College, one of thirty public community and technical college districts in the state of Washington, is an accredited, comprehensive two-year college. Whatcom offers transfer degrees, professional-technical training programs, as well as basic education, job skills, and community and continuing education classes. According to the Aspen Institute, the College is rated among the top nine community and technical colleges in the state, and recognized as one of the leading community colleges in the nation. Established in 1967, Whatcom has been accredited by the Northwest Commission on Colleges and Universities since 1976. The College's mission is to contribute to the vitality of its communities by providing quality education in academic transfer, professional-technical, and lifelong learning, preparing students for active citizenship in a global society.

Whatcom's campus is located in Bellingham, Washington, a community of about 83,000 residents. On its 72-acre campus, and through online courses, the College serves 11,000 students annually. Of the degree- and certificate- seeking students, 78 percent are from surrounding Whatcom County (population 207,000). 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. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, the Whatcom 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, 2015. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported under the accrual basis of accounting, where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

During 2015, the College adopted GASB Statement No. 68, as amended by GASB Statement No. 71. These statements require the College to record its proportionate share of net pension liabilities, deferred outflows and inflows by restating its 2014 net position, pension liabilities and deferral of resources as a change in accounting principle. For the purposes of this analysis, the restatement of the 2014 net position was made to conform to 2015 presentation. The change in accounting principle resulted in a reduction to unrestricted net position in the amount of $3,203,847. This decrease resulted in the restatement of net position to a balance of $76,794,824 for the year ending June 30, 2014.

Statement of Net Position

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

Condensed Statement of Net Position As of June 30th	**FY 2015**		**FY 2014**	
Assets				
Current Assets	$	20,422,504	$	15,426,756
Capital Assets, net		69,902,018		60,486,550
Other Assets, non-current		11,939,661		9,921,479
Total Assets	**$**	**102,264,183**	**$**	**85,834,785**
Deferred Outflows	**$**	**497,012**	**$**	**(3,203,847)**
Liabilities				
Current Liabilities		4,952,834		3,141,650
Other Liabilities, non-current		15,601,010		2,694,464
Total Liabilities	**$**	**20,553,844**	**$**	**5,836,114**
Deferred Inflows	**$**	**1,100,645**	**$**	**-**
Net Position, as restated	**$**	**81,106,706**	**$**	**76,794,824**

Current assets consist primarily of cash, Washington State Local Government Investment Pool (LGIP) investments, various accounts receivables, and inventories. The increase of approximately $5 million in current assets in FY 2015 can be attributed to a receivable of about $3.1 million related to the Certificate of Participation (COP) for construction to expand and renovate the Pavilion and Student Rec Center facility, in addition to receivables for various grant funds.

Net capital assets increased by approximately $9.4 million from FY 2014 to FY 2015. After taking into consideration current depreciation expense of $1,882,833, the majority of the increase is the result of the construction of the Student Rec Center Building, which was completed in fall of 2015.

Non-current assets consist primarily of the long-term portion of the College's bond investments, which show an increase of approximately $2.1 million. The college increased its cash investment in long-term bonds to take advantage of higher interest earnings on longer term investments.

Deferred outflows of resources totaling $497,012 are related to the net pension liability that was recorded on the College's financials this year.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others, and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

The increase in current liabilities of approximately $1.8 million from FY 2014 to FY 2015 is primarily due to the current portion of the new COP for the Student Rec Center, plus an increase in amounts due to other agencies.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, and the long-term portion of Certificates of Participation debt. The increase in non-current liabilities of approximately $12.9 million from FY 2014 to FY 2015 is primarily due to the COP purchased to finance the construction on the Student Rec Center. The College's non-current liabilities also increased due to the implementation of GASB Statement No. 68, reflecting the College's proportionate share of the net pension liability.

Deferred inflows of resources related to the College's net pension liability totaled $1,100,645. Deferred inflows or resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

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

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

Restricted:

***Nonexpendable* –** Consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the College's Foundation. Whatcom does have one small fund in this category, the proceeds from which are restricted for faculty professional development.

***Expendable* –** Resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The expendable funds for the College are restricted for faculty professional development and assistance for students in need.

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.

As stated earlier in this section, the College's net position was adjusted by $3,203,847 to reflect the implementation of GASB Statement No. 68 to report the net pension liability and the offsetting adjustment to net position.

Net Position As of June 30th	FY 2015	FY 2014
Net investment in capital assets	$ 58,655,090	$ 59,824,706
Restricted		
Expendable - Student Aid	135,601	77,453
Expendable - Faculty Professional Development	327,542	344,735
Unexpendable - Endowment	250,000	250,000
Unrestricted	21,738,473	19,501,777
Cumulative effect of change in accounting principle		(3,203,847)
Total Net Position	**$ 81,106,706**	**$ 76,794,824**

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 2015. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid 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, 2015 and 2014 is presented below.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th		
	FY 2015	**FY 2014**
Operating Revenues	$ 26,148,250	$ 25,425,024
Operating Expenses	40,339,031	40,587,883
Net Operating Loss	(14,190,781)	(15,162,859)
Non-Operating Revenues and Expenses	16,293,642	16,921,345
Income or (Loss) Before Other	2,102,861	1,758,486
Capital Appropriations and Contributions	2,209,021	1,051,176
Increase in Net Position	4,311,882	2,809,662
Net Position, Beginning of the Year	**$ 76,794,824**	**$ 77,189,009**
Cummulative effect of change in accounting principle	0	(3,203,847)
Net Position, End of the Year	**$ 81,106,706**	**$ 76,794,824**

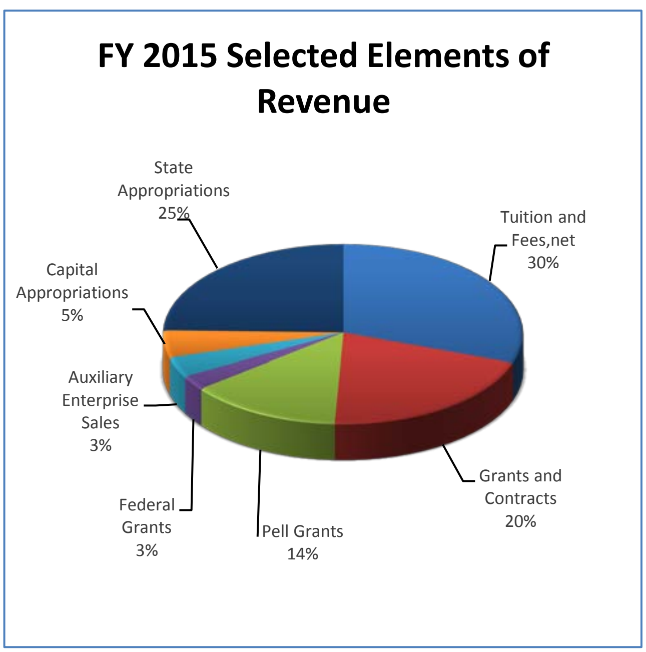
Revenues

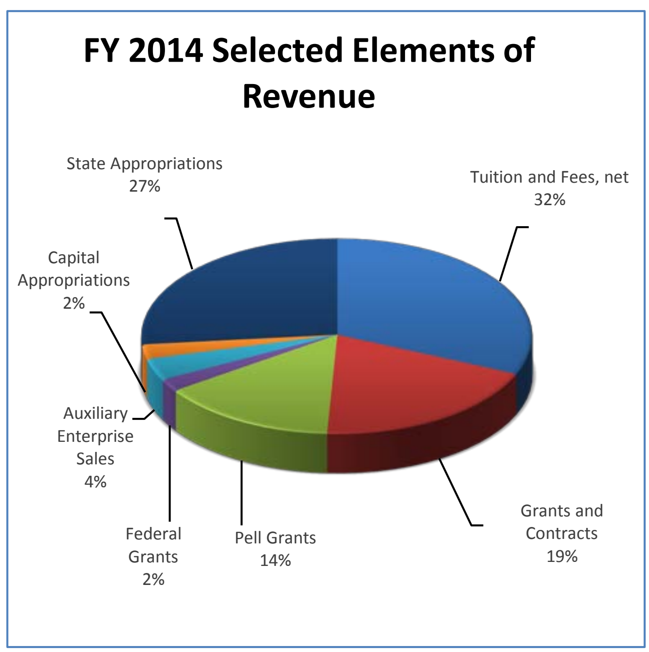
The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. The College's appropriation for FY 2015 (classified as "non-operating" revenue) was decreased by about 4% from the appropriation received in FY 2014.

Over this same period, the Legislature mandated that tuition for the State Community and Technical Colleges stay flat for the 2015 fiscal year. Since enrollments decreased in FY 2015, the College's decrease in tuition and fee revenue is primarily attributable to the unchanged tuition rates, along with decreased enrollments. Pell grant revenues generally follow enrollment trends, therefore so did the College's Pell Grant revenue, which was down about 2.7% from FY 2014.

In FY 2015, State and local grant and contract revenues increased by close to $800,000 when compared with FY 2014. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars. Federal grant revenue was up over $271,000 compared to FY 2014, primarily the result of the College's increased cyber security programs.

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. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expenses in the current period, and are instead recognized as depreciation expense over the expected useful lifetime of the asset.





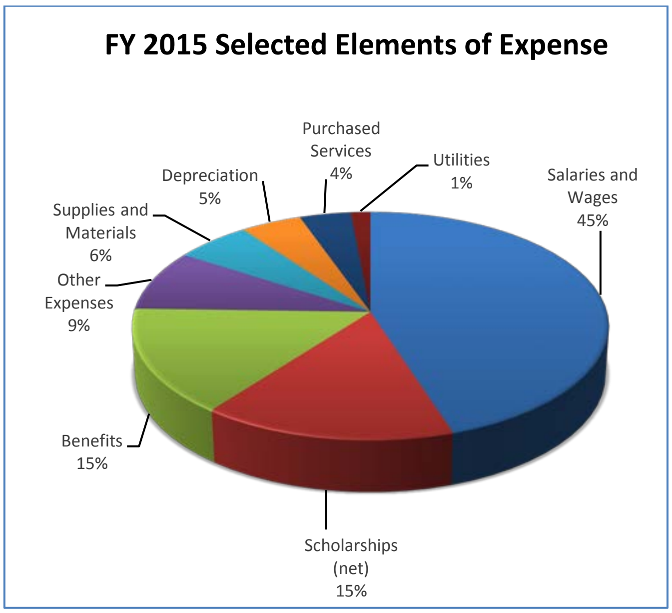
Expenses

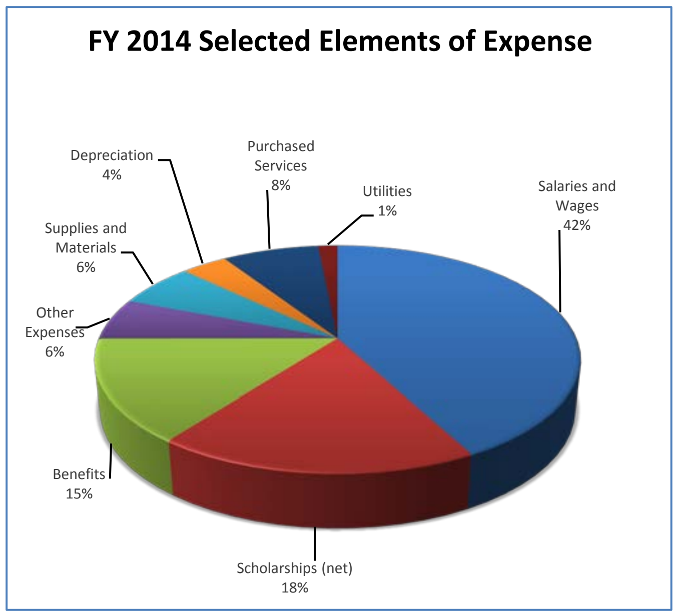
Significant budget cuts in the State allocation from 2009 through 2013 resulted in the College's efforts to identify savings and efficiencies. As of FY 2015, the College's State allocation was still about 15% below the level it had reached in FY 2009, and the College continued to successfully seek cost savings in many areas, including utilities, supplies and materials, and contracted services.

Even with reduced State resources, the College continued its commitment to faculty and staff by funding negotiated increases for classified staff and faculty, improving salaries for exempt staff positions to better compete in the job market, and by adding needed positions. In FY 2015, salary costs increased by over 5%, funded in part by increased revenues from grants and contracts.

Supplies, materials, and purchased services were slightly lower in FY 2015, even with the increased spending related to capital projects. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building, and are instead recognized as supplies and materials or purchased services costs. Fluctuations in these areas are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service, as was the case in FY 2015.

Comparison of Selected Operating Expenses by Function
The chart below shows the relative spending for selected functional areas of operating expenses for FY 2015 and FY 2014.





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. The College has not received funds from the State for a new major capital project since 2005.

At June 30, 2015, the College had invested $69,902,018 in capital assets, net of accumulated depreciation. This represents an increase of $9,415,468 from last year, as shown in the table below.

Asset Type	June 30, 2015	June 30, 2014	Change
Land	$ 13,406,089	$ 13,406,089	$ -
Construction in Progress	9,830,822	1,170,715	8,660,107
Buildings, net	41,631,001	41,410,440	220,561
Other Improvements and Infrastructure, net	3,512,601	3,854,690	(342,089)
Equipment, net	1,411,625	524,493	887,132
Library Resources, net	109,880	120,123	(10,243)
Total Capital Assets, Net	**$ 69,902,018**	**$ 60,486,550**	**$ 9,415,468**

The increase in net capital assets can be attributed to the construction in progress of the Pavilion and Student Rec Center, and additional equipment purchases. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

At June 30, 2015, the College had $10,560,000 in outstanding debt in the form of two Certificates of Participation (COP). The COP for the renovation of the Syre Student Center was issued in 2009, and the College entered into a COP for the renovation and expansion of the Pavilion and Student Rec Center during FY 2015.

Certificates of Participation	June 30, 2015
Syre Renovation	$ 540,000
Student Rec Center	10,020,000
Total	**$ 10,560,000**

Additional information on notes payable, long term debt and debt service schedules can be found in Notes 12 and 13 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and funding levels by the end of FY 2015 have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2015 tuition flat for resident, non-resident and baccalaureate students.

Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did provide funding to partially backfill this loss. In FY 2017, the State Board for Community and Technical Colleges has elected to move to a new allocation model, changing how the state-allocated funds are distributed to each college. The new model will be based on performance in several key indicators, from general enrollments to enrollments in high priority programs, as well as student completion and achievement points. It is important to note that the allocation model changes the distribution methodology of the current state appropriation. Some colleges benefit from the new model and others do not. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations, therefore this new allocation model may be the only significant change that could affect the College's state allocation funding.

Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Whatcom Community College

For the period July 1, 2014 through June 30, 2015

Published October 27, 2016

Report No. 1017776

Washington State Auditor's Office

October 27, 2016

Board of Trustees
Whatcom Community College
Bellingham, Washington

Report on Financial Statements

Please find attached our report on the Whatcom Community College's financial statements.

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

Sincerely,

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Whatcom Community College
July 1, 2014 through June 30, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Whatcom Community College. The State Auditor's Office has reviewed the status as presented by the College.

Audit Period:	**Report Ref. No:**	**Finding Ref. No:**
July 1, 2013 through June 30, 2014	1014543	2014-001

Finding Caption:

The College's controls over financial reporting are inadequate to ensure accurate financial reporting

Background:

It is the responsibility of the College to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls that adversely affects the College's ability to produce reliable financial statements.

College staff did not adequately research or seek technical guidance on how to appropriately record transactions on the financial statements.

Although the College has procedures in place to perform a final review of the prepared financial statements prior to audit, the review was not effective in detecting significant errors.

The College acknowledges that errors were made in the process of producing its inaugural set of GASB compliant financial statements. Actions have already been taken, and procedures put in place to rectify the causes for misclassification.

Status of Corrective Action:

☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:

Staff involved in financial statement preparation have received additional training, and are committed to additional continuous training, to remain informed of current requirements. We have also sought help from the State Board finance staff, to review the College's financial statements, to further ensure that any errors have been identified and corrected.

INDEPENDENT AUDITOR'S 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*

Whatcom Community College
July 1, 2014 through June 30, 2015

Board of Trustees
Whatcom Community College
Bellingham, 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 Whatcom Community College, Whatcom County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 19, 2016. As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the College implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Our report includes a reference to other auditors who audited the financial statements of the Whatcom Community College Foundation, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Whatcom Community College Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Whatcom Community College Foundation. The Whatcom Community College Foundation prior year comparative information has been derived from the Foundation's basic financial statements, on which other auditors issued its report dated October 26, 2015.

The financial statements of the Whatcom 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. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

The results of our tests 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.

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

October 19, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whatcom Community College
July 1, 2014 through June 30, 2015

Board of Trustees
Whatcom Community College
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the Whatcom Community College, Whatcom County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Whatcom Community College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Whatcom Community College, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

As also discussed in Note 1, the financial statements of the Whatcom 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. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information for the Whatcom Community College Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which such partial information was derived. Other auditors have previously audited the Whatcom Community College Foundation's 2014 financial statements and they expressed an unmodified opinion on their report dated October 26, 2015.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension plan information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance..

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

October 19, 2016

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

Whatcom Community College
Statement of Net Position
June 30,2015

ASSETS		
Current assets		
Cash and cash equivalents	$	14,248,513
Accounts Receivable		5,737,727
Interest Receivable		5,150
Inventories		281,387
Prepaid Expenses		149,727
Total current assets		**20,422,504**
Non-Current Assets		
Long-term investments		11,939,661
Capital assets, net of depreciation		69,902,018
Total non-current assets		81,841,679
Total assets	**$**	**102,264,182**
Deferred Outflows of Resources		497,012
Total Deferred Outflows of Resources	**$**	**497,012**
LIABILITIES		
Current Liabilities		
Accounts Payable	$	725,417
Accrued Liabilities		2,109,920
Compensated absences		2,093
Deposits Payable		3,649
Unearned Revenue		1,511,755
Leases and Certificates of Participation Payable		600,000
Total current liabilities		**4,952,834**
Noncurrent Liabilities		
Compensated Absences		2,359,433
Pension liabilty		2,646,839
Long-term liabilities		10,594,738
Total non-current liabilities		15,601,010
Total liabilities	**$**	**20,553,843**
Deferred Inflows of Resources		1,100,645
Total Deferred Inflows of Resources	**$**	**1,100,645**
Net Position		
Net Investment in Capital Assets	$	58,655,090
Restricted for:		
Nonexpendable		250,000
Expendable		327,542
Student Support		135,601
Unrestricted		21,738,473
Total Net Position	**$**	**81,106,706**
Total Liabilities, deferred inflow and Net Position	**$**	**102,761,194**
Total assets & deferred outflow	$	102,761,194

Whatcom Community College

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2015

Operating Revenues		
Student tuition and fees, net	$	13,827,033
Auxiliary enterprise sales		1,612,084
State and local grants and contracts		9,211,591
Federal grants and contracts		1,162,121
Other operating revenues		335,421
Total operating revenue	**$**	**26,148,250**
Operating Expenses		
Operating Expenses	$	3,482,212
Salaries and wages		18,148,358
Benefits		6,067,082
Scholarships and fellowships		6,229,473
Supplies and materials		2,343,857
Depreciation		1,882,833
Purchased services		1,580,088
Utilities		605,128
Total operating expenses	**$**	**40,339,031**
Operating income (loss)	**$**	**(14,190,780)**
Non-Operating Revenues		
State appropriations	$	11,175,593
Federal Pell grant revenue		6,191,654
Investment income, gains and losses		42,009
Building fee remittance		(894,211)
Innovation fund remittance		(219,519)
Interest on indebtedness		(1,883)
Net non-operating revenues (expenses)	**$**	**16,293,642**
Income or (loss) before other revenues, expenses, gains, or losses	**$**	**2,102,861**
Capital Revenues		
Capital appropriations	$	2,209,021
Increase (Decrease) in net position	**$**	**4,311,882**
Net Position		
Net position, beginning of year	$	79,998,670
Cummulative effect of change in accounting principle		(3,203,847)
Net position, beginning of year, as restated		76,794,823
Net position, end of year		81,106,706
Net Position from the Statement of Net Position	**$**	**81,106,706**

Whatcom Community College
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flow from operating activities		
Student tuition and fees	$	13,930,755
Grants and contracts		10,538,928
Payments to vendors		2,923,046
Payments for utilities		(577,132)
Payments to employees		(17,917,668)
Payments for benefits		(6,028,904)
Auxiliary enterprise sales		(1,540,104)
Payments for scholarships and fellowships		(6,229,473)
Other receipts (payments)		(9,402,778)
Net cash used by operating activities	$	(14,303,329)
Cash flow from noncapital financing activities		
State appropriations	$	11,859,718
Pell grants		6,191,654
Amounts for other than capital purposes		
Building fee remittance		(894,211)
Innovation fund remittance		(219,519)
Net cash provided by noncapital financing activities	$	16,937,641
Cash flow from capital and related financing activities		
Proceeds of capital debt	$	660,000
Capital appropriations		2,123,709
Purchases of capital assets		(12,118,762)
Principal paid on capital debt		10,064,738
Interest paid		(27,146)
Net cash used by capital and related financing activities	$	702,539
Cash flow from investing activities		
Purchase of investments	$	(2,018,182)
Income of investments		42,009
Net cash provided by investing activities	$	(1,976,173)
Increase in cash and cash equivalents	$	1,360,677
Cash and cash equivalents at the beginning of the year		12,887,835
Cash and cash equivalents at the end of the year	$	14,248,512
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	$	(14,190,780)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	$	1,882,833
Changes in assets and liabilities		
Receivables , net		(8,754,958)
Inventories		81,080
Other assets		(76,749)
Accounts payable		363,881
Accrued liabilities		6,046,561
Deferred revenue		94,401
Compensated absences		203,778
Pension liability adjustment expense		46,625
Net cash used by operating activities	$	(14,303,329)

WHATCOM COMMUNITY COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2015
(With Comparative Totals for June 30, 2014)

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents (Note 1 & 2)	$ 426,894	$ 299,915
Accounts receivable	14,268	51,850
Pledges receivable	64,773	91,773
Total current assets	505,935	443,538
Land, building and equipment - net (Note 5)	8,682,214	8,880,463
Other assets		
Investments (Note 6)	4,988,989	5,418,848
Total other assets	4,988,989	5,418,848
Total assets	$ 14,177,138	$ 14,742,849

LIABILITIES AND NET ASSETS

	2015	2014
Current liabilities		
Scholarships payable (Note 1)	$ 277,728	$ 317,542
Accounts payable (Note 1)	45,267	183,746
Deferred revenue-pledges	71,730	91,773
Deferred revenue-event	-	5,000
Current portion of notes payable (Note 7)	247,566	221,716
Total current liabilities	642,291	819,777
Long-term liabilities		
Long term portion of notes payable (Note 7)	6,780,285	7,373,364
Total long-term liabilities	6,780,285	7,373,364
Total liabilities	7,422,576	8,193,141
Net assets		
Unrestricted:		
Undesignated	2,276,300	1,940,805
Board designated	60,825	60,825
Total unrestricted	2,337,125	2,001,630
Temporarily restricted (Note 8)	755,013	943,986
Permanently restricted (Note 9)	3,662,424	3,604,092
Total net assets	6,754,562	6,549,708
Total liabilities and net assets	$ 14,177,138	$ 14,742,849

The accompanying notes are an integral part of these financial statements

WHATCOM COMMUNITY COLLEGE
FOUNDATION STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015
(With Comparative Totals for June 30, 2014)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Net Assets Total	Net Assets Total
Support and revenue					
Contributions	$ -	$ 211,868	$ 58,332	$ 270,200	$ 1,291,462
Events and fundraisers	8,370	7,500	-	15,870	12,906
Lease and rent income (Note 4)	781,173	-	-	781,173	408,401
Vending	14,581	-	-	14,581	21,663
In-kind contributions (Note 1)	228,610	-	-	228,610	209,510
Interest and dividends	144,551	-	-	144,551	118,729
Realized gain(loss) on investments	98,239	-	-	98,239	38,593
Unrealized gain(loss) on investments	(89,828)	-	-	(89,828)	512,486
Total support and revenue	1,185,696	219,368	58,332	1,463,396	2,613,750
Net assets released from restrictions					
Satisfaction of restrictions	408,341	(408,341)	-	-	-
Total support, revenue and net assets released	1,594,037	(188,973)	58,332	1,463,396	2,613,750
Functional expenses					
Program services					
College support	273,896	-	-	273,896	371,721
Scholarship awards	260,281	-	-	260,281	308,064
Total program services	534,177	-	-	534,177	679,785
Supporting services					
Management and general	712,355	-	-	712,355	414,536
Fundraising expenses	12,010	-	-	12,010	18,413
	724,365	-	-	724,365	432,949
Total functional expenses	1,258,542	-	-	1,258,542	1,112,734
Other income and expense					
Leasehold improvement income (Note 4)	11,673	-	-	11,673	1,088,009
Leasehold improvement expense	(11,673)	-	-	(11,673)	(1,088,009)
Total other income and expense	-	-	-	-	-
Total expenses	1,258,542	-	-	1,258,542	1,112,734
Change in net assets	335,495	(188,973)	58,332	204,854	1,501,016
Net assets, beginning of year	2,001,630	943,986	3,604,092	6,549,708	5,048,692
Net assets, end of year	$ 2,337,125	$ 755,013	$ 3,662,424	$ 6,754,562	$ 6,549,708

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

June 30, 2015

These notes form an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Whatcom 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 (CAFR).

The Whatcom Community College Foundation is a separate but affiliated non-profit entity, incorporated under Washington law in 1987 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to ensure access to higher education for students from all backgrounds, and to promote academic innovation and excellence on the College's campus. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2015, the Foundation distributed approximately $534,177 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 located in the Foundation Building at 333 Calluna Court, 2nd Floor, Bellingham, WA 98226, or by calling (360)383-3320.

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 inflows, liabilities, deferred outflows, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as GASB Statement No. 50, Pension Disclosures. GASB 68 is effective for fiscal years beginning after June 15, 2014. The College has implemented this pronouncement during the 2015 fiscal year. Implementation of this pronouncement has required a restatement of the prior year net position to reflect the net pension liability and the impact to net position.

The Governmental Accounting Standards Board (GASB) issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, effective for the year ended June 30, 2015. This statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The effect of Statement No. 71 to the College is to require the deferral (Deferred Outflows) of pension contributions made subsequent to the measurement date and is addressed in Note 6 to the financial statements.

Cumulative effect of change in accounting principle

The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 68. The net position has been restated as follows:

Net Position as previously reported at June 30, 2014	**$**	**79,998,670**
Prior period adjustment:		
Net Pension Liability		(3,539,656)
Deferred Outflows		335,809
Total prior period adjustment		(3,203,847)
Net Position, as restated, July 1, 2014	**$**	**76,794,823**

Change in accounting estimate for prior period adjustment

The method used to estimate the amount of funds to remit to the state for the Building and Innovation fees was found to be inadequate. Upon reconciliation of the applicable accounts, it was discovered that the college owed the state an additional $93,392.43 for unremitted Building and Innovation fees from 2013-2014 and prior periods. See Note 7 for more information.

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.

The Whatcom Community College Foundation (the Foundation) is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including Accounting Standards Codification Topic 958, Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for those differences.

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, if probable of collection.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund 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.

Cash, Cash Equivalents and Investments

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

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

Accounts Receivable

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

Inventories

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

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment, 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2015, 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. The College has recorded summer and fall quarter tuition and fees, housing deposits and advanced grant proceeds as unearned revenues.

Tax Exemption

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

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reports at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net position liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principle.

- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues

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

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

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

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government. Pell grants are reported as non-operating revenue based on guidance from the Office of the Financial Management in collaboration with the State Auditor's Office.

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, 2015 are $4,267,847.

State Appropriations

The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature, and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation 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.

2. CASH AND INVESTMENTS

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2015, the carrying amount of the College's cash and equivalents was $14,248,513 as represented in the table below.

Cash and Cash Equivalents		June 30, 2015
Petty Cash and Change Funds	$	7,000
Deposits in Transit		15,416
Bank Demand and Time Deposits		2,012,301
Local Government Investment Pool		12,213,796
Total Cash and Cash Equivalents	**$**	**14,248,513**

Investments consist of U.S. Agency bond funds.

Investment Maturities		Fair Value		One Year or Less		1 - 5 Years
U.S. Agency Obligations	$	11,939,661	$	-	$	11,939,661

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 Peoples Bank of Washington. 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).

Interest Rate Risk—Investments

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

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2015, all of the College's operating fund investments were held by the College's custodian banks in the College's name.

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2015 were $2,016.43.

3. RECEIVABLES

Receivables consist of tuition and fee charges to students, auxiliary enterprise services provided to students, faculty and staff, and interest receivables. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2015, receivables were as follows.

Receivables		Amount
Due from the Federal Government	$	512,090
Due from Other State Agencies		1,088,166
Interest Receivable		5,150
COP Receivable		3,399,423
Other		1,202,495
Subtotal		6,207,324
Less Allowance for Uncollectible Accounts		(464,447)
Accounts Receivable, net	**$**	**5,742,877**

4. INVENTORY

Inventory, stated at cost using the FIFO (First In, First Out) method, consists of the following as of June 30, 2015.

Inventory		Amount
Merchandise Inventory	$	281,387

5. CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2015 is presented as follows. The current year depreciation expense was $1,882,833.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 13,406,089			$ 13,406,089
Construction in progress	1,170,715	8,660,107		9,830,822
Total nondepreciable capital assets	**14,576,804**	**8,660,107**	**-**	**23,236,911**
Depreciable capital assets				
Buildings	58,015,626	1,475,273		59,490,899
Other improvements and infrastructure	5,864,692	0		5,864,692
Equipment	1,742,319	1,129,567	(15,441)	2,856,445
Library resources	778,445	33,354		811,799
Subtotal depreciable capital assets	**66,401,082**	**2,638,194**	**(15,441)**	**69,023,835**
Less accumulated depreciation				
Buildings	16,605,186	1,254,712		17,859,898
Other improvements and infrastructure	2,010,002	342,089		2,352,091
Equipment	1,217,826	242,435	(15,441)	1,444,820
Library resources	658,322	43,597		701,919
Total accumulated depreciation	**20,491,336**	**1,882,833**	**(15,441)**	**22,358,728**
Total depreciable capital assets	**45,909,746**	**755,361**	**-**	**46,665,107**
Capital assets, net of accumulated depreciation	**$ 60,486,550**	**$ 9,415,468**	**$ -**	**$ 69,902,018**

6. DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

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

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position:

PERS 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual earnings of pension plan investments		$ 208,345
Changes in College's proportionate share of pension liabilities		
Contributions to pension plans after measurement date	$ 159,013	
	$ 159,013	**$ 208,345**

PERS 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual earnings of pension plan investments		$ 844,187
Changes in College's proportionate share of pension liabilities	$ 107,737	
Contributions to pension plans after measurement date	$ 184,295	
	$ 292,032	**$ 844,187**

TRS 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual earnings of pension plan investments		$ 31,006
Changes in College's proportionate share of pension liabilities		
Contributions to pension plans after measurement date	$ 20,188	
	$ 20,188	**$ 31,006**

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual earnings of pension plan investments		$ 17,107
Changes in College's proportionate share of pension liabilities	$ 10,504	
Contributions to pension plans after measurement date	$ 15,275	
	$ 25,778	**$ 17,107**

TOTALS: ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual earnings of pension plan investments		$ 1,100,645
Changes in College's proportionate share of pension liabilities	$ 118,241	
Contributions to pension plans after measurement date	$ 378,771	
	$ 497,012	**$ 1,100,645**

The $378,770.66 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2016.

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
2016	$ 52,086	$ 219,938	$ 7,752	$ 6,560
2017	$ 52,086	$ 219,938	$ 7,752	$ 6,560
2018	$ 52,086	$ 215,493	$ 7,752	$ 6,560
2019	$ 52,086	$ 211,047	$ 7,752	$ 5,647
	$ 208,345	**$ 866,415**	**$ 31,006**	**$ 25,327**

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Amounts owed to employees include accrued payroll as of June 30, 2015, as well as accrued compensatory time, which will be taken within the following fiscal year.

Amounts held for others at June 30, 2015 include funds due to other agencies, including VPA funds due to the State, and building and innovation fees paid by students. The method used to estimate the amount of funds to remit to the State for the building and innovation fees was found to be inadequate. Upon reconciliation of the applicable accounts, the college remitted an additional $93,392.43 for Building and Innovation fees from 2013-2014 and prior periods. The unremitted funds were recorded as a liability in 2014-15, and remitted to the State in early 2015-2016. A new procedure for calculating and remitting these fees was established in 2015-2016.

Accounts Payable and Accrued Liabilities	Amount	
Accounts Payable	$	725,417
Amounts Held for Others and Retainage	$	2,109,920
Amounts Owed to Employees	$	2,093
Total	**$**	**2,837,429**

8. UNEARNED REVENUE

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

Unearned Revenue	Amount	
Summer and Fall Quarter Tuition & Fees	$	1,511,755
Housing and Other Deposits		3,649
Total Unearned Revenue	**$**	**1,515,404**

9. RISK MANAGEMENT

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college budgets for these costs annually in the operating budget for salaries paid from that budget, and maintains a reserve for unemployment expenses for employees paid from other non-state funds. Payments made for claims from July 1, 2014 through June 30, 2015, were $61,339.36 from all funds. Cash reserves at June 30, 2015 for unemployment compensation for all employees paid by other than state funds were $24,716.

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.

10. COMPENSATED ABSENCES

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total
balance on the payroll records. The accrued vacation leave totaled $818,193, and accrued sick leave totaled $1,541,240 at June 30, 2015.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

11. LEASES PAYABLE

The College has leases for buildings, as well as office equipment with various vendors. These leases are classified as operating leases. The property leases are detailed below.

Foundation Building

The College began leasing the Whatcom Community College Foundation Building, located on Calluna Court, from the WCC Foundation for a term beginning June 1, 2006, and ending May 31, 2011. In June 2011 the lease was extended an additional five years, as per the original terms of the agreement. Under the lease the College pays the Foundation monthly lease payments of $26,178, plus operating expenses. An additional five year extension took effect as of May 31, 2016, upon being processed through the Department of Enterprise Services, Real Estate Services.

Health Professions Education Center (HPEC)

In August 2013, the College entered into a lease agreement with the WCC Foundation for a building near its campus, located on Stuart Road. The rental payment is $38,920 per month, plus operating expenses. The initial agreement was for five years with options to extend the lease for three additional five year terms. The College intends to exercise the renewal options as the facility is specially equipped to support health professions instruction, including lab spaces. The renewal periods are as follows:

- August 1, 2018 – July 31, 2023
- August 1, 2023 – July 31, 2028
- August 1, 2028 – July 31, 2033

As of June 30, 2014, the minimum lease payments under operating leases consist of the following.

Leases Payable

Fiscal year	Equipment Leases	Property Leases
2016	$ 228,782	$ 781,173
2017	222,889	781,173
2018	193,420	781,173
2019	193,420	787,123
2020	25,841	761,486
2021-25		2,367,650
2026-30		2,367,650
2031-35		1,460,051
Total minimum lease payments	**$ 864,352**	**$ 10,087,479**

12. NOTES PAYABLE

In August, 2014, the College obtained financing to renovate and remodel the Whatcom Community College Pavilion through a certificate of participation (COP) issued by the Washington Office of State Treasurer (OST) in the amount of $10,340,000. The $11,000,000 bond was issued at a premium of $660,000, which will be amortized over the life of the bond, and will have the effect of reducing future interest expense.

Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2014. The interest rate charged is 3.18038%. Student fees related to the Pavilion COP are accounted for in a dedicated fund, which is used to pay the principal and interest. Payments related to the COP do not come from the operating budget.

In October, 2009, the College obtained financing to renovate the Whatcom Community College Syre Center through a COP, issued by the Washington OST in the amount of $1,945,000. The interest rate charged is 2.766%.

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

13. ANNUAL DEBT SERVICE REQUIREMENTS

Future debt service requirements at June 30, 2015 are as follows.

Annual Debt Service Requirements
Certificates of Participation

Fiscal year	Principal	Interest	Premium	Total
2016	$ 600,000	$ 434,856	$ (33,407)	$ 1,001,449
2017	630,000	407,506	(33,407)	1,004,099
2018	375,000	378,756	(33,407)	720,349
2019	390,000	360,006	(33,407)	716,599
2020	410,000	340,506	(33,407)	717,099
2021-25	2,405,000	1,371,531	(167,036)	3,609,495
2026-2030	2,980,000	779,894	(167,036)	3,592,858
2031-2035	2,770,000	245,931	(133,629)	2,882,302
Total	**$ 10,560,000**	**$ 4,318,988**	**$ (634,738)**	**$ 14,244,250**

14. SCHEDULE OF LONG TERM LIABILITIES

	Balance outstanding 6/30/14	Additions	Reductions	Balance outstanding 6/30/15	Current portion
Compensated Absenses	$ 2,154,464	$ 918,933	$ 713,964	$ 2,359,433	$ -
Net pension obligation	2,814,338	497,012	664,511	2,646,839	0
Certificates of Participation	795,000	10,340,000	575,000	10,560,000	600,000
Premium on COP	0	660,000	25,262	634,738	0
Total	**$ 5,763,802**	**$ 12,415,945**	**$ 1,978,737**	**$ 16,201,010**	**$ 600,000**

15. PENSION PLANS

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

For FY2015, the payroll for the College's employees was $3,813,694.62 for PERS, $339,001.24 for TRS, and $11,215,899.76 for SBRP. Total covered payroll was $15,368,595.62.

Whatcom Community College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

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 to align with the State CAFR.

Basis of Accounting

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Whatcom Community College, for fiscal year 2015:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$2,646,839
Deferred outflows of resources related to pensions	$497,012
Deferred inflows of resources related to pensions	$1,100,645
Pension expense/expenditures	$425,396

PERS and TRS

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

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

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

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2013, 2014, and 2015 are as follows.

Contribution Rates at June 30

	FY 2013		FY 2014		FY 2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.21%	6.00%	9.21%	6.00%	9.21%
Plan 2	4.64%	7.21%	4.92%	9.21%	4.92%	9.21%
Plan 3	5 - 15%	7.21%	5 - 15%	9.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.05%	6.00%	10.39%	6.00%	10.39%
Plan 2	4.69%	8.05%	4.96%	10.39%	4.96%	10.39%
Plan 3	5-15%	8.05%	5-15%	10.39%	5-15%	10.39%

Required Contributions

	FY2013		FY2014		FY2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6,789	8,158	7,364	11,299	7,428	11,401
Plan 2	129,531	201,276	151,601	283,658	159,707	298,966
Plan 3	6,699	13,021	25,363	29,182	41,202	33,760
TRS						
Plan 1	4,713	6,323	4,704	7,911	5,006	8,299
Plan 3	4,876	3,909	10,836	10,430	23,622	27,709

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

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

For the year ended June 30, 2014, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	16.98%
PERS Plan 2/3	17.06%
TRS Plan 1	16.97%
TRS Plan 2/3	17.07%

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

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	**100%**	

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	90,329.47	127,791.74	8,098.75	5,005.74	231,225.70
Amortization of change in proportionate liability	166,474.31	30,782.06	(5,369.00)	2,283.00	194,170.37
Total Pension Expense	**256,803.78**	**158,573.80**	**2,729.75**	**7,288.74**	**425,396.07**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2013 to 2014 for each retirement plan are listed below:

	2013	2014
PERS 1	0.030226%	0.033075%
PER 2/3	0.036155%	0.039399%
TRS 1	0.006147%	0.005995%
TRS 2/3	0.001142%	0.002308%

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

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability).

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the College calculated using the discount rate of 7.50 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

Pension Plan	**1% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
PERS Plan 1	2,053,716	1,666,169	1,333,497
PERS Plan 2/3	3,321,939	796,396	(1,132,648)
TRS Plan 1	227,543	176,820	133,280
TRS Plan 2/3	64,796	7,455	(35,167)

State Board Retirement Plan

Plan Description

Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-

CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

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, 2015 were each $964,592.49.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2015, supplemental benefits were paid by the SBCTC on behalf of the College System as a whole in the amount of $583,625. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2015, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $55,597.33. As of June 30, 2015, the Community and Technical College system accounted for $7,729,471 of the fund balance.

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $12,487,332, with an annual required contribution (ARC) of $1,220,177. The ARC represents the amortization of the liability for FY 2015 plus the current expense for active employees, which is reduced by the current contributions of approximately $153,404. The College's net OPEB obligation at June 30, 2015 was approximately $1,807,974. This amount is not included in the College's financial statements.

The College paid $2,841,396.06 for healthcare expenses in 2015, which included its pay-as-you-go portion of the OPEB liability.

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, 2015.

Expenses by Functional Classification		
Instruction	$	14,840,219
Academic Support Services		1,729,628
Student Services		4,590,648
Institutional Support		4,664,969
Operations and Maintenance of Plant		2,981,015
Scholarships and Other Student Financial Ai		6,229,473
Auxiliary enterprises		3,420,246
Depreciation		1,882,833
Total operating expenses	**$**	**40,339,031**

17. COMMITMENTS AND CONTINGENCIES

There is a class action lawsuit, *Moore v. HCA*, filed against the State of Washington on behalf of former part-time and non-permanent employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. As of the end of fiscal year 2015, the parties have reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits. Final settlement is contingent on a) funding of the settlement by the legislature and b) final approval by the trial court if funding is provided. As such, the amount of loss cannot be reasonably estimated at this time.

Additionally, 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.

The College has commitments of $1,192,000 for various capital improvement projects that include renovations of existing buildings. The College also has incurred approximately $1,345,000 in design costs, out of $1,822,000 appropriated in the FY 2013-2015 biennium, for the Phyllis & Charles Self Learning Commons project. Once funds are appropriated by the legislature, the college will begin construction on this approximately $34 million new facility.

18. SUBSEQUENT EVENTS

On March 29, 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $34 million of which $21 million is funded by the legislature and the remaining $13 million will be allocated among 34 colleges in the system. The College's share of this liability is $264,072, and is recorded in the financial statements under Current Liabilities.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Whatcom Community College's Proportionate Share of the Net Pension Liability

Schedule of Whatcom Community College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 *Measurement Date of June 30*	
	2014
College's proportion of the net pension liability	0.033075%
College proportionate share of the net pension liability	$ 1,666,169
College covered-employee payroll	$ 123,792
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1345.94%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%

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

Cost Sharing Employer Plans

Schedules of Whatcom Community College's Proportionate Share of the Net Pension Liability

Schedule of Whatcom Community College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 *Measurement Date of June 30*	
	2014
College's proportion of the net pension liability	0.039399%
College proportionate share of the net pension liability	$ 796,396
College covered-employee payroll	$ 3,689,903
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	21.58%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%

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

Cost Sharing Employer Plans

Schedules of Whatcom Community College’s Proportionate Share of the Net Pension Liability

Schedule of Whatcom Community College's Share of the Net Pension Liability **Teachers’ Retirement System (TRS) Plan 1** *Measurement Date of June 30*	
	2014
College’s proportion of the net pension liability	0.005995%
College proportionate share of the net pension liability	$ 176,820
College covered-employee payroll	$ 80,340
College’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	220.09%
Plan’s fiduciary net position as a percentage of the total pension liability	68.77%

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

Cost Sharing Employer Plans

Schedules of Whatcom Community College's Proportionate Share of the Net Pension Liability

Schedule of Whatcom Community College's Share of the Net Pension Liability **Teachers' Retirement System (TRS) Plan 2/3** *Measurement Date of June 30*		
		2014
College's proportion of the net pension liability		0.002308%
College proportionate share of the net pension liability	$	7,455
College covered-employee payroll	$	258,661
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		2.88%
Plan's fiduciary net position as a percentage of the total pension liability		96.81%

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 11,299	$ 11,299	$ -	$ 122,287	9.24%
2015	$ 11,401	$ 11,401	$ -	$ 123,792	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions

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

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 312,840	$ 309,021	$ 3,819	$ 3,404,802	9.08%
2015	$ 332,726	$ 332,726	$ -	$ 3,689,903	9.02%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Notes: These schedules will be built prospectively until they

Schedule of Contributions Teachers' Retirement System (TERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 7,911	$ 7,911	$ -	$ 77,551	10.20%
2015	$ 8,299	$ 8,347	$ (48)	$ 80,340	10.39%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

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)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 10,430	$ 10,430	$ -	$ 99,908	10.44%
2015	$ 27,709	$ 26,875	$ 834	$ 258,661	10.39%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10