Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Whatcom Community College

For the period July 1, 2016 through June 30, 2017

Published March 12, 2018

Report No. 1020843

Office of the Washington State Auditor
Pat McCarthy

March 12, 2018

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,

Pat McCarthy

State Auditor

Olympia, WA

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Whatcom Community College
July 1, 2016 through June 30, 2017

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 business-type activities and the aggregate discretely presented component units of the Whatcom Community College, Whatcom County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 27, 2018. As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of Whatcom Community College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration 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 auditor's is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the Foundation. The Foundation prior year comparative information has been derived from the Foundation's financial statements for the year ended June 30, 2016, on which other auditors issued its report dated October 20, 2016.

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 and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

February 27, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whatcom Community College
July 1, 2016 through June 30, 2017

Board of Trustees
Whatcom Community College
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Whatcom Community College, Whatcom County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Whatcom Community College Foundation (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon 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. The financial statements of the Foundation were not audited in accordance with *Governmental Auditing Standards*.

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

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

Opinion

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

Matters of Emphasis

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

As 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 and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information for the 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, 2016, from which such summarized information was derived. Other auditors have previously audited the Foundation's 2016 basic financial statements and they expressed an unmodified opinion in their report dated October 20, 2016.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 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 February 27, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 27, 2018

FINANCIAL SECTION

Whatcom Community College
July 1, 2016 through June 30, 2017

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Statement of Revenues, Expenses and Changes in Net Position – 2017
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Schedule of College Contributions – PERS 1, PERS 2/3, TRS 1, TRS 2/3 – 2017
State Board Supplemental Defined Benefit Retirement Plans, Schedule of WCC Contributions – 2017
Schedule of Changes in Total Pension Liability and Related Ratios – 2017

Whatcom Community College

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, 2017 (FY 2017). 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, an applied bachelor's degree, 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 community and technical colleges in the state, and recognized as one of the leading 150 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 85,000 residents. On its 72-acre campus, and through online courses, the College serves nearly 11,000 students annually. Of the degree and certificate seeking students, 78 percent are from surrounding Whatcom County (population estimated at 216,000). 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 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, 2017. 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 2017, the College adopted GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 as amended by GASB Statement No. 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in an additional amount of $2,409,916 in pension liability.

Statement of Net Position (The College's Financial 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 as of June 30, 2017 and 2016 follows:

Condensed Statement of Net Position As of June 30th	FY 2017	FY 2016
Assets		
Current Assets	$ 22,762,985	$ 24,747,761
Capital Assets, net	69,612,962	70,754,793
Other Assets, non-current	8,550,885	6,477,491
Total Assets	100,926,832	101,980,045
Deferred Outflows	1,255,767	857,730
Liabilities		
Current Liabilities	4,023,366	5,168,150
Other Liabilities, non-current	18,175,803	15,748,472
Total Liabilities	22,199,169	20,916,622
Deferred Inflows	629,988	532,380
Net Position	$ 79,353,442	$ 81,388,773

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease in current assets in FY 2017 of nearly $ 2 million is attributed primarily to bonds in short-term investments that matured, and were then reinvested.

Net capital assets decreased by $1,141,831 from FY 2016 to FY 2017. The decrease is primarily due to the first full year's depreciation of the Student Rec Center and other current depreciation expenses totaling $2,445,684. This amount also includes the undepreciated balance of $188,811 on the retirement of the old soccer field turf that was replaced during this year. This decrease was offset in part by ongoing expenses in Construction in Progress for the Phyllis and Charles Self Learning Commons, and an increase in the purchase of capital assets.

Non-current assets consist primarily of the long-term portion of bond investments, including assets restricted for faculty development. The significant increase in non-current assets coincides with a decrease in short-term investments, and is due to bonds coming to maturity, and subsequently replaced by bonds with maturity dates beyond one year.

Deferred outflows of resources totaling $1,255,767 relate to the net pension liability that was recorded on the College's financials.

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 decrease in current liabilities from FY 2016 to FY 2017 is due primarily to a pre-audit prior period adjustment, along with current period adjustments, related to the amortization of the Original Issue Premium (OIP) on the Student Recreational Center COP.

Non-current liabilities consist of the value of vacation and sick leave earned but not yet used by employees, pension liabilities, and the long-term portion of Certificates of Participation debt. The increase in non-current liabilities is primarily due to the significant increase in pension liabilities, regarding the implementation of GASB 73.

Deferred inflows of resources related to the College's net pension liability totaled $629,988. 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 for 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. These funds are restricted in perpetuity.

Restricted for Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are for faculty professional development and the expendable portion of endowments.

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.

Net Position As of June 30th	FY 2017	FY 2016
Net investment in capital assets	$ 60,282,962	$ 60,193,462
Restricted		
Expendable -faculty development & student assistance	411,004	497,682
Nonexpendable - faculty development endowment	250,000	250,000
Unrestricted	18,409,476	20,447,629
Total Net Position	$ 79,353,442	$ 81,388,773

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 2017. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

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

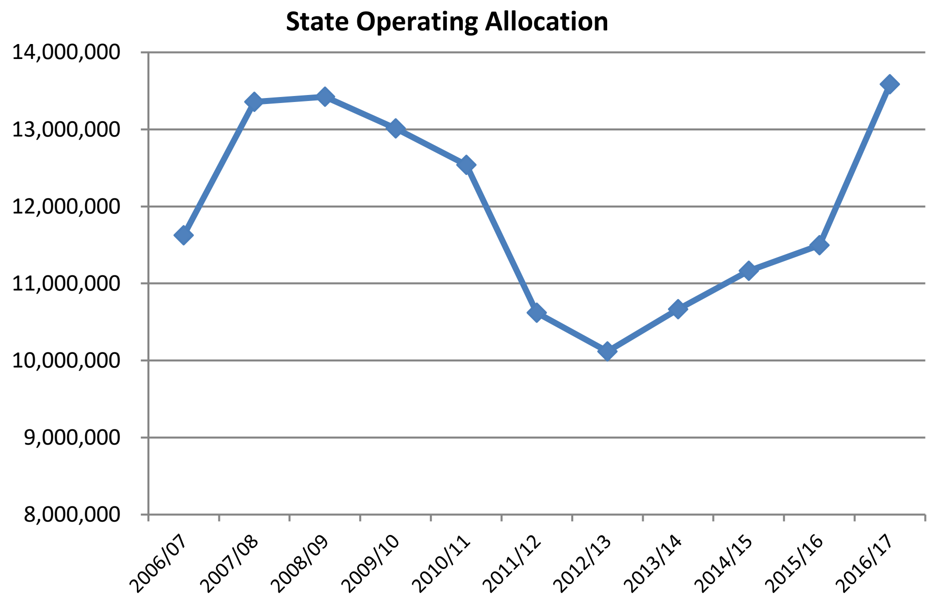
Operating expenses are those incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss 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, expenses and changes in net position for the years ended June 30, 2017 and 2016 is presented below.

Condensed Statement of Revenue, Expenses and Changes in Net Position

At June 30,2017	FY 2017	FY 2016
Operating revenue	28,966,772	27,142,108
Operating expenses	47,960,622	44,345,917
Operating loss	(18,993,850)	(17,203,809)
Investment income, gains and losses	203,350	170,236
Non-Operating Revenues	19,182,876	17,829,120
Non-Operating Expenses	(1,486,452)	(1,532,207)
Net non-operating revenues (expenses)	17,899,775	16,467,149
Income or (loss) before capital contributions	(1,094,075)	(736,660)
Capital Appropriations	1,468,660	1,018,727
Increase in Net Position	374,585	282,067
Net position, beginning of year	81,388,773	81,106,706
Cummulative effect of change in accounting principle	(2,409,916)	
Net position, beginning of year, as restated	78,978,857	81,106,706
Net position, end of year	79,353,442	81,388,773

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 within the system. Beginning midway through FY 2009, the College's state operating appropriations decreased each year until FY 2013. System-level appropriations had hit their height in FY 2009, and as of FY 2013 had been reduced by almost 24%. Starting in FY 2014, the Legislature reinstated a portion of the previous cuts each year, recovering to FY 2009 levels by FY 2017, but without taking into account mandated salary increases and annual inflation, leaving the State's Community and Technical Colleges to individually solve for gaps in funding their operations.



Throughout the period of decreasing state appropriations, the Legislature and SBCTC instituted increases in tuition rates, partially offsetting these reductions. Starting in FY 2014, colleges were mandated to keep their tuition levels flat from the year before, and last year, in FY 2016, tuition rates for the Community and Technical Colleges were actually reduced by 5%. For FY 2017, the operating fee portion of tuition remained flat at FY 2016 levels.

State funded enrollments were down in FY 2017, although overall enrollments were up slightly. Pell revenues will often follow enrollment trends, and the College's Pell eligible student population was about the same as the previous year.

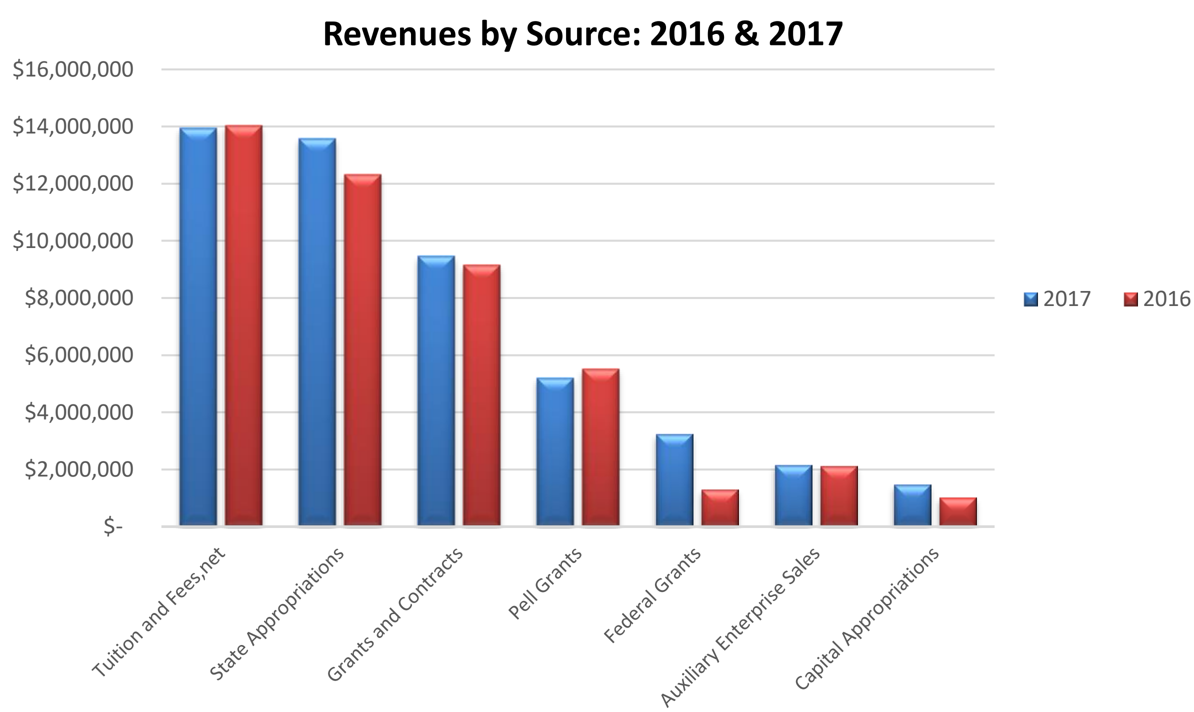
Federal grant revenues increased significantly in FY 2017 when compared with FY 2016, primarily the result of additional grant funding from the National Science Foundation. In addition, state and local grants and contracts were also up from FY 2016, including increased enrollment in Running Start students who earn both high school and college credit for courses successfully completed. The College also serves contracted international students.

The College receives capital-spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriations 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.

The table below shows a comparison of both operating and non-operating revenues for FY 2017 and FY 2016.

Revenues by Source	FY 2017	FY 2016
Operating Revenues		
Tuition and Fees,net	$ 13,949,280	$ 14,044,816
Auxiliary Enterprise Sales	2,160,062	2,121,942
Non Federal Grants and Contracts	9,460,853	9,154,795
Federal Grants	2,831,545	1,300,369
Other Operating Income	565,032	520,186
Total Operating Revenues	**28,966,772**	**27,142,108**
Non-operating Revenues		
State Appropriations	13,583,611	12,317,243
Pell Grants	5,599,265	5,511,877
Investment Income	203,350	170,237
Total Non-operating Revenues	**19,386,226**	**17,999,357**
Capital Appropriations	1,468,660	1,018,727
Total Revenues	**$ 49,821,658**	**$ 46,160,192**

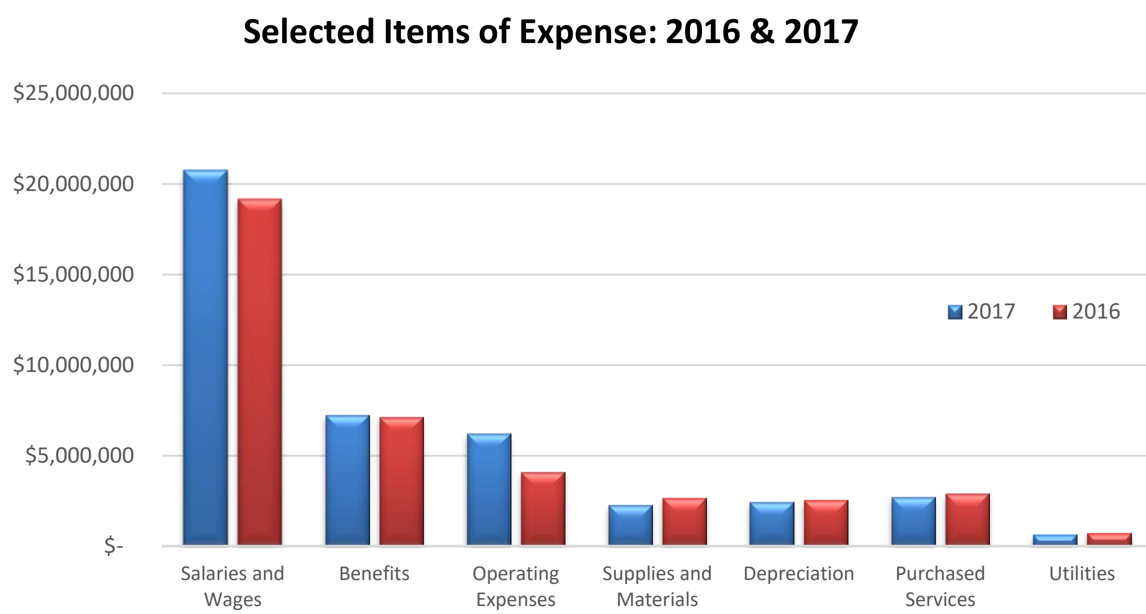
Tuition and fees, state appropriations, and grants and contracts account for the majority of the College's revenues. The following chart shows relative revenues by source, from both operating and non-operating sources:



Expenses

In FY 2017, salary and benefit costs increased, primarily due to negotiated cost of living adjustments and increased costs for healthcare. Several other areas of cost were down slightly, including utilities, where the College benefited from lower prices for natural gas. The category of operating expenses increased in correlation with the increases in federal grants and contracts, most notably in the areas of STEM programs and cybersecurity. Cybersecurity grant revenue and expenses flow through the college as the fiscal agent of the Cyber Watch West organization and cybersecurity activities and projects in the region.

The chart below shows the relative spending for selected operating expenses for FY 2017 and FY 2016.



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 past years, insufficient state revenues significantly reduced the state's capacity to fund capital projects and, as a result, a backlog of projects await capital budget support. Without a 17-19 capital budget being passed, the pipeline of projects continues to stall.

At June 30, 2017, the College had $69,612,962 in capital assets, net of accumulated depreciation. This represents a decrease of $1,141,831 from the previous year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	$ 13,406,089	$ 13,406,089	$ -
Construction in Progress	2,132,955	1,706,250	426,705
Buildings, net	49,561,506	51,053,005	(1,491,499)
Other Improvements and Infrastructure, net	3,253,171	3,170,511	82,660
Equipment, net	1,139,966	1,294,188	(154,222)
Library Resources, net	119,275	124,750	(5,475)
Total Capital Assets, Net	$ 69,612,962	$ 70,754,793	$ (1,141,831)

The decrease in net capital assets can be attributed to a small increase in Construction in Progress due to additional spending for design and pre-construction costs for a capital project, and over $2.4 million in depreciation expense, primarily due to the first full year's depreciation of the Student Rec Center. The capital project in process on June 30, 2017 is the Phyllis and Charles Self Learning Commons, with $2.1 million in pre-construction costs. Additional information on capital assets can be found in Note 7 of the Notes to the Financial Statements.

At June 30, 2017, the College had $9,330,000 in combined current and noncurrent Certificate of Participation (COP) debt. The COP for the Syre Student Center, which the College entered into in FY 2009, was paid off during FY 2017. In FY 2015, the College entered into another COP for the renovation and expansion of the Pavilion and Student Recreation Center, which will be paid off in 2034.

Certificates of Participation	June 30, 2017	June 30, 2016
Syre Renovation	$ -	$ 275,000
Student Rec Center	9,330,000	10,286,300
Total	$ 9,330,000	$ 10,561,300

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

Economic Factors That May Affect the Future

Beginning in FY 2009, the College's state operating appropriations were decreased, a trend that continued through FY 2013. A portion of these cuts were mitigated by modest tuition increases, but beginning in FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This further reduced the amount of tuition collected by the College. The Legislature did however backfill a portion of this loss. In FY 2017, the State Board for Community and Technical Colleges has moved to a new allocation model, changing how state-appropriated funds are allocated to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high priority programs, as well as student completion and achievement points. The model is based on a three-year rolling average of actual enrollments and completions, comparative to other community and technical colleges (CTCs) in the state. While enrollments in excess of funded levels over the preliminary three-year survey period resulted in the College receiving a slight increase in state operating appropriations in the first years of the new model, the current trend in lower-than-expected state enrollments is expected to result in decreased district enrollment allocation base (DEAB) funds.

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

STATEMENT OF NET POSITION

For the Year Ended June 30, 2017

Assets	
Current assets	
Cash and cash equivalents	$ 17,338,537
Restricted cash and cash equivalents	118,465
Short-term investments	1,998,372
Accounts Receivable	2,889,047
Interest Receivable	5,417
Inventories	245,519
Prepaid Expenses	167,628
Total current assets	22,762,985
Non-Current Assets	
Restricted cash and cash equivalents	542,538
Long-term investments	8,008,347
Capital assets, net of depreciation	69,612,962
Total non-current assets	78,163,847
Total assets	100,926,832
Deferred Outflows of Resources	1,255,767
Liabilities	
Current Liabilities	
Accounts Payable	425,516
Accrued Liabilities	1,306,100
Compensated absences	863
Deposits Payable	1,801
Unearned Revenue	1,914,086
Leases and Certificates of Participation Payable	375,000
Total current liabilities	4,023,366
Noncurrent Liabilities	
Compensated Absences	2,142,689
Pension liabilty	6,510,191
Long-term liabilities	9,522,923
Total non-current liabilities	18,175,803
Total liabilities	22,199,169
Deferred Inflows of Resources	629,988
Net Position	
Net Investment in Capital Assets	60,282,962
Restricted for:	
Nonexpendable	250,000
Expendable	387,838
Student Support	23,165
Unrestricted	18,409,476
Total Net Position	**$ 79,353,442**
Total Liabilities, deferred inflow and Net Position	102,182,599
Total assets & deferred outflow	102,182,599

The accompanying notes are an integral part of these financial statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2017

Operating Revenues	
Student tuition and fees, net	$ 13,949,280
Auxiliary enterprise sales	2,160,062
State and local grants and contracts	9,460,853
Federal grants and contracts	2,831,545
Other operating revenues	565,032
Total operating revenue	28,966,772
Operating Expenses	
Operating Expenses	6,197,994
Salaries and wages	20,764,959
Benefits	7,240,812
Scholarships and fellowships	5,680,392
Supplies and materials	2,277,048
Depreciation	2,445,684
Purchased services	2,724,510
Utilities	629,223
Total operating expenses	47,960,622
Operating income (loss)	(18,993,850)
Non-Operating Revenues	
State appropriations	13,583,611
Federal Pell grant revenue	5,599,265
Investment income, gains and losses	203,350
Building fee remittance	(910,037)
Innovation fund remittance	(202,316)
Interest on indebtedness	(374,099)
Net non-operating revenues (expenses)	17,899,775
Income or (loss) before other revenues, expenses, gains, or losses	(1,094,075)
Capital Revenues	
Capital appropriations	1,468,660
Increase (Decrease) in net position	374,585
Net Position	
Net position, beginning of year	81,388,773
Cummulative effect of change in accounting principle	(2,409,916)
Net position, beginning of year, as restated	78,978,857
Net position, end of year	79,353,442

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

Cash Flows From Operating Activities		
Student tuition and fees	$	14,294,369
Grants and contracts		11,669,469
Payments to vendors		(5,837,373)
Payments for utilities		(712,961)
Payments to employees		(21,021,883)
Payments for benefits		(7,053,407)
Auxiliary enterprise sales		2,214,896
Payments for scholarships and fellowships		(5,680,392)
Other receipts (payments)		(4,868,487)
Net cash used by operating activities		(16,995,769)
Cash Flows From Noncapital Financing Activities		
State appropriations		13,583,611
Pell grants		5,599,265
Building fee remittance		(931,952)
Innovation fund remittance		(203,195)
Net cash provided by noncapital financing activities		18,047,729
Cash Flows From Capital Related Financing Activities		
Proceeds of capital debt		(33,407)
Capital appropriations		(257,920)
Purchases of capital assets		(734,461)
Principal paid on capital debt		(650,000)
Interest paid		(407,506)
Net cash used by capital and related financing activities		(2,083,295)
Cash Flows From Investing Activities		
Purchase of investments		(3,996,011)
Proceeds from sales and maturities of investments		3,969,000
Income of investments		203,349
Net cash provided by investing activities		176,338
Increase in cash and cash equivalents		(854,996)
Cash and cash equivalents at the beginning of the year		18,854,536
Cash and cash equivalents at the end of the year	$	17,999,540

The accompanying notes are an integral part of these financial statements

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss		(18,993,850)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense		2,445,684
Changes in assets and liabilities		
Receivables , net		(847,711)
Inventories		9,588
Other assets		(81,911)
Accounts payable		168,288
Accrued liabilities		(87,223)
Deferred revenue		268,562
Compensated absences		(67,060)
Pension liability adjustment expense		189,864
Net cash used by operating activities	$	(16,995,769)

The accompanying notes are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION
Whatcom Community College Foundation
June 30, 2017

ASSETS

Current Assets	
Cash	$ 511,512
Certificates of deposit	71,441
Investments	481,689
Pledges and grants receivable, current portion	44,371
Prepaid expense	
Total current assets	1,109,013
Long-Term Assets	
Land, building, and equipment, net	8,285,566
Investments - held for endowment	6,135,451
Pledges and grants receivable, net of current portion	36,000
Total assets	$ 15,566,030

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable and accrued expenses	$ 184,822
Notes payable, current portion	237,624
Total current liabilities	422,446
Long-Term Liabilities	
Notes payable, net of current portion	5,600,950
Total liabilities	6,023,396
Net Assets	
Unrestricted	
Undesignated	2,150,052
Board-designated endowment	627,817
Total unrestricted	2,777,869
Temporarily restricted	1,893,215
Permanently restricted	4,871,550
Total net assets	9,542,634
Total liabilities and net assets	$ 15,566,030

The accompanying notes are an integral part of these financial statements

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Whatcom Community College Foundation

June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions	$ 430,963	$ 406,088	$ 835,108	$ 1,672,159
Events, fundraisers, and other		50,900		50,900
Lease and rent income	781,173			781,173
In-kind contributions	239,425			239,425
Investment Income	144,171	610,038		754,209
Net assets released from restrictior	444,636	(444,636)		
Total support and revenue	2,040,368	622,390	835,108	3,497,866
Functional Expenses				
Program services				
College support	241,617			241,617
Scholarship awards	240,090			240,090
Total program services	481,707			481,707
Supporting services				
Management and general	786,452			786,452
Fundraising expenses	51,182			51,182
Total supporting services	837,634			837,634
Total expenses	1,319,341			1,319,341
Change in net assets	721,027	622,390	835,108	2,178,525
Net Assets, beginning of year	2,056,842	1,270,825	4,036,442	7,364,109
Net Assets, end of year	$ 2,777,869	$ 1,893,215	$ 4,871,550	$ 9,542,634

The accompanying notes are an integral part of these financial statements

Note 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 and applied baccalaureate 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.

The Whatcom Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1987 year 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 component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A 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 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.

The Foundation's financial statements are discretely presented in this report, and 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, 2017, the Foundation distributed $481,707 to the College for restricted and unrestricted purposes for College support and scholarship awards. 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 outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

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

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

The preparation of financial statements in conformity with 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.

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 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 supplies, 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.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 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, 2017, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer quarter tuition and fees, 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 in accordance with GASB 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions).* The reporting requirements are similar to GASB 68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Net Position

The College's net position is classified as follows.

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

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

Restricted for Student Support - The student support funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.

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

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

Classification of Revenues and Expenses

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

Operating Revenues - This includes activities that 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 and/or Technical High School. The College also receives Adult Basic Education grants that support the primary educational mission of the College.

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

Non-operating Revenues - This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are $4,357,057.

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 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 Colleges remit the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the Statement of Revenues, Expenses and Changes in Net Position.

Note 2. Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of $2,409,916.46 as a result of the implementation of GASB Statement No. 73.

Accounting Standard Impacting the Future

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

Note 3. Cash and 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). Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position and Statements of Cash Flows as "Cash and Cash Equivalents." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

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

The LGIP portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification and liquidity for external investment pools that wish to measure all of its investments at amortized costs. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, or online at: http://www.tre.wa.gov/lgip/cafr/LgipCafr.shtml. In addition, more information is available regarding the LGIP in the Washington State Consolidated Annual Financial report, which can be found online at http://www/ofm/wa/gov/cafr/.

The College can contribute or withdraw funds in any amount from the LGIP on a daily basis. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The College adjusts its LGIP investment amounts monthly to reflect interest earnings as reported from the Office of the State Treasurer.

As of June 30, 2017, the carrying amount of the College's cash and equivalents, which also includes both current and non-current restricted cash, was $17,999,540, as represented in the table below.

Cash and Cash Equivalents	June 30, 2017
Petty Cash and Change Funds	$7,100
Bank Demand and Time Deposits	$1,147,749
Local Government Investment Pool	$16,844,691
Total Cash and Cash Equivalents	$17,999,540

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

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years
Federal Home Loan Mtg Corp.	$ 1,998,372.00	$ 1,998,372.00	
Financing Corporation (FICO)	$ 2,045,615.42		$ 2,045,615.42
Federal Farm Credit Bank	$ 1,984,798.00		$ 1,984,798.00
Resolution Funding Corp.	$ 3,977,933.53		$ 3,977,933.53
Total Investments	$ 10,006,718.95	$ 1,998,372.00	$ 8,008,346.95

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 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, 2017, $9,756,719 of the College's operating fund investments, and $250,000 of endowment assets, held by US Bank for the account of the College, are exposed to custodial credit risk as follows.

Investments Exposed to Custodial Risk	Fair Value
Federal Home Loan Mtg Corp.	$ 1,998,372
Financing Corporation (FICO)	$ 2,045,615
Federal Farm Credit Bank	$ 1,984,798
Resolution Funding Corp.	$ 3,977,934
Total Investments Exposed to Custodial Risk	$ 10,006,719

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, 2017 were $1,267.26.

Note 4. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2017, accounts receivable were as follows.

Accounts Receivable	Amount
Student Tuition and Fees	$ 731,655
Due from the Federal Government	$ 813,461
Due from Other State Agencies	$ 1,869,394
Interest Receivable	$ 5,417
Other	$ 52,199
Subtotal	$ 3,472,126
Less Allowance for Uncollectible Accounts	$ (577,662)
Accounts Receivable, net	$ 2,894,464

Note 5. Inventories

Inventories, stated at cost using the FIFO (first in, first out) method, consisted of the following as of June 30, 2017.

Merchandise Inventory	$ 245,519

Note 6. Non-Current Assets

Non-current assets consist of restricted cash and cash equivalents, long-term investments, and capital assets net of depreciation. Restricted cash is made up of the long-term spendable portion of faculty development funds, and the permanently endowed non-spendable portion restricted for faculty development, which totals $250,000.

Interest on investment earnings allocated to both the spendable and non-spendable portion of faculty development funds totaled $5,604.85. These funds are reported as current assets in the restricted cash and cash equivalents portion of the Statement of Net Position.

State law (WAC 131-16-450) allows for all earnings from this endowment trust fund to be expended for the purpose of this program. Actual spending for faculty development awards exceeded the amount of earnings; however, the program is also supported with funds from the WCC Foundation.

Note 7. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $2,445,684.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 13,406,089			$ 13,406,089
Construction in progress	1,706,250	426,705		2,132,955
Total non-depreciable capital assets	15,112,339	426,705	-	15,539,044
Depreciable capital assets				
Buildings	$ 70,040,652			$ 70,040,652
Other improvements and infrastructure	5,864,692	631,723	(596,248)	5,900,167
Equipment	3,092,464	216,190	(7,153)	3,301,501
Library resources	515,223	29,235		544,458
Subtotal depreciable capital assets	79,513,031	877,148	(603,401)	79,786,778
Less accumulated depreciation				
Buildings	$ 18,987,647	$ 1,491,499		$ 20,479,146
Other improvements and infrastructure	2,694,181	360,252	(407,437)	2,646,996
Equipment	1,798,276	370,412	(7,153)	2,161,535
Library resources	390,473	34,710		425,183
Total accumulated depreciation	23,870,577	2,256,873	(414,590)	25,712,860
Total depreciable capital assets	$ 55,642,454	$ (1,379,725)	$ (188,811)	$ 54,073,918
Capital Assets, Net of Depreciation	**$ 70,754,793**	**$ (953,020)**	**$ (188,811)**	**$ 69,612,962**

Note 8. 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 projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

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

Note 9. Accounts Payable and Accrued Liabilities

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

Accounts Payable and Accrued Liabilities	Amount	
Accounts Payable	$	425,516
Accrued Liabilities		1,306,100
Compensated Absences		863
Total	$	1,732,479

Note 10. Unearned Revenue

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

Unearned Revenue	Amount	
Summer Quarter Tuition & Fees	$	1,914,086
Housing and Other Deposits		1,801
Total Unearned Revenue	$	1,915,887

Note 11. Risk Management

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2016 through June 30, 2017, were $40,490.49. Cash reserves for unemployment compensation for all employees at June 30, 2017, were $2,804.62.

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

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

Note 12. 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 $873,297, and accrued sick leave totaled $1,269,392 at June 30, 2017.

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.

Note 13. 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, with the option for the College to renew for another five year period through 2026.

Health Professions Education Center (HPEC)

The Health Professions Education Center is a building near the 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, 2017, the minimum lease payments under operating leases consist of the following

Leases Payable

Fiscal Year	Equipment Leases			Property Leases		
	Computers	Copiers	Totals	Foundation	HPEC	Totals
2018	$ 89,179	$ 160,029	$249,208	$ 314,133	$ 467,040	$ 781,173
2019	83,285	160,029	243,314	314,133	472,989	787,122
2020	22,424	157,687	180,111	314,133	473,530	787,663
2021		154,269	154,269	314,133	473,530	787,663
2022		154,269	154,269	314,133	473,530	787,663
2023-2027			-	1,230,356	2,367,650	3,598,006
2028-2032				-	2,367,650	2,367,650
2033-2034				-	907,599	907,599
Total	$ 194,888	$786,283	$981,171	$2,801,021	$8,003,518	$ 10,804,539

Note 14. 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 20-year 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.

Note 15. Annual Debt Service Requirements

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

Annual Debt Service Requirements
Certificates of Participation

Fiscal Year	Principal	Interest	Premium Amort.
2018	$ 375,000	$ 378,756	$ (33,407)
2019	390,000	360,006	(33,407)
2020	410,000	340,506	(33,407)
2021	435,000	320,006	(33,407)
2022	455,000	298,256	(33,407)
2023-2027	2,650,000	1,125,031	(167,036)
2028-2032	3,180,000	578,288	(167,036)
2033-2034	1,435,000	75,775	(66,815)
Total	**$ 9,330,000**	**$ 3,476,624**	**$ (567,922)**

Note 16. Schedule of Long Term Liabilities

	Balance outstanding 6/30/16	Additions	Reductions	Balance outstanding 6/30/17	Current portion
Certificates of participatior	$ 9,960,000		$ 630,000	$ 9,330,000	$ 375,000
Premium on COP	601,330		33,407	$ 567,923	
Compensated Absences	2,207,159	90,439	154,906	$ 2,142,692	
Net Pension Obligation	3,609,982	2,900,209		6,510,191	
Total	**$ 16,378,471**	**$ 2,990,648**	**$ 818,313**	**$ 18,550,806**	**$ 375,000**

Note 17. Pension Liability

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

Pension Liability by Plan	
PERS 1	$ 1,945,506
PERS 2/3	2,179,064
TRS 1	355,046
TRS 2/3	94,895
SBRP	1,935,680
Total	$ 6,510,191

Note 18. Retirement Plans

A. General

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

For FY 2017, the payroll for the College's employees was $4,531,377 for PERS, $532,734 for TRS, and $11,292,120 for SBRP. Total covered payroll was $16,336,231.

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 FY 2017:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ 6,510,191
Deferred outflows of resources related to pensions	$ 1,255,767
Deferred inflows of resources related to pensions	$ 629,988
Pension expense/expenditures	$ 765,951

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

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

PERS and TRS

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

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

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

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2017, 2016, and 2015 are as follows.

Contribution Rates at June 30

	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	4.92%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.96%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required Contributions

	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	7,428	11,401	7,650	205,901	5,345	225,139
Plan 2	159,707	298,966	209,775	385,485	219,781	401,497
Plan 3	41,202	33,760	67,879	54,031	91,768	71,071
TRS						
Plan 1	5,006	8,299	5,161	32,854	6,086	40,521
Plan 3	23,622	27,709	29,153	21,837	32,974	29,110

Investments

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

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

For the year ended June 30, 2016, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	2.19%
PERS Plan 2/3	2.47%
TRS Plan 1	2.09%
TRS Plan 2/3	2.51%

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

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

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

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
FY 2016 Pension Expense	113,791	297,269	22,799	25,874	459,733
FY 2017 Amortization of change in proportionate liability	100,136	68,282	47,024	11,170	226,612
Total Pension Expense	213,927	365,551	69,823	37,044	686,345

Changes in Proportionate Shares of Pension Liabilities

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

	2015	2016
PERS 1	0.034411%	0.036226%
PER 2/3	0.041310%	0.043279%
TRS 1	0.009017%	0.010399%
TRS 2/3	0.005720%	0.006910%

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

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Discount Rate

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

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

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
Pension Plan	(6.50%)	(7.50%)	(8.50%)
PERS Plan 1	2,346,086	1,945,507	1,600,784
PERS Plan 2/3	4,012,048	2,179,063	(1,134,328)
TRS Plan 1	436,460	355,047	284,920
TRS Plan 2/3	214,760	94,895	(110,239)

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

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2017:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			116,034	71,934
Difference between expected and actual earnings of pension plan investments	48,985		266,654	
Changes of Assumptions			22,522	
Changes in College's proportionate share of pension liabilities			151,705	
Contributions to pension plans after measurement date	225,139		281,316	
Total	$ 274,124	$ 0	$ 838,231	$ 71,934

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			7,179	4,211
Difference between expected and actual earnings of pension plan investments	11,262		15,276	
Changes of Assumptions			966	
Changes in College's proportionate share of pension liabilities			39,097	
Contributions to pension plans after measurement date	40,521		29,110	
Total	$ 51,783	$ 0	$ 91,628	$ 4,211

	Total All Plans	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	123,213	76,145
Difference between expected and actual earnings of pension plan investments	342,176	
Changes of Assumptions	23,489	
Changes in College's proportionate share of pension liabilities	190,802	
Contributions to pension plans after measurement date	576,086	
TOTALS	$ 1,255,766	$ 76,145

The $576,086 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, 2017.

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

Year ended June 30	PERS 1**	PERS 2/3	TRS 1**	TRS 2/3
2018	(12,061)	69,787	(2,911)	10,890
2019	(12,061)	54,396	(2,911)	10,890
2020	44,987	230,536	10,535	22,781
2021	28,120	130,261	6,547	13,131
2022	-	-	-	615
Total	48,985	484,980	11,260	58,307

C. College Participation in Plan Administered by the State Board for Community and Technical Colleges

State Board Retirement Plan

Plan Description. The State Board Retirement Plan is a privately administered single-employer defined contribution plan with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. Whatcom Community College participates in this plan as authorized by chapter 28B.10 RCW. The plans cover faculty and other positions as designated by each participating employer. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. No assets are accumulated in trusts or equivalent arrangements.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2017 were each $975,073.67.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the system colleges in the amount of $902,000. The College's share of this amount was $18,369.10. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $62,288.62. This amount was not used as a part of GASB 73 calculations as its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for $13,280,149.81 of the fund balance.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to the June 30, 2017, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25% - 6.25%

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

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

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017, measurement date.

Pension Expense

For the year ended June 30, 2017, Whatcom Community College reported $79,606 for pension expense in the Higher Education Supplemental Retirement Plans.

Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 2.03649%. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's, actuarially determined.

Plan Membership

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

Number of Participating Members

District	Inactive Members *(Or Beneficiaries)* Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
21 – WCC	3	0	177	180

Change in Total Pension Liability/ (Asset)

The following table presents the change in total pension liability (asset) of Higher Education Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans:

Change in Total Pension Liability (Asset)

Total Pension Liability	Amount
Service Cost	$ 110,316
Interest	$ 71,562
Changes of Benefit Terms	$ -
Differences Between Expected and Actual	$ (515,964)
Changes in Assumptions	$ (121,782)
Benefit Payments	$ (18,369)
Other	$ -
Net Change in Total Pension Liability	**$ (474,237)**
Total Beginning Pension Liability	**$ 2,409,916**
Total Ending Pension Liability	**$ 1,935,680**
College's Proportion of the Pension Liability	0.0204%
Covered-employee payroll	$ 12,674,329
Total Pension Liability as a percentage of covered-employee payroll	15.2724%

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

The following table presents the total pension liability/(asset), calculated using the discount rate of 3.58 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% Increase
State Board for Community and Technical Colleges (SBCTC)	$ 2,223,822	$ 1,935,680	$1,697,045

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

At June 30, 2017, the Higher Education Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State Board for Community and Technical Colleges (SBCTC)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -	$ 448,088
Changes of Assumptions		$ 105,755
Transactions Subsequent to the Measurement Date		
Total	$ -	$ 553,843

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

State Board for Community and Technical Colleges (SBCTC)	
2018	(83,924)
2019	(83,924)
2020	(83,924)
2021	(83,924)
2022	(83,924)
Thereafter	(134,225)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

Teachers' Retirement System Plan 3
The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 11.B for TRS Plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

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

Note 19. 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 $651,233, with an annual required contribution (ARC) of $58,677. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $12,590. The College's net OPEB obligation at June 30, 2017 was approximately $171,653. This amount is not included in the College's financial statements.

The College paid $3,902,174.24 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

Note 20. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2017.

Expenses by Functional Classification		%
Instruction	$ 17,827,350	37.2%
Student Services	7,598,368	15.8%
Scholarships and Other Student Financial Aid	4,884,590	10.2%
Institutional Support	4,823,039	10.1%
Operations and Maintenance of Plant	4,742,237	9.9%
Auxiliary enterprises	3,447,927	7.2%
Academic Support Services	2,380,239	5.0%
Depreciation	2,256,873	4.7%
Total operating expenses	$ 47,960,622	100.0%

Note 21. Commitments and Contingencies

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

As of July 1, 2017, the College had commitments of $1,350,306 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

Note 22. Subsequent Events

The College is pursuing a Certification of Participation to design and construct on-campus student housing. The authorization to finance the project via state COP must be approved by the Legislature in the 2018 supplemental legislative session. Totaling almost $27,000,000, the proceeds could be available for the project in later summer or early fall 2018. The debt service will be backed by the rental income received by student tenants for residence in the facility. Design and development costs will be incurred in the start of 2018. Upfront costs are reimbursable to the College once the COP sale is finalized and proceeds available by the State Treasurer’s Office.

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

Public Employees' Retirement System (PERS) Plan 1

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.033075%	$ 1,666,169	$ 3,674,202	45.35%	61.19%
2015	0.034411%	$ 1,800,015	$ 3,789,236	47.50%	59.10%
2016	0.036226%	$ 1,945,507	$ 4,175,406	46.59%	57.03%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.039399%	$ 796,369	$ 3,546,491	22.46%	93.29%
2015	0.041310%	$ 1,476,030	$ 3,665,444	40.27%	89.20%
2016	0.043279%	$ 2,179,063	$ 4,048,061	53.83%	85.82%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

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

Teachers' Retirement System (TRS) Plan 1

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.005995%	$ 176,820	$ 188,527	93.79%	68.77%
2015	0.009017%	$ 285,671	$ 346,504	82.44%	65.70%
2016	0.010399%	$ 355,047	$ 422,160	84.10%	62.07%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Teachers' Retirement System (TRS) Plan 2/3

Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.230800%	$ 7,459	$ 105,598	7.06%	96.81%
2015	0.005720%	$ 48,265	$ 266,853	18.09%	92.48%
2016	0.006910%	$ 94,895	$ 336,776	28.18%	88.72%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Schedule of College Contributions*

Public Employees' Retirement System (PERS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 146,410	$ 146,410	$ -	$ 3,492,795	4.19%
2015	$ 165,695	$ 165,695	$ -	$ 3,789,236	4.37%
2016	$ 205,439	$ 205,439	$ -	$ 4,175,406	4.92%
2017	$ 222,271	$ 222,271	$ -	$ 4,532,271	4.90%
2018					
2019					
2020					
2021					
2022					
2023					

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

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 168,438	$ 168,438	$ -	$ 3,370,509	5.00%
2015	$ 184,018	$ 184,018	$ -	$ 3,665,444	5.02%
2016	$ 249,846	$ 249,846	$ -	$ 4,048,091	6.17%
2017	$ 276,278	$ 276,278	$ -	$ 4,434,668	6.23%
2018					
2019					
2020					
2021					
2022					
2023					

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

Schedule of College Contributions*

Teachers' Retirement System (TRS) Plan 1

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 11,855	$ 11,855	$ -	$ 177,458	6.68%
2015	$ 20,178	$ 20,178	$ -	$ 346,504	5.82%
2016	$ 31,606	$ 31,606	$ -	$ 422,160	7.49%
2017	$ 40,634	$ 40,634	$ -	$ 541,245	7.51%
2018					
2019					
2020					
2021					
2022					
2023					

Teachers' Retirement System (TRS) Plan 2/3

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 5,662	$ 6,041	$ (379)	$ 99,908	6.05%
2015	$ 15,200	$ 15,200	$ -	$ 266,853	5.70%
2016	$ 20,849	$ 20,849	$ -	$ 266,853	7.81%
2017	$ 29,457	$ 29,457	$ -	$ 438,358	6.72%
2018					
2019					
2020					
2021					
2022					
2023					

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

State Board Supplemental Defined Benefit Plans

Schedule of WCC Contributions

State Board Retirement Plan Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$ 974,919	$ 974,919	$ -	$11,292,120	8.63%
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					

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

Schedule of Changes in the Total Pension Liability and Related Ratios

Whatcom Community College

Fiscal Year Ended and Measurement Date June 30

	2017
Total Pension Liability	
Service Cost	$ 110,316
Interest	71,562
Changes of benefit terms	-
Differences between expected and actual experience	(515,964)
Changes of assumptions	(121,782)
Benefit Payments	(18,369)
Other	-
Net Change in Total Pension Liability	**(474,237)**
Total Pension Liability - Beginning	**2,409,916**
Total Pension Liability - Ending	**$ 1,935,680**

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

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.

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