

Whatcom

COMMUNITY COLLEGE



Annual Financial Report

For the year ending June 30, 2018

WHATCOM COMMUNITY COLLEGE 2018 Financial Report

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Trustees and Administrative Officers

BOARD OF TRUSTEES

John Pedlow, Chair
Steve Adelstein, Vice Chair
Wendy Bohlke
Rebecca Johnson
Teresa Taylor

EXECUTIVE OFFICERS

Kathi H. Hiyane-Brown, Ed. D. - President
Nathan Langstraat – VP for Administrative Services
Ed Harri, M.S. - VP for Instruction
Luca Lewis, Ph. D. – VP for Student Services
Sue Cole – Executive Director for Institutional Advancement

Trustees and Officer list effective as of May 22, 2019



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

April 19, 2019

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, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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, 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 Whatcom Community College 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 Whatcom Community College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

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, 2018, 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 2018 the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting, for Postemployment Benefits Other Than Pensions*. 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, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements as a whole. The list of Trustees and Administrative Officers is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the College. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated April 19, 2019, 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.

Sincerely,



Pat McCarthy
State Auditor
Olympia, WA

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

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, 2018. 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. The College 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, the College 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.

The College's campus is located in Bellingham, Washington, a community of about 89,000 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% are from surrounding Whatcom County (population estimated at 221,000). 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 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, 2018. 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

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

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 the year ended June 30, 2018, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (Other Post-Employment Benefits or OPEB)*. The primary objective of this statement is to improve accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local governments employers. This statement replaces requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, as Amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans for OPEB*. As a result of implementing Statement No. 75, the College is required to record its proportionate share of the State's actuarially determined OPEB liability, deferred inflows and deferred outflows of resources, and benefit expense. This change in accounting principle resulted in a reduction to unrestricted net position in the amount of \$18,625,177 in post-employment benefit liability.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the fiscal year. A condensed comparison of the Statement of Net Position as of June 30, 2018 and 2017 follows:

Condensed Statements of Net Position				
June 30, 2018 and 2017				
	<u>2018</u>	<u>2017</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Assets				
Current assets	\$ 23,797,379	\$ 22,762,985	\$ 1,034,394	4.54
Capital assets, net	72,413,251	69,612,962	2,800,289	4.02
Non-current assets, other	<u>8,185,548</u>	<u>8,550,885</u>	<u>(365,337)</u>	<u>(4.27)</u>
Total assets	<u>104,396,178</u>	<u>100,926,832</u>	<u>3,469,346</u>	<u>3.44</u>
Deferred outflows of resources	<u>1,914,341</u>	<u>1,255,767</u>	<u>658,574</u>	<u>52.44</u>
Liabilities				
Current liabilities	6,442,027	4,023,366	2,418,661	60.12
Long-term liabilities	<u>33,619,413</u>	<u>18,175,803</u>	<u>15,443,610</u>	<u>84.97</u>
Total liabilities	<u>40,061,440</u>	<u>22,199,169</u>	<u>17,862,271</u>	<u>80.46</u>
Deferred inflows of resources	<u>3,855,872</u>	<u>629,988</u>	<u>3,225,884</u>	<u>512.05</u>
Net position	<u>\$ 62,393,207</u>	<u>\$ 79,353,442</u>	<u>\$ (16,960,235)</u>	<u>(21.37)</u>

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

Current assets consist primarily of cash and cash equivalents, short-term portion of investments, receivables, and inventories. The modest increase in current assets in the year ended June 30, 2018 can be attributed to timing of cash receipts and payments close to fiscal year end dates.

Net capital assets increased by \$2,800,289 during year ended June 30, 2018. After taking into consideration current depreciation expense of \$2,262,780 and disposal of fully depreciated equipment, the majority of the increase is the result of ongoing and new building construction.

Non-current assets consist primarily of the long-term portion of bond investments, including assets restricted for faculty development. The modest decrease in non-current assets is due to bonds coming to maturity and subsequently replaced with bonds with a lower cost.

Deferred outflows and inflows of resources represent deferrals in pension and post-employment benefits associated with the implementation of GASB Statement No. 68 in the year ended June 30, 2015, Statement No. 73 in the year ended June 30, 2017, and Statement No. 75 in the year ended June 30, 2018. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College recorded pension and post-employment-related deferred outflows totaling \$1,914,341 and \$1,255,767 in the years ended June 30, 2018 and 2017, respectively.

Similarly, the increase in deferred inflows in the year ended June 30, 2018 reflects the increase in difference between actual and projected investment earnings on the state's pension plans and the implementation of GASB Statement No. 75.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, unearned revenue, the current portion of Certificate of Participation (COP) debt, and the current portion of pension and OPEB liabilities. 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 significant increase in current liabilities between June 30, 2018 and 2017 is primarily due to the implementation of GASB Statement No. 75 for OPEB, reflecting the College's proportionate share within the state, and impact of timing of cash flows at fiscal year-end dates.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, the long-term portion of COP debt, and the long-term portion of pension obligations, and OPEB liabilities. Similar to current liabilities, the significant increase in non-current liabilities during the year ended June 30, 2018 is primarily due to the implementation of GASB Statement No. 75 for OPEB, reflecting the College's proportionate share within the state.

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:

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

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 Non-Expendable - 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.

As stated earlier in this section, the College's net position decreased by \$18,625,177 due to the implementation of GASB Statement No. 75 for OPEB.

Net Position June 30, 2018 and 2017

	2018	2017	Change (\$)	Change (%)
Net investment in capital assets	\$ 62,923,734	\$ 60,282,962	\$ 2,640,772	4.38
Restricted				
Non-expendable	250,000	250,000	-	-
Expendable	411,290	387,838	23,452	6.05
Student support	31,187	23,165	8,022	34.63
Unrestricted	<u>(1,223,004)</u>	<u>18,409,477</u>	<u>(19,632,481)</u>	<u>(106.64)</u>
Total net position	<u>\$ 62,393,207</u>	<u>\$ 79,353,442</u>	<u>\$ (16,960,235)</u>	<u>(21.37)</u>

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 the year ended June 30, 2018. 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

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

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 instruction and services provided.

A condensed comparison of the College's revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Position Years Ended June 30, 2018 and 2017

	2018	2017	Change (\$)	Change (%)
Operating revenue	\$ 30,132,038	\$ 28,966,772	\$ 1,165,266	4.02
Operating expenses	<u>50,318,912</u>	<u>47,960,622</u>	<u>2,358,290</u>	<u>4.92</u>
Operating loss	(20,186,874)	(18,993,850)	(1,193,024)	6.28
Non-operating revenue	19,446,262	19,386,227	60,035	0.31
Non-operating expenses	<u>1,457,321</u>	<u>1,486,452</u>	<u>(29,131)</u>	<u>(1.96)</u>
Net non-operating revenue	17,988,941	17,899,775	89,166	0.50
Loss before capital contributions	(2,197,933)	(1,094,075)	(1,103,858)	100.89
Capital contributions	<u>3,862,875</u>	<u>1,468,660</u>	<u>2,394,215</u>	<u>163.02</u>
Change in net position	<u>1,664,942</u>	<u>374,585</u>	<u>1,290,357</u>	<u>344.48</u>
Net position, beginning of year	79,353,442	81,388,773	(2,035,331)	(2.50)
Cumulative effect of change in accounting principle	<u>(18,625,177)</u>	<u>(2,409,916)</u>	<u>(16,215,261)</u>	<u>672.86</u>
Net position, beginning of year, as restated	<u>60,728,265</u>	<u>78,978,857</u>	<u>(18,250,592)</u>	<u>(23.11)</u>
Net position, end of year	<u>\$ 62,393,207</u>	<u>\$ 79,353,442</u>	<u>\$ (16,960,235)</u>	<u>(21.37)</u>

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. In the year ended June 30, 2018, the SBCTC allocated funds to each of the 34 colleges based on a three-year average of actual full-time equivalent students served. Additionally, the

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

supplemental budget also reduces the general fund by the amount set aside specifically for pension stabilization. This method of allocation continues into the year ended June 30, 2019.

Since enrollments decreased slightly in the year ended June 30, 2018, the College's increase in tuition and fee revenue is primarily attributable to a two percent increase in tuition rates along with changes in mix such as more part-time students and fewer adult basic education (ABE) enrollments, and increases in self-support and contract program enrollments.

Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during the year ended June 30, 2018, so did the College's Pell grant revenue. For the year ended June 30, 2018, the College attempted to hold other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law, such as online courses.

In the year ended June 30, 2018, grant and contract revenues increased by \$603,619 when compared with the year ended June 30, 2017. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars. Further, the College was awarded several federal and state grants that help support and fund specific initiatives.

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. In the year ended June 30, 2018, a significant portion of the capital appropriation was expended on capitalized projects. 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.

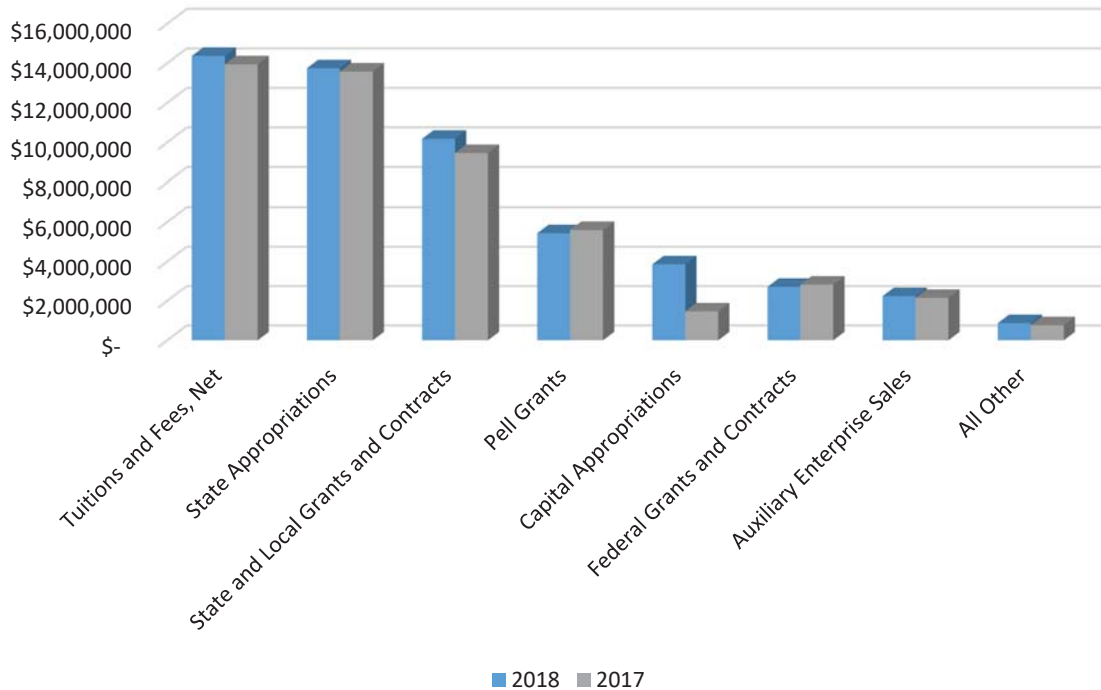
The table below shows a comparison of both operating and non-operating revenues for the years ended June 30, 2018 and 2017.

Management's Discussion and Analysis

Whatcom Community College

Year Ended June 30, 2018

Revenue by Source for the Years Ended June 30



Expenses

In the year ended June 30, 2018, salary and benefit costs increased over 11%, accounting for the majority of increase in the College's operating costs. This is primarily due to staffing demand, negotiated cost of living adjustments, increased costs for healthcare, and implementation of GASB Statement No. 75 for OPEB liabilities.

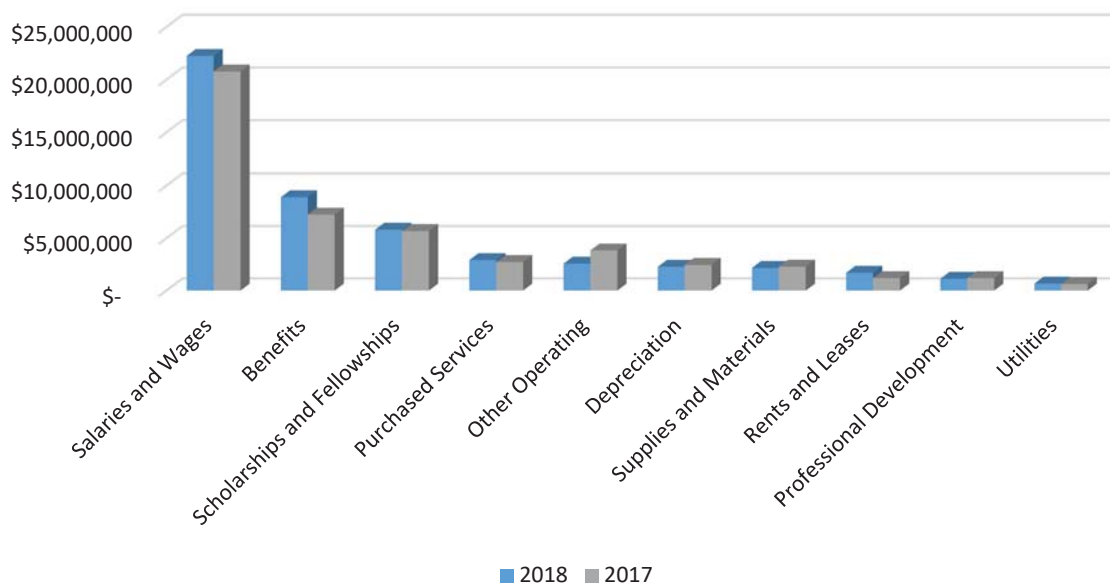
Utility costs increased modestly as a result of regular inflationary changes. Depreciation expense is driven by capital activity, with the annual depreciation expense showing a modest decrease from the prior year due to the increasing number of capital assets held that have surpassed their estimated useful life.

The chart below shows the relative spending for selected operating expenses for the years ended June 30, 2018 and 2017.

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

Operating Expenses for the Years Ended June 30



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management (OFM) and the legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. In fiscal year ended June 30, 2018, the College was allocated capital funding for construction of the Phyllis and Charles Self Learning Commons.

At June 30, 2018, the College had \$72,413,251 in capital assets, net of accumulated depreciation. This represents an increase of \$2,800,289 from the previous year, as shown in the table below.

	2018	2017	Change (\$)	Change (%)
Land	\$ 13,406,089	\$ 13,406,089	\$ -	-
Construction in progress	5,951,727	2,132,955	3,818,772	179.04
Buildings, net	49,029,037	49,561,506	(532,469)	(1.07)
Other improvements and infrastructure, net	2,887,663	3,253,171	(365,508)	(11.24)
Equipment, net	1,031,130	1,139,966	(108,836)	(9.55)
Library resources, net	107,605	119,275	(11,670)	(9.78)
Total capital assets, net	<u>\$ 72,413,251</u>	<u>\$ 69,612,962</u>	<u>\$ 2,800,289</u>	<u>4.02</u>

Management's Discussion and Analysis

Whatcom Community College
Year Ended June 30, 2018

The increase in net capital assets can be attributed to ongoing and new construction activity in the year ended June 30, 2018. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

At June 30, 2018, the College had \$8,955,000 in outstanding debt related to one COP for the Pavilion/Student Recreation Center. This represents a decrease of \$375,000 as shown in the table below.

	<u>2018</u>	<u>2017</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Certificate of participation (COP)	\$ 8,955,000	\$ 9,330,000	\$ (375,000)	(4.02)
Unamortized premium	<u>534,516</u>	<u>567,923</u>	<u>(33,407)</u>	<u>(5.88)</u>
	<u>\$ 9,489,516</u>	<u>\$ 9,897,923</u>	<u>\$ (408,407)</u>	<u>(4.13)</u>

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

Economic Factors That May Affect the Future

The community and technical college (CTC) system has seen legislative efforts to reinvest in higher education. However, legislation and approved state budgets are not always fully funded or keep pace with actual inflation and often specify earmarks and provisos that mandate how appropriations must be spent, which restricts use towards support of general college operations. As an example, cost of living adjustments (COLAs) and benefit rate changes approved by the legislature have not been fully funded in recent years, providing only 65% of what is needed to implement COLAs. It has been expected that the remaining 35% be funded from tuition revenues, which are tied directly to enrollments. With a current trend of decreasing enrollment, there is notable financial impact.

In fiscal year ended June 30, 2018, reimbursement rates for Running Start students increased as a result of the legislature meeting court-mandated education obligations related to the McCleary Decision, in which the state supreme court ruled that Washington was not properly funding public education. The increased reimbursement rate provided financial resources needed by WCC, and other colleges with Running Start programs, to help balance out the decreased general state enrollments and corresponding tuition revenue.

In fiscal year ended June 30, 2017, the SBCTC elected to move 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 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.

Management's Discussion and Analysis

Whatcom Community College

Year Ended June 30, 2018

For the state allocation, colleges can impact a limited number of factors beyond student enrollment. One is to offer high-demand programs accompanied by enhanced funding rates or targeted allocation. The other is to perform well in student success metrics as part of the statewide student achievement initiative. The College has demonstrated success in both, such as successful procurement of funds to support the College's rapidly growing engineering program and earning a greater proportion of student achievement funding than the College would be expected to if funding was allocated only based on enrollment.

The College has a thriving Running Start program, a strong international program, and offers some programs and courses in a self-supporting model. The College offers online courses as self-support courses, in which students pay a course fee similar to tuition. It is unclear how much opportunity there may be for additional investments in community and technical colleges in the upcoming years given the broad needs across multiple state agencies that must be considered. By building a strong base of revenue sources that can have strengths even in times of declining overall enrollment, the College is able to remain financially stable and well-positioned to continue fulfilling its mission. This diversified approach mitigates for funding deficits in any one funding source, where other revenue streams can balance out the bigger fiscal picture.

Statement of Net Position

Whatcom Community College

June 30, 2018

Assets

Current assets

Cash and cash equivalents, unrestricted	\$ 16,663,926
Cash and cash equivalents, restricted	121,585
Receivables, net of allowance for doubtful accounts	4,653,948
Investments, current portion	2,074,719
Inventories	197,597
Prepaid expenses	85,604
Total current assets	<u>23,797,379</u>

Non-current assets

Cash and cash equivalents, restricted	570,292
Investments, net of current portion	7,615,256
Non-depreciable capital assets	19,357,816
Depreciable capital assets, net of accumulated depreciation	53,055,435
Total non-current assets	<u>80,598,799</u>

Total assets **\$ 104,396,178**

Deferred outflows of resources

Related to pensions	\$ 1,398,784
Related to other post-employment benefits	515,557
Total deferred outflows of resources	<u>\$ 1,914,341</u>

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 2,261,378
Unearned revenue	1,963,816
Certificates of participation payable, current and net of amortized premium	423,407
Pension liability, current portion	36,699
Other post-employment benefits liability, current portion	1,756,727
Total current liabilities	<u>6,442,027</u>

Non-current liabilities

Compensated absences	2,697,240
Certificates of participation payable, net of current portion and amortized premium	9,066,109
Pension liability, net of current portion	5,716,823
Other post-employment benefits liability, net of current portion	16,139,241
Total non-current liabilities	<u>33,619,413</u>

Total liabilities **\$ 40,061,440**

Deferred inflows of resources

Related to pensions	\$ 1,391,767
Related to other post-employment benefits	2,464,105
Total deferred inflows of resources	<u>\$ 3,855,872</u>

Net position

Net investment in capital assets	\$ 62,923,734
Restricted	
Non-expendable	250,000
Expendable	411,290
Student support	31,187
Unrestricted	(1,223,004)
Total net position	<u>\$ 62,393,207</u>

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

Statement of Revenues, Expenses and Changes in Net Position

Whatcom Community College

Year Ended June 30, 2018

Operating revenue

Student tuition and fees, net	\$ 14,373,261
State and local grants and contracts	10,180,871
Federal grants and contracts	2,715,146
Auxiliary enterprise sales	2,246,942
Other	<u>615,818</u>
Total operating revenue	30,132,038

Operating expenses

Salaries and wages	22,247,589
Benefits	8,901,452
Scholarships and fellowships	5,804,414
Purchased services	2,905,981
Other operating	2,562,385
Depreciation	2,262,780
Supplies and materials	2,154,094
Rents and leases	1,692,789
Professional development	1,125,105
Utilities	<u>662,323</u>
Total operating expenses	<u>50,318,912</u>

Operating loss (20,186,874)

Non-operating revenues (expenses)

State appropriations	13,752,152
Federal Pell grant	5,436,565
Investment income, gains and losses	257,545
Building fee remittance	(908,248)
Innovation fund remittance	(203,724)
Interest on indebtedness	<u>(345,349)</u>
Non-operating revenues (expenses), net	<u>17,988,941</u>

Loss before capital contributions (2,197,933)

Capital contributions

Capital appropriations	<u>3,862,875</u>
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Increase in net position

\$ 1,664,942

Net position, beginning of year	\$ 79,353,442
Cumulative effect of change in accounting principle	<u>(18,625,177)</u>
Net position, beginning of year, as restated	<u>60,728,265</u>

Net position, end of year \$ 62,393,207

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

Statement of Cash Flows

Whatcom Community College
Year Ended June 30, 2018

Cash flows from operating activities	
Student tuition and fees	\$ 14,307,019
Grants and contracts	12,213,573
Auxiliary enterprise sales	2,336,251
Other receipts (payments)	(55,153)
Payments for utilities	(680,102)
Payments for scholarships and fellowships	(5,908,252)
Payments for benefits	(7,706,480)
Payments to vendors	(9,460,512)
Payments to employees	<u>(22,374,133)</u>
Net cash used by operating activities	<u>(17,327,789)</u>
Cash flows from non-capital financing activities	
State appropriations	14,470,455
Pell grants	5,376,018
Innovation fee remittance	(207,278)
Building fee remittance	<u>(906,806)</u>
Net cash provided by non-capital financing activities	<u>18,732,389</u>
Cash flows from capital and related financing activities	
Capital appropriations	4,196,742
Principal paid on capital debt	(375,000)
Interest paid on debt	(378,756)
Purchases of capital assets	<u>(6,059,961)</u>
Net cash used by capital and related financing activities	<u>(2,616,975)</u>
Cash flows from investing activities	
Proceeds from sales and maturities of investments	2,000,000
Investment income	273,638
Purchase of investments	<u>(1,705,000)</u>
Net cash used by investing activities	<u>568,638</u>
Decrease in cash and cash equivalents	(643,737)
Cash and cash equivalents, beginning of year	<u>17,999,540</u>
Cash and cash equivalents, end of year	<u>\$ 17,355,803</u>
Reconciliation of operating net loss to net cash used by operating activities	
Operating net loss	\$ (20,186,874)
Adjustments to reconcile decrease in net loss to net cash	
Depreciation expense	2,262,780
Benefits expense related to pension liability	(137,909)
Benefits expense related to other post-employment benefits liability	1,219,340
(Increase) decrease in assets	
Receivables, net	(1,746,451)
Inventories	47,922
Prepaid expenses	82,024
Increase (decrease) in liabilities	
Accounts payable and accrued liabilities	527,098
Compensated absences	554,551
Unearned revenue	<u>49,730</u>
Net cash used by operating activities	<u>\$ (17,327,789)</u>

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

Statement of Financial Position

Whatcom Community College Foundation

June 30, 2018

Assets

Current assets	
Cash	\$ 151,958
Certificates of deposit	71,927
Investments	732,791
Pledges and grants receivable, current portion	65,185
Prepaid expense	<u>13,412</u>
Total current assets	<u>1,035,273</u>
Long-term assets	
Land, building, and equipment, net	8,087,322
Investments, held for endowment	6,919,093
Pledges and grants receivable, net of current portion	<u>44,083</u>
Total non-current assets	<u>15,050,498</u>
Total assets	<u><u>\$ 16,085,771</u></u>

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	\$ 602
Notes payable, current portion	<u>244,313</u>
Total current liabilities	244,915
Long-term liabilities	
Notes payable, net of current portion	<u>4,974,065</u>
Total liabilities	<u>5,218,980</u>
Net assets	
Unrestricted	
Undesignated	2,505,384
Board-designated endowment	<u>1,293,114</u>
Total unrestricted	3,798,498
Temporarily restricted	2,137,335
Permanently restricted	<u>4,930,958</u>
Total net assets	<u>10,866,791</u>
Total liabilities and net assets	<u><u>\$ 16,085,771</u></u>

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

Statement of Activities

Whatcom Community College Foundation
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Contributions	\$ 642,868	\$ 251,866	\$ 59,408	\$ 954,142
Events, fundraisers, and other	-	1,800	-	1,800
Lease and rent income	781,173	-	-	781,173
In-kind contributions	329,450	-	-	329,450
Investment income	95,125	406,569	-	501,694
Net assets released from restrictions	<u>416,115</u>	<u>(416,115)</u>	<u>-</u>	<u>-</u>
Total support and revenue	2,264,731	244,120	59,408	2,568,259
Functional expenses				
Program services			-	-
College support	619,659	-	-	619,659
Scholarship awards	<u>258,143</u>	<u>-</u>	<u>-</u>	<u>258,143</u>
Total program services	<u>877,802</u>	<u>-</u>	<u>-</u>	<u>877,802</u>
Supporting services			-	-
Management and general	235,410	-	-	235,410
Fundraising	<u>130,890</u>	<u>-</u>	<u>-</u>	<u>130,890</u>
Total supporting services	<u>366,300</u>	<u>-</u>	<u>-</u>	<u>366,300</u>
Total expenses	<u>1,244,102</u>	<u>-</u>	<u>-</u>	<u>1,244,102</u>
Change in net assets	1,020,629	244,120	59,408	1,324,157
Net assets, beginning of year	<u>2,777,869</u>	<u>1,893,215</u>	<u>4,871,550</u>	<u>9,542,634</u>
Net assets, end of year	<u>\$ 3,798,498</u>	<u>\$ 2,137,335</u>	<u>\$ 4,930,958</u>	<u>\$ 10,866,791</u>

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

Notes to the Financial Statements

Whatcom Community College
June 30, 2018

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 (CAFR).

The Whatcom Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1987 and recognized as a tax-exempt 501(c)(3) charity. The Foundation's charitable purpose is to ensure access to higher education for students from all backgrounds and 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 discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2018, the Foundation distributed \$877,802 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete, audited financial statements may be obtained from the Foundation's administrative offices at 333 Calluna Court, 2nd Floor, Bellingham, Washington 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

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College

June 30, 2018

comprehensive, entity-wide perspective of the College's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

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

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

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

Cash, Cash Equivalents, and Investments

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

Receivables

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. Receivable are shown net of estimated uncollectible amounts.

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College
June 30, 2018

Inventories

Inventories, consisting of merchandise for resale in the college bookstore and course-related supplies, are valued at cost using the first-in, first-out (FIFO) 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 Statement No. 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as defined by the state of Washington's Office of Financial Management. Useful lives 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 No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, 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, 2018, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer quarter tuition and fees and housing deposits 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.

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College

June 30, 2018

Pension Liability

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

Beginning fiscal year ended June 30, 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions)*. The reporting requirements are similar to GASB Statement No. 68 but use current fiscal year end as the measurement date for reporting the pension liabilities.

Other Post-Employment Benefits Liability

In fiscal year ended June 30, 2018, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)*. This statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one year lag measurement date similar to GASB Statement No. 68.

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College

June 30, 2018

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

Net Position

The College's net position is classified as follows:

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

Restricted for Non-Expendable - 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 loan student support funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.

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

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

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

Classification of Revenues and Expenses

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

Operating Revenues - This includes activities that are directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College

June 30, 2018

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 the Office of Superintendent of Public Instruction (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 - This includes salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.

Non-Operating Revenues - This includes activities that are not directly related to the ongoing operations of the College, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government.

Non-Operating Expenses - This includes state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation (COP) 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 ended June 30, 2018 are \$4,320,318.

State Appropriations

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

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The building fee portion of tuition charged to students is an amount established by the legislature is subject to change annually. The fee provides funding for capital construction and projects on a system-wide basis using a competitive biennial allocation process. The innovation fee was established in order to fund the State Board of Community and Technical College's (SBCTC's) Strategic Technology Plan. The use of the fund is to implement new enterprise resource

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College
June 30, 2018

planning (ERP) software across the entire system. On a monthly basis, the College's remits the portion of tuition collected for both fees to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the Statement of Revenues, Expenses and Changes in Net Position.

Note 2 - Accounting and Reporting Changes

Reporting Changes

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (OPEB)*. The scope of this Statement addresses accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local governmental employers. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The College has implemented this pronouncement during the year ended June 30, 2018.

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)*, the College has a deficit unrestricted net position of \$1,233,004 at June 30, 2018. This new accounting standard requires the College to recognize its portion of the state's total OPEB liability, reducing net position by a substantial amount. Additional information regarding GASB Statement No. 75 can be found in Note 16.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits. The College took into consideration this guidance as it implemented GASB Statement No. 75 for OPEB.

Cumulative Effect of a Change in Accounting Principle

Beginning net position was restated by \$18,625,177 in the year ended June 30, 2018 as a result of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (OPEB)*.

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College

June 30, 2018

Accounting Standards Impacting the Future

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, to addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The effective of this statement is fiscal year 2019. The College is in the process of reviewing its assets to ensure compliance with this reporting requirement.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be in effect beginning fiscal year ended June 30, 2021. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The College is following the state's Office of Financial Management directives to prepare for the implementation of this Statement.

Note 3 - Cash, Cash Equivalents, 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 (OST) 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. For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

The LGIP portfolio is invested in a manner that meets the requirements set forth by GASB 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.

These notes form an integral part of the financial statements.

Notes to the Financial Statements

Whatcom Community College
June 30, 2018

The OST 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: <https://tre.wa.gov/partners/for-local-governments/local-government-investment-pool-lgip/lgip-comprehensive-annual-financial-report/>. In addition, more information is available regarding the LGIP in the Washington State CAFR, which can be found online at <https://www.ofm.wa.gov/accounting/financial-audit-reports/comprehensive-annual-financial-report>.

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 OST.

As of June 30, 2018, the carrying amount of the College's cash and equivalents was composed of:

	Unrestricted	Restricted	Total
Petty cash and change funds	\$ 7,100	\$ -	\$ 7,100
Bank demand and time deposits	1,076,335	-	1,076,335
Local government investment pool (LGIP)	15,580,491	691,877	16,272,368
	<u>\$ 16,663,926</u>	<u>\$ 691,877</u>	<u>\$ 17,355,803</u>

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.

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 Foundation.

Investments consist of U.S. Treasury and Agency securities as follows:

Investment Maturities	Fair Value	One Year or Less	1-5 Years
Federal Farm Credit Bank	\$ 1,973,088	\$ -	\$ 1,973,088
Federal Home Loan Mortgage Corporation Finance Corporation (FICO)	1,663,635	-	1,663,635
	2,074,719	2,074,719	-
Resolution Funding Corporation	3,978,533	-	3,978,533
	<u>\$ 9,689,975</u>	<u>\$ 2,074,719</u>	<u>\$ 7,615,256</u>

These notes form an integral part of the financial statements.

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Custodial Credit Risks - Deposits

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

Interest Rate Risk - Investments

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

Concentration of Credit Risk - Investments

State law limits the College's 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, 2018, \$9,439,975 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. See listing above for U.S. Treasury and Agency securities.

Investment Expenses

Under implementation of GASB Statement No. 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2018 were \$1,275.

Note 4 - Receivables

Receivables consists of: 1) tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, 2) amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements, and 3) interest receivable from U.S. Treasury bond investments. At June 30, 2018, receivables were as follows:

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Due from other state agencies	\$ 3,818,424
Due from the federal government	651,275
Student tuition and fees	295,898
Other	29,677
Interest receivable	<u>18,450</u>
Receivables, gross	4,813,724
Less: allowance for doubtful accounts	<u>(159,776)</u>
Receivables, net	<u><u>\$ 4,653,948</u></u>

Note 5 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2018 is presented as follows. The current year depreciation expense was \$2,262,780.

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, non-depreciable				
Land	\$ 13,406,089	\$ -	\$ -	\$ 13,406,089
Construction in progress	<u>2,132,955</u>	<u>3,818,772</u>	-	<u>5,951,727</u>
Total capital assets, non-depreciable	15,539,044	3,818,772	-	19,357,816
Capital assets, depreciable				
Buildings	70,040,652	970,269	-	71,010,921
Other improvements and infrastructure	5,900,167	-	-	5,900,167
Equipment	3,301,501	253,240	(53,129)	3,501,612
Library resources	<u>544,458</u>	<u>20,788</u>	-	<u>565,246</u>
Total capital assets, depreciable	79,786,778	1,244,297	(53,129)	80,977,946
Less accumulated depreciation				
Buildings	20,479,146	1,502,738	-	21,981,884
Other improvements and infrastructure	2,646,996	365,508	-	3,012,504
Equipment	2,161,535	362,076	(53,129)	2,470,482
Library resources	<u>425,183</u>	<u>32,458</u>	-	<u>457,641</u>
Total accumulated depreciation	<u>25,712,860</u>	<u>2,262,780</u>	<u>(53,129)</u>	<u>27,922,511</u>
Total capital assets, depreciable, net	<u>54,073,918</u>	<u>(1,018,483)</u>	-	<u>53,055,435</u>
Total capital assets, net	<u><u>\$ 69,612,962</u></u>	<u><u>\$ 2,800,289</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 72,413,251</u></u>

The College commenced construction of two buildings during the year ended June 30, 2018: the Phyllis and Charles Self Learning Commons (July 2017) and student housing apartments (September

These notes form an integral part of the financial statements.

Notes to the Financial Statements

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2017). The construction activity is funded by the state capital appropriations and through notes payable (see Note 12). Anticipated construction completion of both buildings is spring 2020.

Note 6 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2018 were as follows:

Accounts payable	\$ 1,356,321
Accrued salaries	788,478
Other accrued liabilities	114,778
Deposits held	<u>1,801</u>
	<u>\$ 2,261,378</u>

Note 7 - Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, as follows at June 30, 2018:

Summer quarter tuition and fees	\$ 1,940,971
Housing and other deposits	<u>22,845</u>
	<u>\$ 1,963,816</u>

Note 8 - Risk Management

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

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

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2017 through June 30, 2018, were \$60,563. Cash reserves for unemployment compensation for all employees at June 30, 2018, were \$35,155.

Note 9 - Schedule of Non-Current Liabilities

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion	Long-Term Portion
Notes payable						
Certificates of Participation (COP)	\$ 9,330,000	\$ -	\$ (375,000)	\$ 8,955,000	\$ 390,000	\$ 8,565,000
Premium on COP	<u>567,923</u>	<u>-</u>	<u>(33,407)</u>	<u>534,516</u>	<u>33,407</u>	<u>501,109</u>
Total notes payable	9,897,923	-	(408,407)	9,489,516	423,407	9,066,109
Other liabilities						
Compensated absences	2,142,689	1,512,588	(958,037)	2,697,240	-	2,697,240
Pension liability	6,510,191	1,729,947	(2,486,616)	5,753,522	36,699	5,716,823
OPEB liability	<u>18,625,177</u>	<u>1,734,897</u>	<u>(2,464,106)</u>	<u>17,895,968</u>	<u>1,756,727</u>	<u>16,139,241</u>
Total other liabilities	<u>27,278,057</u>	<u>4,977,432</u>	<u>(5,908,759)</u>	<u>26,346,730</u>	<u>1,793,426</u>	<u>24,553,304</u>
Total non-current liabilities	<u>\$ 37,175,980</u>	<u>\$ 4,977,432</u>	<u>\$ (6,317,166)</u>	<u>\$ 35,836,246</u>	<u>\$ 2,216,833</u>	<u>\$ 33,619,413</u>

Note 10 - Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. Compensated absence balances as of June 30, 2018 totaled:

Vacation	\$ 890,006
Sick	<u>1,807,234</u>
	<u>\$ 2,697,240</u>

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Notes to the Financial Statements

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Note 11 - Leases Payable

The College leases buildings and office equipment from 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 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 HPEC is a building near the campus, located on Stuart Road. The monthly rental payment is \$38,920 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, 2023 to July 31, 2028
- August 1, 2028 to July 31, 2033
- August 1, 2033 to July 31, 2038

The future minimum lease payments under operating leases consist of the following for the years ended June 30:

	Equipment			Property			Total
	Computers	Copiers	Total	Foundation	HPEC	Total	
2019	\$ 24,160	\$ 143,894	\$ 168,054	\$ 314,133	\$ 467,040	\$ 781,173	\$ 949,227
2020	-	143,246	143,246	314,133	467,040	781,173	924,419
2021	-	143,246	143,246	287,956	467,040	754,996	898,242
2022	-	140,581	140,581	-	467,040	467,040	607,621
2023	-	753	753	-	467,040	467,040	467,793
2024 to 2028	-	-	-	-	38,920	38,920	38,920
	<u>\$ 24,160</u>	<u>\$ 571,720</u>	<u>\$ 595,880</u>	<u>\$ 916,222</u>	<u>\$ 2,374,120</u>	<u>\$ 3,290,342</u>	<u>\$ 3,886,222</u>

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Note 12 - Notes Payable

As of the report date, the College holds two Certificates of Participation (COP), issued by the Washington Office of the State Treasurer (OST) to finance various capital projects.

Community College Pavilion

In August 2014, the College obtained financing to renovate and remodel the Whatcom Community College Pavilion 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. The interest rate charged is 3.18038%.

Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2014. 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.

Student Housing Apartments

Subsequent to year-end in August 2018, the College obtained financing to construct on-campus student housing in the amount of \$23,095,000. The \$26,475,000 bond was issued at a premium of \$3,380,000, which will be amortized over the 25-year life of the bond, and will have the effect of reducing future interest expense. The interest rate charged is 3.72627%.

The rental income generated by students for residence in the facility will be used to service the debt. Student fees related to the Housing COP are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget. Development costs incurred for construction before obtaining the COP were reimbursed to the College during the year ended June 30, 2018.

The College's debt service requirements for these note agreements for the next five years and thereafter are as follows in Note 13.

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Whatcom Community College
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Note 13 - Annual Debt Service Requirements

As of the report date, future debt service requirements for years ended June 30 are as follows:

	Annual Payment			Premium
	Principal	Interest	Total	Amortization
2019	\$ 390,000	\$ 1,325,506	\$ 1,715,506	\$ 168,607
2020	410,000	1,495,256	1,905,256	168,607
2021	990,000	1,474,756	2,464,756	168,607
2022	1,040,000	1,425,256	2,465,256	168,607
2023	1,095,000	1,373,256	2,468,256	168,607
2024 to 2028	6,325,000	6,000,631	12,325,631	843,036
2029 to 2033	7,845,000	4,485,406	12,330,406	843,036
2034 to 2038	6,540,000	2,779,300	9,319,300	709,407
2039 to 2043	7,415,000	1,148,500	8,563,500	676,000
	<u>\$ 32,050,000</u>	<u>\$ 21,507,867</u>	<u>\$ 53,557,867</u>	<u>\$ 3,914,514</u>

Note 14 - Pension Liability

Pension liabilities reported as of June 30, 2018 consists of the following plan balances:

PERS 1	\$ 1,753,401
PERS 2/3	1,571,631
TRS 1	351,062
TRS 2/3	73,789
SBRP	2,003,639
	<u>\$ 5,753,522</u>

Note 15 - 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 (DRS). The State Board Retirement Plan (SBRP) is a defined contribution, single-employer pension plan with a supplemental payment when required. SBRP is administered by the

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SBCTC and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

For fiscal year ended June 30, 2018, the covered payroll for the College's retirement plans was as follows:

PERS	\$ 5,173,384
TRS	593,637
SBRP	<u>12,872,666</u>
	<u>\$ 18,639,687</u>

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.

In accordance with GASB Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the state CAFR.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for the College, for fiscal year 2018:

Pension liabilities	<u>\$ 5,753,522</u>
Deferred outflows of resources related to pensions	<u>\$ 1,398,784</u>
Deferred inflows of resources related to pensions	<u>\$ 1,391,767</u>
Pension expense	<u>\$ 621,388</u>

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 non-academic 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 non-academic

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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 Plan 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.

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's 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 Plan 3 employees may select among six contribution rate options, ranging from 5% to 15%.

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 ended June 30, 2018, 2017, and 2016 are as follows:

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Contribution Rates at June 30						
	2016		2017		2018	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	11.18%	6.00%	11.18%	6.00%	12.70%
Plan 2	6.12%	11.18%	6.12%	11.18%	7.38%	12.70%
Plan 3	5-15%	11.18%	5-15%	11.18%	5-15%	12.70%
TRS						
Plan 1	6.00%	13.13%	6.00%	13.13%	6.00%	15.20%
Plan 2	5.95%	13.13%	5.95%	13.13%	7.06%	15.20%
Plan 3	5-15%	13.13%	5-15%	13.13%	5-15%	15.20%

Required Contributions for Year Ended June 30						
	2016		2017		2018	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	\$ 7,650	\$ 205,901	\$ 5,345	\$ 225,139	\$ 5,343	\$ 267,052
Plan 2	\$ 209,775	\$ 385,485	\$ 219,781	\$ 401,497	\$ 286,269	\$ 297,518
Plan 3	\$ 67,879	\$ 54,031	\$ 91,768	\$ 71,071	\$ 88,486	\$ 92,450
TRS						
Plan 1	\$ 5,161	\$ 32,854	\$ 6,086	\$ 40,521	\$ 5,279	\$ 49,731
Plan 3	\$ 29,153	\$ 21,837	\$ 32,974	\$ 29,110	\$ 40,389	\$ 40,502

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, 2017, the annual money-weighted rate of return on the pension investments, net of pension plan investment expenses, are as follows:

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PERS Plan 1	13.84%
PERS Plan 2/3	14.11%
TRS Plan 1	14.45%
TRS Plan 2/3	14.10%

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, 2017, 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%	4.90%
Real estate	15%	5.80%
Public equity	37%	6.30%
Private equity	23%	9.30%
Total	100%	

The inflation component used to create the above table is 2.20% 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 Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	Total
Actuarially-determined pension expense	\$ 109,447	\$ 218,533	\$ 22,571	\$ 26,529	\$ 377,080
Amortization change in proportionate share of liability	38,008	79,698	40,101	12,383	170,190
	\$ 147,455	\$ 298,231	\$ 62,672	\$ 38,912	\$ 547,270

Changes in Proportionate Shares of Pension Liabilities. The changes to the College's proportionate share of pension liabilities from the years ended June 30, 2016 to 2017 for each retirement plan are listed below:

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	<u>2017</u>	<u>2016</u>	<u>Change</u>
PERS Plan 1	0.036952%	0.036226%	0.000726%
PERS Plan 2/3	0.045233%	0.043279%	0.001954%
TRS Plan 1	0.011612%	0.010399%	0.001213%
TRS Plan 2/3	0.007995%	0.006910%	0.001085%

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 for each of the plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' CAFR. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov. These assumptions reflect the results of OSA's 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The total pension liability was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

Inflation rate	3% total economic inflation, 3.75% salary inflation
Projected salary changes	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity
Investment rate of return	7.5%

Mortality rates were based on the RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table." The Society of Actuaries published the document. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout the member's lifetime.

Changes in methods and assumptions since the last valuation include:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.

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- How the basic minimum cost of living allowance (COLA) in PERS Plan 1 and TRS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

Discount Rate. The discount rate used to measure the total pension liability was 7.5%, 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% 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% 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% 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 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease 6.5%	Current Rate 7.5%	1% Increase 8.5%
PERS Plan 1	\$ 2,135,978	\$ 1,753,401	\$ 1,422,008
PERS Plan 2/3	\$ 4,234,137	\$ 1,571,631	\$ (609,899)
TRS Plan 1	\$ 436,538	\$ 351,062	\$ 277,077
TRS Plan 2/3	\$ 250,615	\$ 73,789	\$ (69,826)

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, 2018:

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	PERS Plan 1		PERS Plan 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ -	\$ -	\$ 159,243	\$ 51,688
Difference between expected and actual earnings of pension plan investments	-	65,432	-	418,959
Changes of assumptions	-	-	16,694	-
Changes in College's proportionate share of pension liabilities	-	-	155,343	-
Contributions subsequent to measurement date	266,440	-	378,549	-
Total	<u>\$ 266,440</u>	<u>\$ 65,432</u>	<u>\$ 709,829</u>	<u>\$ 470,647</u>

	TRS Plan 1		TRS Plan 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ -	\$ -	\$ 18,401	\$ 3,765
Difference between expected and actual earnings of pension plan investments	-	14,873	-	26,704
Changes of assumptions	-	-	870	-
Changes in College's proportionate share of pension liabilities	-	-	38,598	-
Contributions subsequent to measurement date	47,394	-	37,027	-
Total	<u>\$ 47,394</u>	<u>\$ 14,873</u>	<u>\$ 94,896</u>	<u>\$ 30,469</u>

	Total	
	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 177,644	\$ 55,453
Difference between expected and actual earnings of pension plan investments	-	525,968
Changes of assumptions	17,564	-
Changes in College's proportionate share of pension liabilities	193,941	-
Contributions subsequent to measurement date	729,410	-
Total	<u>\$ 1,118,559</u>	<u>\$ 581,421</u>

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\$729,410 of the amount 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, 2019.

Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows in the years ended June 30:

	<u>PERS Plan 1</u>	<u>PERS Plan 2/3</u>	<u>TRS Plan 1</u>	<u>TRS Plan 2/3</u>	<u>Total</u>
2019	\$ (44,228)	\$ (102,626)	\$ (10,924)	\$ 1,920	\$ (155,858)
2020	13,963	82,651	4,090	15,821	116,525
2021	(3,242)	(21,124)	(364)	5,390	(19,340)
2022	(31,925)	(157,091)	(7,674)	(8,357)	(205,047)
2023	-	25,575	-	2,630	28,205
Thereafter	-	33,248	-	9,995	43,243
	<u>\$ (65,432)</u>	<u>\$ (139,367)</u>	<u>\$ (14,872)</u>	<u>\$ 27,399</u>	<u>\$ (192,272)</u>

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

State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plans

Plan Description. The SBRP is a privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. The College participates in this plan as authorized by Chapter 28B.10 RCW and reports its proportionate share of the total pension liability. The 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, 2018 were each \$1,175,770.

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

As of July 1, 2011, all SBSRP 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% of the member's average

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annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of 50% 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 SBSRP pension benefits are unfunded. For the year ended June 30, 2018, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of \$1,300,000. The College's share of this amount was \$29,880. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During the year ended June 30, 2018, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$64,254. This amount was not used as a part of GASB 73 calculations its status as an asset has not been determined by the legislature. As of June 30, 2018, the community and technical college system accounted for \$16,351,270 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll forward the total pension liability to the June 30, 2018 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% 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 3.5% to 3.87% and the variable income investment return assumption dropping from 6.75% to 6.25%.

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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 3.87% for the June 30, 2018, measurement date.

Pension Expense. For the year ended June 30, 2018, the components that make up pension expense for the College are as follows:

Proportionate share		2.298463%
Service cost	\$	87,962
Interest cost		80,837
Amortization of differences between expected and actual experience		(106,511)
Amortization of changes in assumptions		(28,202)
Changes of benefit terms		-
Administrative expenses		-
Other changes in fiduciary net position		-
Proportionate share of collective pension expense		<u>34,086</u>
Amortization of the change in proportionate share of total pension liability		<u>40,032</u>
Total pension expense	\$	<u><u>74,118</u></u>

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ended June 30, 2018 was 2.298463%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

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Proportionate share - 2017	2.036486%
Proportionate share - 2018	2.298463%
Total pension liability - beginning 2018	\$ 2,184,689
Total pension liability - ending 2017	<u>1,935,680</u>
Total pension liability - change in proportion	249,009
Total deferred inflow/outflow - 2018	625,090
Total deferred inflow/outflow - 2017	<u>553,843</u>
Total deferred inflow/outflow - change in proportion	<u>71,247</u>
Total change in proportion	<u>\$ 320,256</u>

Plan Membership. Membership in the SBSRP consisted of the following as of June 30, 2016, the most recent actuarial valuation date:

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. The following table presents the change in total pension liability of the SBSRP at June 30, 2018, the latest measurement date for the plan:

Service cost	\$ 87,962
Interest	80,837
Changes of benefit terms	-
Differences between expected and actual experience	(239,086)
Changes in assumptions	(80,883)
Benefit payments	(29,880)
Changes in proportionate share of total pension liability	249,009
Other	-
Net change in total pension liability	<u>67,959</u>
Total pension liability - beginning	<u>1,935,680</u>
Total pension liability - ending	<u>\$ 2,003,639</u>

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

	1% Decrease <u>2.87%</u>	Current Rate <u>3.87%</u>	1% Increase <u>4.87%</u>
SBSRP	\$ 2,285,316	\$ 2,003,639	\$ 1,769,357

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the SBSRP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Difference between expected and actual experience	\$ -	\$ 638,306
Changes of assumptions	-	172,040
Changes in College's proportionate share of pension liability	280,225	-
Transactions subsequent to measurement date	-	-
Total	<u>\$ 280,225</u>	<u>\$ 810,346</u>

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:

2019	\$ (94,681)
2020	(94,681)
2021	(94,681)
2022	(94,681)
2023	(94,681)
Thereafter	(56,716)
	<u>\$ (530,121)</u>

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

The PERS Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS.

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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% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% 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 TRS Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

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% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% 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

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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 16 - Other Post-Employment Benefits

The College implemented GASB Statement No. 75 *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pension (OPEB)* for fiscal year 2018 financial reporting. In addition to pension benefits as described in Note 15, the College, through the Health Care Authority (HCA), administers a single-employer defined benefit OPEB plan.

Plan Description

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

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

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

Employees Covered by Benefit Terms

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

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Active employees	123,379
Retiree receiving benefits *	46,180
Retirees not receiving benefits **	<u>6,000</u>
Total active employees and retirees	<u><u>175,559</u></u>

* Enrollment data for June 2017 from Report 1: PEBB Total Member Enrollment June 2017 Coverage Report. PEBB retirees only.

** This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future.

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

Benefits Provided

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2016, the average weighted implicit subsidy was valued at \$304 per member per month, and in calendar year 2017, the average weighted implicit subsidy is projected to be \$328 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state legislature. In calendar year 2016, the explicit subsidy was up to \$150 per member per month, and it remained up to \$150 per member per month in calendar years 2017 and 2018. This will increase in calendar year 2019 to up to \$168 per member per month.

Contribution Information

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

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

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For calendar year 2017, the estimated monthly cost for PEBB benefits for each active employees (average across all plans and tiers) is as follows:

Medical	\$	1,024
Dental		79
Life		4
Long-term disability		2
Total premium	\$	<u>1,109</u>

The premiums were funded by:

Employer contribution	\$	959
Employee contribution		150
Total contributions	\$	<u>1,109</u>

Per 2017 PEBB Financial Projection Model 8.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on the year ended June 30, 2017 which includes projected claims at the time of this reporting.

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

Total OPEB Liability

As of June 30, 2018, the state reported a total OPEB liability of \$5,825,822,461. The College's proportionate share of the total OPEB liability is \$17,895,968. This liability was determined based on a measurement date of June 30, 2017.

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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Inflation rate	3%
Projected salary changes	3.75% plus service-based salary increases
Health care trend rates	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 7%, reaching an ultimate rate of approximately 5% in 2080.
Post-retirement participation	65%
Spouse coverage	45%

For additional detail on the health care trend rates, please see Office of the State Actuary's 2017 OPEB Actuarial Valuation Report.

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The legislature determines the value of cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap are assumed.

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

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2015 Economic Experience Study.

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Actuarial Methodology

The total OPEB liability was determined using the following methodologies:

Actuarial valuation date	January 1, 2017
Actuarial measurement date	June 30, 2017
Actuarial cost method	Entry age
Amortization method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset valuation method	N/A - no assets

In order to calculate the beginning total OPEB liability balance under GASB Statement No. 75, the January 1, 2017 actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017 valuation forward to June 30, 2017. Both the forward and backward projections reflect the plan's assumed service cost, assumed interest, and expected benefit payments.

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.85% for the June 30, 2016 measurement date and 3.58% for the June 30, 2017 measurement date.

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

Changes in Total OPEB Liability

As of June 30, 2018, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

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Proportionate share	0.3071835564%
Service cost	\$ 1,213,238
Interest cost	568,288
Differences between expected and actual experience	-
Changes in assumptions	(2,772,119)
Changes of benefit terms	-
Benefit repayments	(289,609)
Changes in proportionate share	265,393
Other	-
Net change in total OPEB liability	(1,014,809)
Total OPEB liability - beginning	18,910,777
Total OPEB liability - ending	<u>\$ 17,895,968</u>

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

Changes in assumptions resulted from an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate resulting in an overall decrease in total OPEB liability for the measurement date of June 30, 2017.

Sensitivity of the Total Liability to Changes in the Discount Rate

The following represents the total OPEB liability of the College, calculated using the discount rate of 3.58% as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current rate:

	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
OPEB	\$ 21,835,291	\$ 17,895,968	\$ 14,847,565

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following represents the total OPEB liability of the College, calculated using the health care trend rates of 7.00% decreasing to 5.00%, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00% decreasing to 4.00%) or 1 percentage point higher (8.0% decreasing to 6.00% that the current rate:

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	1% Decrease 4.00%	Current Rate 5.00%	1% Increase 6.00%
OPEB	\$ 14,457,480	\$ 17,895,968	\$ 22,510,727

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

For the year ended June 30, 2018, the College will recognize OPEB expense of \$1,502,555. OPEB expense consists of the following elements:

Proportionate share	0.3071835564%
Service cost	\$ 1,213,238
Interest cost	568,288
Amortization of differences between expected and actual experience	-
Amortization of changes in assumptions	(308,014)
Changes of benefit terms	-
Amortization of changes in proportion	29,043
Administrative expenses	-
Total OPEB expense	<u>\$ 1,502,555</u>

As of June 30, 2018, the deferred inflows and deferred outflows of resources for the College are as follows:

Proportionate share	0.3071835564%	
	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	2,464,105	-
Transactions subsequent to the measurement date	-	283,215
Changes in proportion	-	232,341
Total deferred inflows and outflows	<u>\$ 2,464,105</u>	<u>\$ 515,556</u>

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows

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of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

Proportionate share	0.3071835564%
2019	\$ (278,970)
2020	(278,970)
2021	(278,970)
2022	(278,970)
2023	(278,970)
Thereafter	<u>(836,914)</u>
	<u>\$ (2,231,764)</u>

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

Proportionate share - 2016	0.3029322179%
Proportionate share - 2017	0.3071835564%
Total OPEB liability - beginning 2017	\$ 19,176,170
Total OPEB liability - ending 2016	<u>18,910,777</u>
Total OPEB liability change in proportion	265,393
Total deferred inflows/outflows - 2017	289,609
Total deferred inflows/outflows - 2016	<u>285,600</u>
Total deferred inflows/outflows change in proportion	<u>4,009</u>
Total change in proportion	<u>\$ 261,384</u>

Note 17 - Operating Expenses by Function

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 ended June 30, 2018:

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Instruction	\$ 18,403,071
Student services	8,973,359
Institutional support	5,208,454
Scholarships and other student financial aid	4,900,999
Operations and building maintenance	4,545,904
Auxiliary enterprises	3,780,873
Academic support services	2,592,938
Depreciation	<u>1,913,314</u>
	<u>\$ 50,318,912</u>

Note 18 - Commitments and Contingencies

As of year-end June 30, 2018, the College had commitments of \$23,805,105 for various capital improvement projects that include construction and completion of new buildings and renovations of existing infrastructure. Subsequent to year-end, the College committed to an additional \$1,369,186 in contracts related to student housing construction.

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.

These notes form an integral part of the financial statements.

Required Supplementary Information

Whatcom Community College
Pension Plan Information: Cost Sharing Employer Plans

Washington State Department of Retirement Systems Plans Schedule of the Whatcom Community College's Proportionate Share of the Net Pension Liabilities

Public Employees' Retirement System (PERS) Plan 1

Measurement Date	College's Proportionate Share of Net Pension Liability	College's Covered Payroll	College's Pro-Portionate Share of Net Pension Liability as a Percentage of Its Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	0.030750% \$ 1,666,169	\$ 3,492,795	45.35%	61.19%
June 30, 2015	0.034411% \$ 1,800,015	\$ 3,789,236	47.50%	59.10%
June 30, 2016	0.036226% \$ 1,945,507	\$ 4,175,406	46.59%	57.03%
June 30, 2017	0.036952% \$ 1,753,401	\$ 4,532,271	38.69%	61.24%
June 30, 2018				
June 30, 2019				
June 30, 2020				
June 30, 2021				
June 30, 2022				
June 30, 2023				

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

Measurement Date	College's Proportionate Share of Net Pension Liability	College's Covered Payroll	College's Pro-Portionate Share of Net Pension Liability as a Percentage of Its Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	0.039399% \$ 796,396	\$ 3,370,509	22.46%	93.29%
June 30, 2015	0.041310% \$ 1,476,030	\$ 3,665,444	40.27%	89.20%
June 30, 2016	0.043279% \$ 2,179,063	\$ 4,048,061	53.83%	85.82%
June 30, 2017	0.045233% \$ 1,571,631	\$ 4,434,668	35.44%	90.97%
June 30, 2018				
June 30, 2019				
June 30, 2020				
June 30, 2021				
June 30, 2022				
June 30, 2023				

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

Required Supplementary Information

Whatcom Community College

Pension Plan Information: Cost Sharing Employer Plans

Washington State Department of Retirement Systems Plans Schedule of the Whatcom Community College's Proportionate Share of the Net Pension Liabilities (Cont.)

Teachers' Retirement System (TRS) Plan 1						
Measurement Date	College's Proportionate Share of Net Pension Liability		College's Covered Payroll	College's Pro-Portionate Share of Net Pension Liability as a Percentage of Its Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	
June 30, 2014	0.030750%	\$ 176,820	\$ 177,458	93.79%	68.77%	
June 30, 2015	0.034411%	\$ 285,671	\$ 346,504	82.44%	65.70%	
June 30, 2016	0.036226%	\$ 355,047	\$ 422,160	84.10%	62.07%	
June 30, 2017	0.011612%	\$ 351,062	\$ 541,245	64.86%	65.58%	
June 30, 2018						
June 30, 2019						
June 30, 2020						
June 30, 2021						
June 30, 2022						
June 30, 2023						

Teachers' Retirement System (TRS) Plan 2/3						
Measurement Date	College's Proportionate Share of Net Pension Liability		College's Covered Payroll	College's Pro-Portionate Share of Net Pension Liability as a Percentage of Its Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	
June 30, 2014	0.002308%	\$ 7,455	\$ 105,598	7.06%	96.81%	
June 30, 2015	0.005702%	\$ 48,265	\$ 266,853	18.09%	92.48%	
June 30, 2016	0.006910%	\$ 94,895	\$ 336,776	28.18%	88.72%	
June 30, 2017	0.007995%	\$ 73,789	\$ 438,358	16.83%	93.14%	
June 30, 2018						
June 30, 2019						
June 30, 2020						
June 30, 2021						
June 30, 2022						
June 30, 2023						

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

Required Supplementary Information

Whatcom Community College

Pension Plan Information: Cost Sharing Employer Plans

Washington State Department of Retirement Systems Plans Schedule of Whatcom Community College's Contributions

Public Employees' Retirement System (PERS) Plan 1

Year Ended	Contractually Required Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2014	\$ 146,410	\$ 146,410	\$ -	\$ 3,492,795	3.98%
June 30, 2015	\$ 165,695	\$ 165,695	\$ -	\$ 3,789,236	4.37%
June 30, 2016	\$ 205,439	\$ 205,439	\$ -	\$ 4,175,406	4.92%
June 30, 2017	\$ 222,271	\$ 222,271	\$ -	\$ 4,532,271	4.90%
June 30, 2018	\$ 267,051	\$ 267,051	\$ -	\$ 5,173,384	5.16%
June 30, 2019					
June 30, 2020					
June 30, 2021					
June 30, 2022					
June 30, 2023					

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

Year Ended	Contractually Required Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2014	\$ 168,438	\$ 168,438	\$ -	\$ 3,370,509	5.00%
June 30, 2015	\$ 184,018	\$ 184,018	\$ -	\$ 3,665,444	5.02%
June 30, 2016	\$ 249,846	\$ 249,846	\$ -	\$ 4,048,061	6.17%
June 30, 2017	\$ 276,278	\$ 276,278	\$ -	\$ 4,434,668	6.23%
June 30, 2018	\$ 389,968	\$ 389,968	\$ -	\$ 5,084,332	7.67%
June 30, 2019					
June 30, 2020					
June 30, 2021					
June 30, 2022					
June 30, 2023					

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

Required Supplementary Information

Whatcom Community College

Pension Plan Information: Cost Sharing Employer Plans

Washington State Department of Retirement Systems Plans Schedule of Whatcom Community College's Contributions (Cont.)

Teachers' Retirement System (TRS) Plan 1						
Year Ended	Contractually Required Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll	
June 30, 2014	\$ 11,855	\$ 11,855	\$ -	\$ 177,458	6.68%	
June 30, 2015	\$ 20,178	\$ 20,178	\$ -	\$ 346,504	5.82%	
June 30, 2016	\$ 31,606	\$ 31,606	\$ -	\$ 422,160	7.49%	
June 30, 2017	\$ 40,634	\$ 40,634	\$ -	\$ 541,245	7.51%	
June 30, 2018	\$ 49,731	\$ 49,731	\$ -	\$ 593,637	8.38%	
June 30, 2019						
June 30, 2020						
June 30, 2021						
June 30, 2022						
June 30, 2023						

Teachers' Retirement System (TRS) Plan 2/3						
Measurement Date	Contractually Required Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll	
June 30, 2014	\$ 5,662	\$ 6,041	\$ (379)	\$ 105,598	6.05%	
June 30, 2015	\$ 15,200	\$ 15,200	\$ -	\$ 266,853	5.70%	
June 30, 2016	\$ 20,849	\$ 20,849	\$ -	\$ 336,776	7.81%	
June 30, 2017	\$ 29,457	\$ 29,457	\$ -	\$ 438,358	6.72%	
June 30, 2018	\$ 40,502	\$ 40,502	\$ -	\$ 505,644	8.01%	
June 30, 2019						
June 30, 2020						
June 30, 2021						
June 30, 2022						
June 30, 2023						

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

Required Supplementary Information

Whatcom Community College

Pension Plan Information: Cost Sharing Employer Plans

State Board Supplemental Defined Benefit Plans Schedule of Whatcom Community College' Contributions

State Board Retirement Plan					
Year Ended	Contractually Required Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2017	\$ 974,919	\$ 974,919	\$ -	\$ 11,292,120	8.63%
June 30, 2018	\$ 1,120,398	\$ 1,120,398	\$ -	\$ 12,980,614	8.63%
June 30, 2019					
June 30, 2020					
June 30, 2021					
June 30, 2022					
June 30, 2023					
June 30, 2024					
June 30, 2025					
June 30, 2026					

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

Required Supplementary Information

Whatcom Community College
Pension Plan Information: Cost Sharing Employer Plans

State Board Supplemental Retirement Plan Schedule of Changes in Whatcom Community College's Total Pension Liability and Related Ratios for Years Ended June 30

	2017	2018
Activity during the year ended June 30		
Service cost	\$ 110,317	\$ 87,962
Interest	71,562	80,837
Changes of benefit terms	-	-
Differences between expected and actual experience	(515,964)	(239,086)
Changes of assumptions	(121,782)	(80,883)
Benefit repayments	(18,369)	(29,880)
Change in proportionate share of total pension liability	-	249,009
Other	-	-
Net change in pension liability	(474,236)	67,959
Total pension liability - beginning	2,409,916	1,935,680
Total pension liability - ending	<u>\$ 1,935,680</u>	<u>\$ 2,003,639</u>
College's proportion of the pension liability	2.036486%	2.298463%
Covered employee payroll	\$ 11,292,120	\$ 12,980,614
Total pension liability as a percentage of covered employee payroll	17.141865%	15.435626%

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

Notes to Required Supplementary Information

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

Required Supplementary Information

Whatcom Community College
Pension Plan Information: Cost Sharing Employer Plans

Public Employees' Benefits Board Schedule of Changes in Whatcom Community College's Total Other Post-Employment Benefits (OPEB) Liability and Related Ratios for Year Ended June 30

	<u>2018</u>
Activity during the year ended June 30	
Service cost	\$ 1,213,238
Interest cost	568,288
Differences between expected and actual experience	-
Changes in assumptions	(2,772,119)
Changes in benefit terms	-
Benefit repayments	(289,609)
Changes in proportionate share	265,393
Other	<u>-</u>
Net change in OPEB liability	(1,014,809)
Total OPEB liability - beginning	<u>18,910,777</u>
Total OPEB liability - ending	<u><u>\$ 17,895,968</u></u>
College's proportion of the total OPEB liability	0.307184%
Covered employee payroll	\$ 19,075,550
Total OPEB liability as a percentage of covered employee payroll	93.816262%

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

Notes to Required Supplementary Information

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