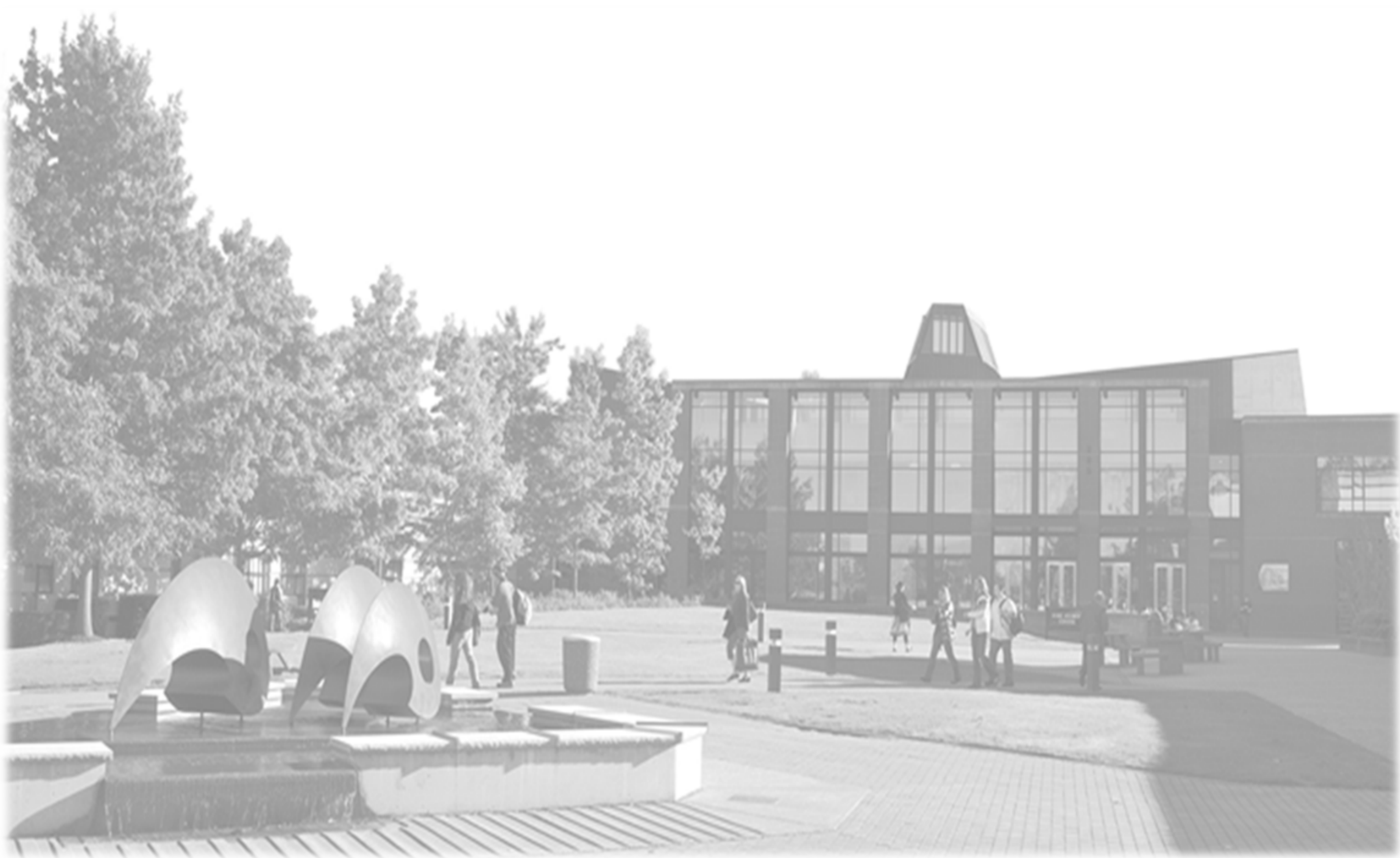
Whatcom
COMMUNITY COLLEGE

# 2016 Financial Report



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For information about the financial data included in this report, contact:

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Whatcom Community College
237 W. Kellogg Road
Bellingham, WA 98226
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237 W. Kellogg Road
Bellingham, WA 98226
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Or

Visit the homepage at www.whatcom.edu

**Whatcom Community**

# Board of Trustees and Administrative Officers

Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

# Whatcom Community College

For the period July 1, 2015 through June 30, 2016

Published July 31, 2017

Report No. 1019579

# Office of the Washington State Auditor
# Pat McCarthy

July 31, 2017

Board of Trustees
Whatcom Community College
Bellingham, Washington

## Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

Pat McCarthy
State Auditor
Olympia, WA

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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**Whatcom Community College**
**July 1, 2015 through June 30, 2016**

Board of Trustees
Whatcom Community College
Bellingham, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Whatcom Community College, Whatcom County, Washington, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated July 24, 2017.

Our report includes a reference to other auditors who audited the financial statements of the Whatcom Community College Foundation, as described in our report on the College's financial statements. This report includes our consideration of the other auditor's testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors is based solely on the reports of the other auditors. The financial statements of the Whatcom Community College Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the Whatcom Community College Foundation. The Whatcom Community College Foundation prior year comparative information has been derived from the Foundation's basic financial statements, on which other auditors issued their report dated October 20, 2016.

The financial statements of the Whatcom Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

July 24, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Whatcom Community College**
**July 1, 2015 through June 30, 2016**

Board of Trustees
Whatcom Community College
Bellingham, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Whatcom Community College, Whatcom County, Washington, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 financial 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.

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, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Matters of Emphasis

As discussed in Note 1, the financial statements of the 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, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Report on Summarized Comparative Information*

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

### *Required Supplementary Information*

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2017 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

July 24, 2017

# ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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

# Management's Discussion and Analysis

## 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, 2016 (FY 2016). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

## Reporting Entity

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

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

## Using the Financial Statements

The financial statements presented in this report encompass the College and its component unit, the Whatcom Community College Foundation. The College's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2016. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

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

## Statement of Net Position (The College's Financial Position)

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

| Condensed Statement of Net Position<br>As of June 30th | FY 2016 | FY 2015 |
|---|---|---|
| **Assets** | | |
| Current Assets | $ 24,747,761 | $ 19,935,516 |
| Capital Assets, net | 70,754,793 | 69,902,018 |
| Other Assets, non-current | 6,477,491 | 12,426,649 |
| Total Assets | 101,980,045 | 102,264,183 |
| **Deferred Outflows** | 857,730 | 497,012 |
| **Liabilities** | | |
| Current Liabilities | 5,168,150 | 4,952,834 |
| Other Liabilities, non-current | 15,748,472 | 15,601,010 |
| Total Liabilities | 20,916,622 | 20,553,844 |
| **Deferred Inflows** | 532,380 | 1,100,645.00 |
| **Net Position** | $ 81,388,773 | $ 81,106,706 |

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The significant increase of current assets in FY 2016 can be attributed to long-term investments in bonds that were reclassified to current when their maturity dates became less than one year.

Net capital assets increased by $852,775 from FY 2015 to FY 2016. After taking into consideration current depreciation expense of $2,143,058, the majority of the increase is the result of putting into service the newly completed Whatcom Community College Recreation Center Building.

Non-current assets consist primarily of the long-term portion of bond investments, including assets restricted for faculty development. The significant reduction in non-current assets is due to the reclassification of bonds to current, due to maturity dates that were less than one year.

Deferred outflows of resources totaling $857,730 are related to the net pension liability that was recorded on the College's financials this year.

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

# Management's Discussion and Analysis

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

The College's pension liabilities increased due to the implementation of GASB Statement No. 68, reflecting the College's proportionate share of the net pension liability.

Deferred inflows of resources related to the College's net pension liability totaled $532,380. Deferred inflows or resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

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

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

**Restricted:**

**Nonexpendable –** consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only.

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

**Unrestricted –** Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

| **Net Position** | | | | |
|---|---|---|---|---|
| As of June 30th | | **FY 2016** | | **FY 2015** |
| Net investment in capital assets | $ | 60,193,462 | $ | 58,655,090 |
| Restricted | | | | |
| Expendable -faculty development & student assistance | | 497,682 | | 463,143 |
| Nonexpendable - faculty development endowment | | 250,000 | | 250,000 |
| Unrestricted | | 20,447,629 | | 21,738,473 |
| **Total Net Position** | $ | 81,388,773 | $ | 81,106,706 |

## Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2016. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

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

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed comparison of the College's revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015 is presented below.

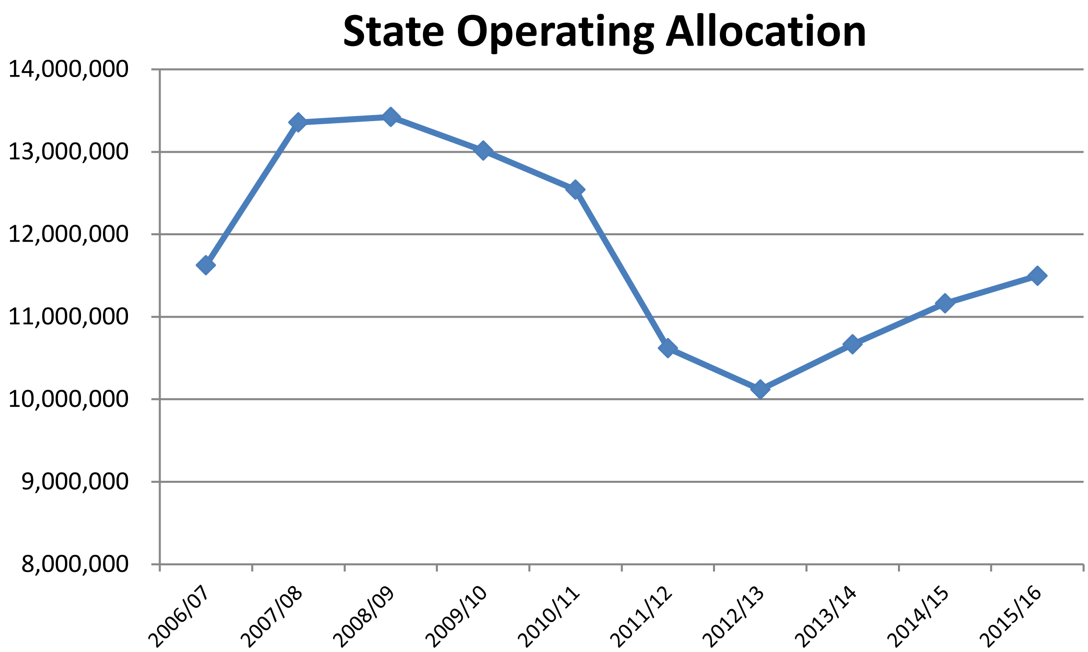
**Condensed Statement of Revenue, Expenses and Changes in Net Position**

| For the years ended June 30 | FY 2016 | FY 2015 |
|---|---|---|
| Operating Revenues (by major source) | $ 27,142,108 | $ 26,148,250 |
| Nonoperating Revenues (by major source) | 17,999,357 | 17,409,256 |
| Operating Expenses and Nonoperating Expenses | (45,878,125) | (41,454,645) |
| Excess or Deficiency before capital contributions | (736,660) | 2,102,861 |
| Capital Appropriations | 1,018,727 | 2,209,021 |
| Increase / (Decrease) in net position | 282,067 | 4,311,882 |
| Net Position, Beginning of the Year | 81,106,706 | 79,998,670 |
| Change in accounting principle | 0 | (3,203,847) |
| Adjusted Net Position, Beginning of the Year | 81,106,706 | 76,794,823 |
| Net Position, End of the Year | **$ 81,388,773** | **$ 81,106,705** |

# Management's Discussion and Analysis

## Revenues

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times through FY 2013. 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. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY14, FY15 and FY 16, the Legislature reinstated a portion of the previous cuts.




Throughout the period of decreasing state appropriations, the Legislature and SBCTC instituted increases in tuition rates to partially offset these reductions. Starting in FY14, colleges were mandated to keep their tuition levels flat from the year before, and in FY16, tuition rates for the Community and Technical Colleges were actually reduced by 5%, as a result of the Legislature's enactment of the Affordable Education Act. The Legislature did however backfill a portion of this loss, which the College estimates to be in excess of $350,000. Whatcom Community College's share of the backfill came to $332,780.

Pell grant revenues, which typically correlate loosely to enrollment trends, were down from the previous year. While overall enrollments were slightly up, increases were in student population areas that are not Pell-eligible, such as Running Start and International Programs. Pell grants are awarded on the basis of need, and while FAFSA applications were up slightly from 2014-15, the number of students eligible for Pell awards fell.

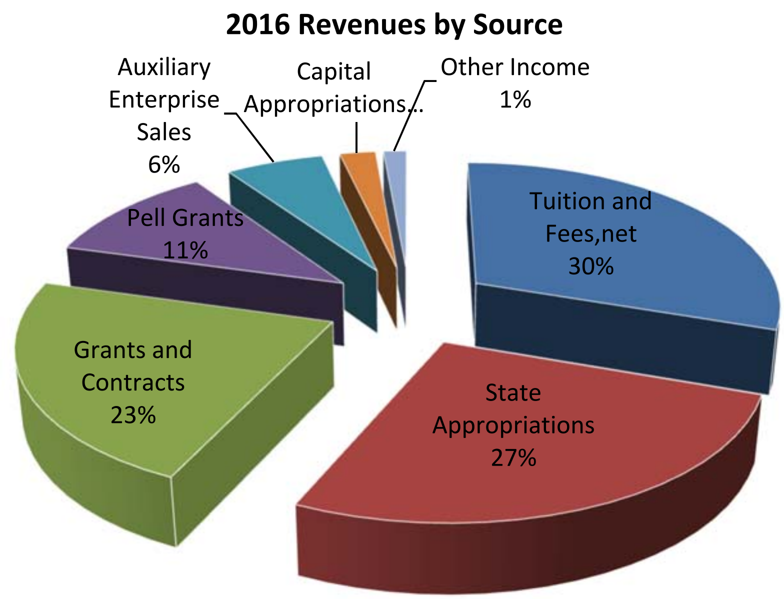
In FY 2016, federal grant revenues increased slightly when compared with FY 2015, primarily the result of additional funds from National Science Foundation grants. The College continued to serve students under the terms of contracted programs, primarily through contracts with local high schools to enroll 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.

The College receives capital-spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expenses in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

The table below shows a comparison of both operating and non-operating revenues for FY 2016 and FY 2015.

| **Revenues by Source** | **FY 2016** | **FY 2015** |
|---|---|---|
| Operating Revenues | | |
| Tuition and Fees,net | $ 14,044,816 | $ 13,827,033 |
| Auxiliary Enterprise Sales | 2,121,941 | 1,612,084 |
| Non Federal Grants and Contract | 9,154,795 | 9,211,591 |
| Federal Grants | 1,300,369 | 1,162,121 |
| Other Operating Income | 520,186 | 335,421 |
| Non-operating Revenues | | |
| State Appropriations | 12,317,243 | 11,175,593 |
| Pell Grants | 5,511,877 | 6,191,654 |
| Investment Income | 170,237 | 42,009 |
| Capital Appropriations | 1,018,727 | 2,209,021 |
| Total Revenues | $ 46,160,191 | $ 45,766,527 |

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



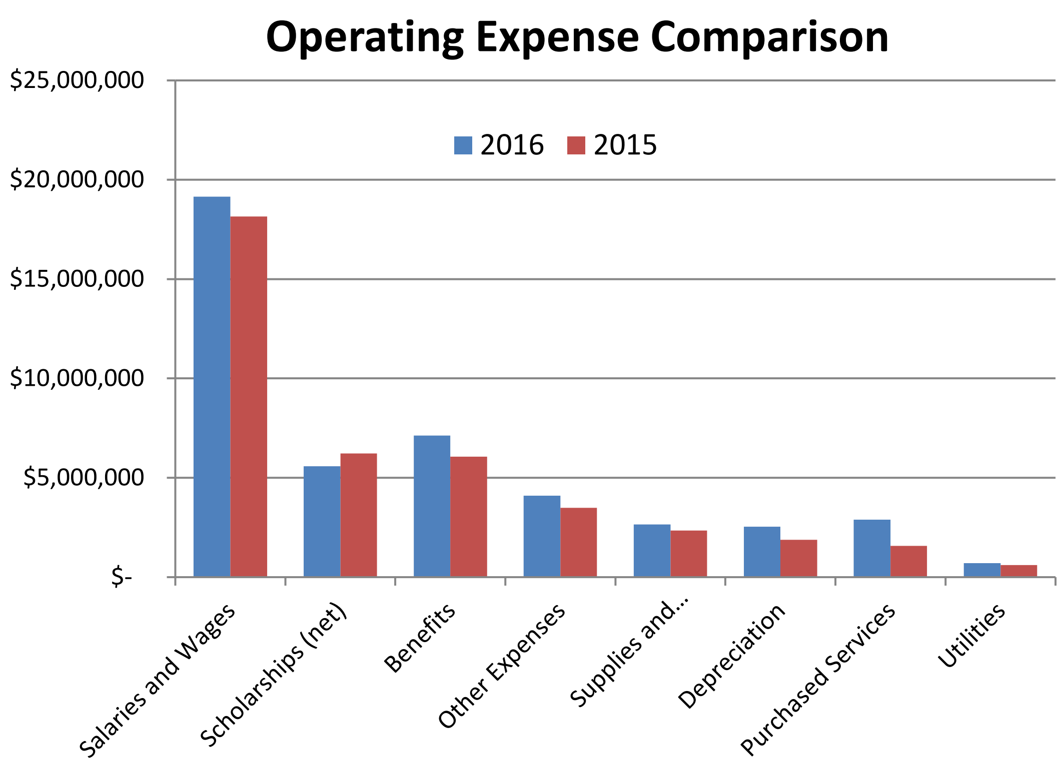
## Expenses

Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

More recently, in FY 2016, salary and benefit costs increased as a result of adding needed positions, negotiated increases for classified staff and faculty, new grant-funded positions, and increased health care costs.

Utility and maintenance costs have also increased as a result of the recent re-opening of the expanded and renovated Pavilion and Student Recreation Center. Supplies and materials are up slightly from FY16, and purchased services are significantly higher in FY 2016, primarily as a result of increased spending related to capital projects. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service.

The chart below shows the relative spending for selected operating expenses for FY 2016 and FY 2015.



## Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed.

At June 30, 2016, the College had invested $70,754,793 in capital assets, net of accumulated depreciation. This represents an increase of $852,775 from last year, as shown in the table below.

| Asset Type | June 30, 2016 | June 30, 2015 | Change |
|---|---|---|---|
| Land | $ 13,406,089 | $ 13,406,089 | $ - |
| Construction in Progress | 1,706,250 | 9,830,822 | (8,124,572) |
| Buildings, net | 51,053,005 | 41,631,001 | 9,422,004 |
| Other Improvements and Infrastructure, net | 3,170,511 | 3,512,601 | (342,090) |
| Equipment, net | 1,294,188 | 1,411,625 | (117,437) |
| Library Resources, net | 124,750 | 109,880 | 14,870 |
| **Total Capital Assets, Net** | **$ 70,754,793** | **$ 69,902,018** | **$ 852,775** |

The increase in net capital assets can be attributed to the completion of the Pavilion and Student Recreation Center. In addition, the capital project in process on June 30, 2016 is the Phyllis and Charles Self Learning Commons, with $1.7 million in pre-construction costs. Additional information on capital assets can be found in Note 7 of the Notes to the Financial Statements.

At June 30, 2016, the College had $10,561,330 in combined current and noncurrent Certificate of Participation (COP) debt. The COP for the Syre Student Center, which the College entered into in FY 2009, will be paid off during the FY17 fiscal year. In FY 2015, the College entered into another COP for the renovation and expansion of the Pavilion and Student Recreation Center, which will be paid off in 2034.

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

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

## Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill a portion of this loss. In FY 2017, the State Board for

Community and Technical Colleges has moved to a new allocation model, changing how state-appropriated funds are allocated to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high priority programs, as well as student completion and achievement points. The model is based on a three-year rolling average of actual enrollments and completions, comparative to other community and technical colleges (CTCs) in the state. While enrollments in excess of funded levels over the preliminary three-year survey period resulted in the College receiving a slight increase in state operating appropriations in the first years of the new model, the current trend in lower-than-expected state enrollments are expected to result in decreased district enrollment allocation base (DEAB) funds.

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

# Statement of Net Position

*June 30, 2016*

| | |
|---|---|
| **Assets** | |
| **Current assets** | |
| Cash and cash equivalents | $ 18,106,854 |
| Restricted cash and cash equivalents | 284,464 |
| Short-term investments | 3,969,000 |
| Accounts Receivable | 2,042,427 |
| Interest Receivable | 4,192 |
| Inventories | 255,107 |
| Prepaid Expenses | 85,717 |
| Total current assets | 24,747,761 |
| **Non-Current Assets** | |
| Restricted cash and cash equivalents | 463,218 |
| Long-term investments | 6,014,273 |
| Capital assets, net of depreciation | 70,754,793 |
| Total non-current assets | 77,232,284 |
| Total assets | 101,980,044 |
| **Deferred Outflows of Resources** | 857,730 |
| **Liabilities** | |
| **Current Liabilities** | |
| Accounts Payable | 257,228 |
| Accrued Liabilities | 2,630,144 |
| Compensated absences | 3,453 |
| Deposits Payable | 1,801 |
| Unearned Revenue | 1,645,523 |
| Leases and Certificates of Participation Payable | 630,000 |
| Total current liabilities | 5,168,150 |
| **Noncurrent Liabilities** | |
| Compensated Absences | 2,207,159 |
| Pension liabilty | 3,609,982 |
| Long-term liabilities | 9,931,330 |
| Total non-current liabilities | 15,748,472 |
| Total liabilities | 20,916,621 |
| **Deferred Inflows of Resources** | 532,380 |
| **Net Position** | |
| Net Investment in Capital Assets | 60,193,462 |
| Restricted for: | |
| Nonexpendable | 250,000 |
| Expendable | 302,273 |
| Student Support | 195,409 |
| Unrestricted | 20,447,629 |
| **Total Net Position** | **$ 81,388,773** |
| Total Liabilities, deferred inflow and Net Position | 102,837,774 |
| Total assets & deferred outflow | 102,837,774 |

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

# Statement of Revenues, Expenses and Changes in Net Position

***For the Year Ended June 30, 2016***

| | |
|---|---|
| **Operating Revenues** | |
| Student tuition and fees, net | $ 14,044,816 |
| Auxiliary enterprise sales | 2,121,941 |
| State and local grants and contracts | 9,154,795 |
| Federal grants and contracts | 1,300,369 |
| Other operating revenues | 520,186 |
| Total operating revenue | 27,142,108 |
| **Operating Expenses** | |
| Operating Expenses | 4,087,266 |
| Salaries and wages | 19,149,255 |
| Benefits | 7,131,912 |
| Scholarships and fellowships | 5,581,589 |
| Supplies and materials | 2,648,207 |
| Depreciation | 2,143,058 |
| Purchased services | 2,895,405 |
| Utilities | 709,225 |
| Total operating expenses | 44,345,917 |
| **Operating income (loss)** | (17,203,809) |
| **Non-Operating Revenues** | |
| State appropriations | 12,317,243 |
| Federal Pell grant revenue | 5,511,877 |
| Investment income, gains and losses | 170,237 |
| Building fee remittance | (924,318) |
| Innovation fund remittance | (206,440) |
| Interest on indebtedness | (401,449) |
| Net non-operating revenues (expenses) | 16,467,150 |
| Income or (loss) before other revenues, expenses, gains, or losses | (736,660) |
| **Capital Revenues** | |
| Capital appropriations | 1,018,727 |
| **Increase (Decrease) in net position** | 282,067 |
| **Net Position** | |
| Net position, beginning of year | 81,106,706 |
| **Net position, end of year** | $ 81,388,773 |

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

# Statement of Cash Flows

*For the Year Ended June 30, 2016*

| | | |
|---|---|---|
| **Cash flow from operating activities** | | |
| Student tuition and fees | $ | 14,086,812 |
| Grants and contracts | | 10,037,259 |
| Payments to vendors | | (34,418,941) |
| Payments for utilities | | (683,915) |
| Payments to employees | | (19,192,572) |
| Payments for benefits | | (7,101,380) |
| Auxiliary enterprise sales | | 5,317,321 |
| Payments for scholarships and fellowships | | (5,581,589) |
| Other receipts (payments) | | 25,993,856 |
| **Net cash used by operating activities** | | (11,543,149) |
| **Cash flow from noncapital financing activities** | | |
| State appropriations | | 13,194,324 |
| Pell grants | | 5,511,877 |
| Building fee remittance | | (986,085) |
| Innovation fund remittance | | (223,527) |
| **Net cash provided by noncapital financing activities** | | 17,496,589 |
| **Cash flow from capital and related financing activities** | | |
| Capital appropriations | | 376,103 |
| Purchases of capital assets | | (2,828,696) |
| Principal paid on capital debt | | (620,000) |
| Interest paid | | (401,449) |
| **Net cash used by capital and related financing activities** | | (3,474,041) |
| **Cash flow from investing activities** | | |
| Sale of investments | | 5,925,388 |
| Income of investments | | 170,237 |
| **Net cash provided by investing activities** | | 6,095,625 |
| **Increase in cash and cash equivalents** | | 8,575,023 |
| **Cash and cash equivalents at the beginning of the year** | | 14,248,513 |
| **Cash and cash equivalents at the end of the year** | $ | 22,823,536 |

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

# Statement of Cash Flows *continued*

***For the Year Ended June 30, 2016***

| | | |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash used by Operating Activities** | | |
| **Operating Loss** | | (17,203,809) |
| | | |
| **Adjustments to reconcile net loss to net cash used by operating activities** | | |
| Depreciation expense | | 2,143,058 |
| **Changes in assets and liabilities** | | |
| Receivables , net | | 32,184,476 |
| Inventories | | 26,280 |
| Other assets | | 64,010 |
| Accounts payable | | (468,189) |
| Accrued liabilities | | (28,302,780) |
| Deferred revenue | | 133,769 |
| Compensated absences | | (152,274) |
| Pension liability adjustment expense | | 34,159 |
| Deposits payable | | (1,848) |
| **Net cash used by operating activities** | $ | (11,543,150) |

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

# Statement of Financial Position

## Whatcom Community College Foundation

***June 30, 2016 (With Comparative Totals for June 2015)***

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 555,723 | $ 426,894 |
| Accounts receivable | 98,322 | 14,268 |
| Pledges receivable | 55,750 | 64,773 |
| Prepaid expense | 3,656 | - |
| Total current assets | 713,451 | 505,935 |
| Land, building and equipment - net | 8,483,965 | 8,682,214 |
| Other assets | | |
| Investments | 4,879,881 | 4,988,989 |
| Total other assets | 4,879,881 | 4,988,989 |
| Total assets | $ 14,077,297 | $ 14,177,138 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Scholarships payable | $ 394,269 | $ 277,728 |
| Accounts payable | 97,177 | 45,267 |
| Deferred revenue-pledges | 64,231 | 71,730 |
| Current portion of notes payable | 265,751 | 247,566 |
| Total current liabilities | 821,428 | 642,291 |
| Long-term liabilities | | |
| Long term portion of notes payable | 6,175,446 | 6,780,285 |
| Total long-term liabilities | 6,175,446 | 6,780,285 |
| Total liabilities | 6,996,874 | 7,422,576 |
| Net assets | | |
| Unrestricted: | | |
| Undesignated | 2,093,103 | 1,767,215 |
| Board designated | 60,825 | 60,825 |
| Board designated earnings on endowments | 300,734 | 509,085 |
| Total unrestricted | 2,454,662 | 2,337,125 |
| Temporarily restricted | 589,319 | 755,013 |
| Permanently restricted | 4,036,442 | 3,662,424 |
| Total net assets | 7,080,423 | 6,754,562 |
| Total liabilities and net assets | $ 14,077,297 | $ 14,177,138 |

# Statement of Activities and Changes in Net Assets

## Whatcom Community College Foundation

***June 30, 2016 (With Comparative Totals for June 2015)***

| | 2016 | | | | 2015 |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Net Assets Total | Net Assets Total |
| Support and revenue | | | | | |
| Contributions | $ 3,500 | $ 429,147 | $ 374,018 | $ 806,665 | $ 270,200 |
| Events and fundraisers | 38,277 | - | - | 38,277 | 15,870 |
| Lease and rent income | 781,173 | - | - | 781,173 | 781,173 |
| Vending | 16,530 | - | - | 16,530 | 14,581 |
| In-kind contributions | 252,637 | - | - | 252,637 | 228,610 |
| Interest and dividends | 133,502 | - | - | 133,502 | 144,551 |
| Realized gain(loss) on investments | 69,875 | - | - | 69,875 | 98,239 |
| Unrealized gain(loss) on investments | (287,249) | - | - | (287,249) | (89,828) |
| Total support and revenue | 1,008,245 | 429,147 | 374,018 | 1,811,410 | 1,463,396 |
| Net assets released from restrictions | | | | | |
| Satisfaction of restrictions | 594,841 | (594,841) | - | - | - |
| Total support, revenue and net assets released | 1,603,086 | (165,694) | 374,018 | 1,811,410 | 1,463,396 |
| Functional expenses | | | | | |
| Program services | | | | | |
| College support | 451,739 | - | - | 451,739 | 273,896 |
| Scholarship awards | 289,789 | - | - | 289,789 | 260,281 |
| Total program services | 741,528 | - | - | 741,528 | 534,177 |
| Supporting services | | | | | |
| Management and general | 708,027 | - | - | 708,027 | 712,355 |
| Fundraising expenses | 35,994 | - | - | 35,994 | 12,010 |
| | 744,021 | - | - | 744,021 | 724,365 |
| Total functional expenses | 1,485,549 | - | - | 1,485,549 | 1,258,542 |
| Other income and expense | | | | | |
| Leasehold improvement income | - | - | - | - | 11,673 |
| Leasehold improvement expense | - | - | - | - | (11,673) |
| Total other income and expense | - | - | - | - | - |
| Total expenses | 1,485,549 | - | - | 1,485,549 | 1,258,542 |
| Change in net assets | 117,537 | (165,694) | 374,018 | 325,861 | 204,854 |
| Net assets, beginning of year | 2,337,125 | 755,013 | 3,662,424 | 6,754,562 | 6,549,708 |
| Net assets, end of year | $ 2,454,662 | $ 589,319 | $ 4,036,442 | $ 7,080,423 | $ 6,754,562 |

## 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 degrees, certificates and high school diplomas. A five-member Board of Trustees appointed by the Governor and confirmed by the state Senate governs the institution.

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 to promote academic innovation and excellence on the College's campus. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the College or its students, the Foundation is considered a component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation'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, 2016, the Foundation distributed approximately $741,528 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices located in the Foundation Building at 333 Calluna Court, 2nd Floor, Bellingham, WA 98226, or by calling (360)383-3320.

**Basis of Presentation**

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

## Basis of Accounting

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

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

*The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.*

## Cash, Cash Equivalents and Investments

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

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

## Accounts Receivable

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

## Inventories

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

**Capital Assets**

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2016, no assets had been written down.

**Unearned Revenues**

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

**Tax Exemption**

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

**Net Pension Liability**

For purposes of measuring the net pension liability, 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.

## Deferred Outflows of Resources and Deferred Inflows of Resources

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

## Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Student Support*. The funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

## Classification of Revenues and Expenses

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

- *Operating Revenues*. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts that primarily support the operational/educational activities of the colleges. Examples include a contract with OSPI to offer Running Start. The College also receives Adult Basic Education grants that support the primary educational mission of the College.
- *Operating Expenses.* Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.
- *Non-operating Revenues*. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government.
- *Non-operating Expenses.* Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation Loans.

## Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other

Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2016 are $4,079,975.

**State Appropriations**

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

**Building and Innovation Fee Remittance**

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

**Accounting and Reporting Changes**

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, which provides guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other publicly traded securities.
- Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.
- Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements.

The College currently invests in the Local Government Investment Pool (LGIP) and in government agency bonds. The LGIP is managed by the Office of the State Treasurer and prepares its own financial report that meets GASB standards. For its own bond investments in FY 2016, the College has chosen not to implement GASB 72, and has reported bond investments at carrying value, rather than at fair value.

Following is our analysis of fair (market) value vs. amortized value:

| | |
|---|---|
| Market Value at 6/30/2016*: | $10,004,578 |
| Carrying Value at 6/30/2016 (see note #3): | $ 9,983,273 |
| Difference in valuation: | $ 21,305, or 0.213% |

**Market Value determined using the NAV (net asset value) method by safekeeping bank US Bank. This is considered a Level 2 valuation method.*

In June 2015, the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. The College is currently working with SBCTC to determine the financial impact.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which identifies the hierarchy of generally accepted accounting principles (GAAP). The Statement reduced the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The College adheres to this hierarchy of GAAP.

In March 2016, the GASB issued Statement No. 82, Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No.73. This Statement addresses issues regarding the presentation of payroll-related measures in the required supplementary information. The College has implemented this standard early in relation to the RSI presented with its financial statements.

## Note 2. Cash, Cash Equivalents and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College, unit shares in the Local Government Investment Pool (LGIP), and the college's investments in government bonds that will mature in less than one year. Restricted cash consists of funds reserved for student support, and the current portion of faculty development funds.

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

LGIP is an unrated investment pool, and is valued using the amortized cost method, whereby portfolio securities are valued at the fund's acquisition cost as adjusted for amortization of premium or accretion of discount, rather than at their value based on current market factors.

As of June 30, 2016, the carrying amount of the College's cash and equivalents was $22,823,536 as represented in the table below.

| | | |
|---|---|---|
| Bank Demand and Time Deposits | | 2,171,643 |
| Local Government Investment Pool | | 15,923,734 |
| Current Restricted Cash and Cash Equivalents | | 284,464 |
| Bond investments < 1 year | | 3,969,000 |
| Noncurrent Restricted Cash and Equivalents | | 463,218 |
| **Total Cash and Cash Equivalents** | **$** | **22,823,536** |

**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 the 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).

## Note 3. Investments

Investments consist of U.S. Agency bond funds. These investments are reported at fair value, in accordance with GASB 72, as discussed earlier.

| Investment Maturities | Fair Value June 30, 2016 | | One Year or Less | | 1 - 5 Years | |
|---|---|---|---|---|---|---|
| Federal Farm Credit Bank | $ | 3,998,176 | $ | 2,000,000 | $ | 1,998,176 |
| Federal National Mortgage Assn. | | 1,953,748 | | 969,000 | | 984,748 |
| Federal Home Loan Mortgage Assn. | | 2,000,834 | | 1,000,000 | | 1,000,834 |
| Financing Corporation (FICO) | | 2,030,515 | | - | | 2,030,515 |
| Total Investments | $ | 9,983,273 | $ | 3,969,000 | $ | 6,014,273 |

**Interest Rate Risk—Investments**

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

**Concentration of Credit Risk—Investments**

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

**Custodial Credit Risk—Investments**

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all of the College's operating fund investments were held by the College's custodian banks in the College's name.

**Investment Expenses**

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2016 were $1,283.23.

## Notes 4. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2016, accounts receivable were as follows.

| **Accounts Receivable** | | **Amount** |
|---|---|---|
| Student Tuition and Fees | $ | 253,098 |
| Due from the Federal Government | | 2,482 |
| Due from Other State Agencies | | 1,906,292 |
| Other | | 1,315 |
| Subtotal | $ | 2,163,187 |
| Less Allowance for Uncollectible Accounts | | (120,760) |
| **Accounts Receivable, net** | **$** | **2,042,427** |

## Note 5. Inventories

Inventories, stated at cost using the FIFO (first in, first out) method, consisted of the following as of June 30, 2016.

| | | |
|---|---|---|
| **Merchandise Inventory** | **$** | **255,107** |

## Note 6. Non-Current Assets

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

Interest on investment earnings allocated to both the spendable and non-spendable portion of faculty development funds totaled $4,609.42. These funds are reported as current assets in the restricted cash and cash equivalents portion of the Statement of Net Position.

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

## Note 7. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2016 is presented as follows. The current year depreciation expense was $2,143,058.

| Capital Assets | Beginning Balance | Additions/ Transfers | Retirements | Ending Balance |
|---|---|---|---|---|
| **Nondepreciable capital assets** | | | | |
| Land | $ 13,406,089 | | | $ 13,406,089 |
| Construction in progress | 9,830,822 | (8,124,572) | | 1,706,250 |
| Total non-depreciable capital assets | 23,236,911 | (8,124,572) | - | 15,112,339 |
| **Depreciable capital assets** | | | | |
| Buildings | $ 59,490,899 | $ 11,273,250 | $ (723,497) | $ 70,040,652 |
| Other improvements and infrastructure | 5,864,692 | | | 5,864,692 |
| Equipment | 2,856,445 | 236,019 | | 3,092,464 |
| Library resources | 811,799 | 51,284 | (347,860) | 515,223 |
| Total depreciable capital assets | 69,023,835 | 11,560,553 | (1,071,357) | 79,513,031 |
| **Less accumulated depreciation** | | | | |
| Buildings | $ 17,859,898 | $ 1,411,098 | $ (283,349) | $ 18,987,647 |
| Other improvements and infrastructure | 2,352,091 | 342,090 | | 2,694,181 |
| Equipment | 1,444,820 | 353,456 | | 1,798,276 |
| Library resources | 701,919 | 36,414 | (347,860) | 390,473 |
| Total accumulated depreciation | 22,358,728 | 2,143,058 | (631,209) | 23,870,577 |
| Total depreciable capital assets | $ 46,665,107 | $ 9,417,495 | $ (440,148) | $ 55,642,454 |
| **Capital Assets, Net of Depreciation** | **$ 69,902,018** | **$ 1,292,923** | **$ (440,148)** | **$ 70,754,793** |

## Note 8. Deferred Outflows and Deferred Inflows of Resources

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

Deferred outflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

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

## Note 9. Accounts Payable and Accrued Liabilities

At June 30, 2016, accrued liabilities are the following.

| **Accrued Liabilities** | | **Amount** |
|---|---|---|
| Accounts Payable | $ | 257,228 |
| Other Accrued Liabilities* | | 2,630,144 |
| Compensated Absences | | 3,453 |
| **Total** | **$** | **2,890,825** |

**Other Accrued Liabilities includes funds due to the State of Washington and other State agencies.*

## Note 10. Unearned Revenue

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

| **Unearned Revenue** | | **Amount** |
|---|---|---|
| Summer Quarter Tuition & Fees | $ | 1,645,523 |
| Housing and Other Deposits | | 1,801 |
| **Total Unearned Revenue** | **$** | **1,647,324** |

## Note 11. 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, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2015 through June 30, 2016 from all funds were $37,608.68. Cash reserves for unemployment compensation for all employees at June 30, 2016, paid by other than State funds were $17,849.16.
The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

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

## Note 12. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $795,102, and accrued sick leave totaled $1,412,057 at June 30, 2016. Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

## Note 13. Leases Payable

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

**Foundation Building**

The College began leasing the Whatcom Community College Foundation Building, located on Calluna Court, from the WCC Foundation for a term beginning June 1, 2006, and ending May 31, 2011. In June 2011 the lease was extended an additional five years, as per the original terms of the agreement. Under the lease the College pays the Foundation monthly lease payments of $26,178, plus operating expenses.

An additional five-year extension took effect as of May 31, 2016, upon being processed through the Department of Enterprise Services, Real Estate Services, with the option for the College to renew for another five year period through 2026.

**Health Professions Education Center (HPEC)**

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

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

As of June 30, 2016, the minimum lease payments under operating leases consist of the following.

| Fiscal year | Equipment Leases | | | Property Leases | | |
|---|---|---|---|---|---|---|
| | Computers | Copiers | Totals | Foundation | HPEC | Totals |
| 2017 | $ 83,285 | 139,603 | $ 222,888 | $ 314,133 | $ 467,040 | $ 781,173 |
| 2018 | 53,817 | 139,603 | 193,420 | 314,133 | 467,040 | 781,173 |
| 2019 | 53,817 | 139,603 | 193,420 | 314,133 | 472,989 | 787,122 |
| 2020 | 22,424 | 3,417 | 25,841 | 314,133 | 473,530 | 787,663 |
| 2021 | | | - | 314,133 | 473,530 | 787,663 |
| 2022-26 | | | - | 942,400 | 2,367,650 | 3,310,050 |

## Note 14. Notes Payable

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

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

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

## Note 15. Annual Debt Service Requirements

Future debt service requirements at June 30, 2016 are as follows:

**Annual Debt Service Requirements**
**Certificates of Participation**

| | Principal | | Interest | | |
|---|---|---|---|---|---|
| **Fiscal Year** | **Syre** | **Rec Ctr.** | **Syre** | **Rec Center** | **Premium Amort.** |
| 2017 | $ 275,000 | $ 355,000 | $ 11,000 | $ 396,506 | $ (33,407) |
| 2018 | | 375,000 | | 378,756 | (33,407) |
| 2019 | | 390,000 | | 360,006 | (33,407) |
| 2020 | | 410,000 | | 340,506 | (33,407) |
| 2021 | | 435,000 | | 320,006 | (33,407) |
| 2022-2026 | | 2,525,000 | | 1,251,281 | (167,036) |
| 2027-2031 | | 3,080,000 | | 676,269 | (167,036) |
| 2032-2036 | | 2,115,000 | | 149,800 | (100,222) |
| **Total** | **$ 275,000** | **$ 9,685,000** | **$ 11,000** | **$ 3,873,131** | **$ (601,331)** |

## Note 16. Schedule of Long Term Liabilities

| | **Balance outstanding 6/30/15** | **Additions** | **Reductions** | **Balance outstanding 6/30/16** | **Current portion** |
|---|---|---|---|---|---|
| Compensated Absences | $ 2,359,433 | $ 7,234 | $ 159,508 | $ 2,207,159 | |
| Net Pension obligation | 2,646,839 | 1,874,294 | 911,151 | $ 3,609,982 | |
| Certificates of participatio | 10,560,000 | - | 600,000 | $ 9,960,000 | 630,000 |
| Premium on COP | 634,738 | - | 33,408 | 601,330 | |
| **Total** | **$ 16,201,010** | **$ 1,881,528** | **$ 1,704,067** | **$ 16,378,471** | **$ 630,000** |

## Note 17. Pension Liability

Pension liabilities reported as of June 30, 2016 consists of the following:

**Pension Liability by Plan**

| | | |
|---|---|---|
| PERS 1 | $ | 1,800,015 |
| PERS 2/3 | | 1,476,030 |
| TRS 1 | | 285,671 |
| TRS 2/3 | | 48,265 |
| **Total** | **$** | **3,609,981** |

## Note 18. Pension Plans

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

For FY2016, the payroll for the College's employees was $4,193,959 for PERS, $430,393 for TRS, and $11,801,875 for SBRP. Total covered payroll was $16,426,227.

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

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

**Basis of Accounting**

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Whatcom Community College, for fiscal year 2016:

| **Aggregate Pension Amounts - All Plans** | | |
|---|---|---|
| Pension liabilities | $ | 3,609,982 |
| Deferred outflows of resources related to pensions | $ | 857,730 |
| Deferred inflows of resources related to pensions | $ | 532,380 |
| Pension expense/expenditures | $ | 548,553 |

**PERS and TRS**

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

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

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2016, 2015, and 2014 are as follows.

**Contribution Rates at June 30**

| | **FY 2014** | | **FY 2015** | | **FY 2016** | |
|---|---|---|---|---|---|---|
| | Employee | College | Employee | College | Employee | College |
| **PERS** | | | | | | |
| Plan 1 | 6.00% | 9.21% | 6.00% | 9.21% | 6.00% | 11.18% |
| Plan 2 | 4.92% | 9.21% | 4.92% | 9.21% | 6.12% | 11.18% |
| Plan 3 | 5 - 15% | 9.21% | 5 - 15% | 9.21% | 5 - 15% | 11.18% |
| **TRS** | | | | | | |
| Plan 1 | 6.00% | 10.39% | 6.00% | 10.39% | 6.00% | 13.13% |
| Plan 2 | 4.69% | 10.39% | 4.96% | 10.39% | 5.95% | 13.13% |
| Plan 3 | 5-15% | 10.39% | 5-15% | 10.39% | 5-15% | 13.13% |

| | Required Contributions | | | | | |
|---|---|---|---|---|---|---|
| | FY2014 | | FY2015 | | FY2016 | |
| | Employee | College | Employee | College | Employee | College |
| **PERS** | | | | | | |
| Plan 1 | 7,364 | 11,299 | 7,428 | 11,401 | 7,650 | 14,254 |
| Plan 2 | 1,516 | 2,837 | 159,707 | 298,966 | 209,775 | 385,485 |
| Plan 3 | 25,363 | 29,182 | 41,202 | 33,760 | 67,879 | 54,031 |
| **TRS** | | | | | | |
| Plan 1 | 4,704 | 7,911 | 5,006 | 8,299 | 5,161 | 11,096 |
| Plan 3 | 10,836 | 10,430 | 23,622 | 27,709 | 29,153 | 45,147 |

**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, 2015, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

| Pension Plan | Rate of Return |
|---|---|
| PERS Plan 1 | 4.45% |
| PERS Plan 2/3 | 4.63% |
| TRS Plan 1 | 4.41% |
| TRS Plan 2/3 | 4.65% |

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, 2015, are summarized in the following table:

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

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

**Pension Expense**

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

| | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | Total |
|---|---|---|---|---|---|
| FY15 Pension Expense | 107,278 | 174,917 | 14,415 | 13,712 | 310,322 |
| FY16 Amortization of change in proportionate liability | 75,717 | 48,867 | 104,762 | 8,885 | 238,231 |
| FY15 Amortization of change in proportionate liability | | | | | |
| **Total Pension Expense** | **182,995** | **223,784** | **119,177** | **22,597** | **548,553** |

**Changes in Proportionate Shares of Pension Liabilities**

The changes to the College's proportionate share of pension liabilities from 2014 to 2015 for each retirement plan are listed below:

| PLAN | 2014 | 2015 |
|---|---|---|
| PERS 1 | 0.033075% | 0.034411% |
| PER 2/3 | 0.039399% | 0.041310% |
| TRS 1 | 0.005995% | 0.009017% |
| TRS 2/3 | 0.002308% | 0.005720% |

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

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent

Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

## Discount Rate

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

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

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

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

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

| Pension Plan | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| PERS Plan 1 | $ 2,191,523 | $ 1,800,015 | $ 1,463,354 |
| PERS Plan 2/3 | 4,315,988 | 1,476,030 | (698,419) |
| TRS Plan 1 | 359,108 | 285,671 | 222,522 |
| TRS Plan 2/3 | 204,217 | 48,265 | (67,671) |

**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, 2016:

| | PERS 1 | | PERS 2/3 | |
|---|---|---|---|---|
| | Deferred Outflows | Deferred Inflows | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | | | 156,902 | |
| Difference between expected and actual earnings of pension plan investments | | 98,480 | | 394,030 |
| Changes of Assumptions | | | 2,378 | |
| Changes in College's proportionate share of pension liabilities | | | 138,445 | |
| Contributions to pension plans after measurement date | 215,901 | | 243,803 | |
| Total | $ 215,901 | $ 98,480 | $ 541,528 | $ 394,030 |

| | TRS 1 | | TRS 2/3 | |
|---|---|---|---|---|
| | Deferred Outflows | Deferred Inflows | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | | | 7,640 | |
| Difference between expected and actual earnings of pension plan investments | | 21,144 | | 18,726 |
| Changes of Assumptions | | | 42 | |
| Changes in College's proportionate share of pension liabilities | | | 37,928 | |
| Contributions to pension plans after measurement date | 32,854 | | 21,837 | |
| **Total** | $ 32,854 | $ 21,144 | $ 67,448 | $ 18,726 |

| | Total All Plans | |
|---|---|---|
| | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | 164,542 | |
| Difference between expected and actual earnings of pension plan investments | | 532,380 |
| Changes of Assumptions | 2,420 | |
| Changes in College's proportionate share of pension liabilities | 176,373 | |
| Contributions to pension plans after measurement date | 514,395 | |
| **TOTALS** | $ 857,730 | $ 532,380 |

The $857,730 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

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

| Year ended June 30 | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| 2017 | (38,168) | (68,761) | (8,201) | 2,951 |
| 2018 | (38,168) | (68,761) | (8,201) | 2,951 |
| 2019 | (38,168) | (84,152) | (8,201) | 2,951 |
| 2020 | 16,022 | 110,889 | 3,458 | 12,637 |
| 2021 | - | 14,480 | - | 4,698 |
| 2022 | - | - | - | 698 |
| **Total** | **(98,482)** | **(96,305)** | **(21,145)** | **26,886** |

**State Board Retirement Plan**

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) is the organization through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

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

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

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

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

Contributions. Contribution rates for the SBRP (TIAA), 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, 2016 were each $1,024,895.06.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2016, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $766,692. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2016, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $58,666.90. As of June 30, 2016, the Community and Technical College system accounted for $10,439,441 of the fund balance.

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

## Note 19. Other Post-Employment Benefits

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.
State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The

health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $543,110, with an annual required contribution (ARC) of $54,046. The ARC represents the amortization of the liability for FY 2016 plus the current expense for active employees, which is reduced by the current contributions of approximately $7,860. The College's net OPEB obligation at June 30, 2016 was approximately $125,253. This amount is not included in the College's financial statements.

The College paid $3,642,188.50 for healthcare expenses in 2016, which included its pay-as-you-go portion of the OPEB liability.

## Note 20. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2016.

| **Expenses by Functional Classification** | | |
|---|---|---|
| Instruction | $ | 17,231,683 |
| Academic Support Services | | 2,296,174 |
| Student Services | | 7,051,568 |
| Institutional Support | | 4,896,078 |
| Operations and Maintenance of Plant | | 2,861,702 |
| Scholarships and Other Student Financial Aid | | 5,743,714 |
| Auxiliary enterprises | | 2,121,941 |
| Depreciation | | 2,143,058 |
| **Total operating expenses** | **$** | **44,345,917** |

## Note 21. Commitments and Contingencies

There is a class action lawsuit, *Moore v. HCA*, filed against the State of Washington on behalf of former part-time and non-permanent employees alleging improper denial of healthcare benefits. As of the end of fiscal year 2016, the parties had reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits.

On March 29 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $32 million of which $19 million is funded by the legislature and the remaining $13 million allocated among 34 colleges in the system. In July 2016, the College was assessed and accrued a total liability in the amount of $264,072.

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

The College has commitments of $1,180,397 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings. The College also has incurred approximately $1,706,250 in design costs, out of $1,822,000 appropriated in the FY 2013-2015 biennium, for the Phyllis & Charles Self Learning Commons project. Once funds are appropriated by the legislature, the college will begin construction on this approximately $36 million new facility.

# Required Supplementary Information

*Pension Plan Information: Cost Sharing Employer Plans*

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

**Public Employees' Retirement System (PERS) Plan 1**

*Measurement Date of June 30*

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| College's proportion of the net pension liability | 0.036226% | 0.034411% | 0.033075% |
| College proportionate share of the net pension liability | $ 1,800,015 | $ 1,666,169 | $ 1,766,182 |
| College covered-employee payroll | $ 4,175,406 | $ 3,789,236 | $ 3,674,202 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 43.11% | 43.97% | 48.07% |
| Plan's fiduciary net position as a percentage of the total pension liability | 57.03% | 59.10% | 61.19% |

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

*Measurement Date of June 30*

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| College's proportion of the net pension liability | 0.043279% | 0.041310% | 0.039399% |
| College proportionate share of the net pension liability | $ 1,476,030 | $ 796,369 | $ 1,543,824 |
| College covered-employee payroll | $ 4,048,091 | $ 3,665,444 | $ 3,546,491 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 36.46% | 21.73% | 43.53% |
| Plan's fiduciary net position as a percentage of the total pension liability | 85.82% | 89.20% | 93.29% |

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

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

**Teachers' Retirement System (TRS) Plan 1**

*Measurement Date of June 30*

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| College's proportion of the net pension liability | 0.010399% | 0.009017% | 0.005995% |
| College proportionate share of the net pension liability | $ 285,671 | $ 176,820 | $ 217,127 |
| College covered-employee payroll | $ 422,160 | $ 346,504 | $ 188,527 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 67.67% | 51.03% | 115.17% |
| Plan's fiduciary net position as a percentage of the total pension liability | 62.07% | 65.70% | 68.77 |

**Teachers' Retirement System (TRS) Plan 2/3**

*Measurement Date of June 30*

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| College's proportion of the net pension liability | 0.006910% | 0.005720% | 0.230800% |
| College proportionate share of the net pension liability | $ 48,265 | $ 7,459 | $ 12,524 |
| College covered-employee payroll | $ 336,776 | $ 266,853 | $ 105,598 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 14.33% | 2.80% | 11.86% |
| Plan's fiduciary net position as a percentage of the total pension liability | 88.72% | 92.48% | 96.81% |

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

## Schedule of College Contributions*

| Public Employees' Retirement System (PERS) Plan 1<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered–employee payroll |
| 2014 | $ 155,208 | $ 155,208 | $ - | $ 3,674,202 | 4.22% |
| 2015 | $ 158,152 | $ 158,152 | $ - | $ 3,789,236 | 4.17% |
| 2016 | $ 205,439 | $ 205,439 | $ - | $ 4,175,406 | 4.92% |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

| Public Emplyees' Retirement System (PERS) Plan 2/3<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered– employee payroll |
| 2014 | $ 176,544 | $ 176,544 | $ - | $ 3,546,491 | 4.98% |
| 2015 | $ 184,018 | $ 184,018 | $ - | $ 3,665,444 | 5.02% |
| 2016 | $ 249,846 | $ 249,846 | $ - | $ 4,048,091 | 6.17% |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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

## Schedule of College Contributions*

| Teachers' Retirement System (TERS) Plan 1<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered– employee payroll |
| 2014 | $ 12,808 | $ 12,808 | $ - | $ 188,527 | 6.79% |
| 2015 | $ 20,178 | $ 20,178 | $ - | $ 346,504 | 5.82% |
| 2016 | $ 25,845 | $ 25,845 | $ - | $ 422,160 | 6.12% |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

| Teachers' Retirement System (TRS) Plan 2/3<br>Fiscal Year Ended June 30 | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Contractually Required Contributions | Contributions in relation to the Contractually Required Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered– employee payroll |
| 2014 | $ 6,041 | $ 6,041 | $ - | $ 105,598 | 5.72% |
| 2015 | $ 15,200 | $ 15,200 | $ - | $ 266,853 | 5.70% |
| 2016 | $ 28,317 | $ 28,317 | $ - | $ 336,776 | 8.41% |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

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