Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Bellingham Technical College

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

Published February 22, 2018

Report No. 1020645

Office of the Washington State Auditor
Pat McCarthy

February 22, 2018

Board of Trustees
Bellingham Technical College
Bellingham, Washington

Report on Financial Statements

Please find attached our report on the Bellingham Technical College's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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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*

Bellingham Technical College
July 1, 2016 through June 30, 2017

Board of Trustees
Bellingham Technical 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 Bellingham Technical College, Whatcom County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 5, 2018. As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of Bellingham Technical College Foundation (the Foundation), as described in our report on the College's financial statements. This report includes our consideration of the other auditor's testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditor's is based solely on the reports of the other auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the Foundation. The Foundation prior year comparative information has been derived from the Foundation's financial statements for the year ended June 30, 2016, on which other auditors issued its report dated December 7, 2016.

The financial statements of the Bellingham Technical College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

January 5, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Bellingham Technical College
July 1, 2016 through June 30, 2017

Board of Trustees
Bellingham Technical College
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Bellingham Technical College Foundation (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Governmental Auditing Standards*.

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

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

Opinion

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

Matters of Emphasis

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

As discussed in Note 1, the financial statements of the Bellingham Technical College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information for the Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which such summarized information was derived. Other auditors have previously audited the Foundation's 2016 basic financial statements and they expressed an unmodified opinion in their report dated December 7, 2016.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

January 5, 2018

FINANCIAL SECTION

Bellingham Technical College
July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

Bellingham Technical College

The following discussion and analysis provides an overview of the financial position and activities of Bellingham Technical College (the College) for the fiscal year ended June 30, 2017 (FY 2017).

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

Reporting Entity

Bellingham Technical College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 5,500 students. The College confers baccalaureate and associates degrees, certificates and high school diplomas. The College was established in 1957 and its primary purpose is to provide student-centered, high-quality professional technical education to students pursuing educational and employment goals, while contributing to the economic and cultural enrichment of its communities.

The College's main campus is located in Bellingham, Washington, a community of about 83,000 residents. The College is governed by a five-member Board of Trustees appointed by the Governor with the consent of the state Senate. In accordance with Washington State law governing technical colleges, the College's board includes one member from business and one member from labor. In addition, the College has a Governor-appointed student trustee who is prohibited from voting on personnel or collective bargaining matters. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and it's discretely presented component unit, the BTC Foundation. The College's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2017. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the College's financial health as a whole.

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

During 2017, the College adopted GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 as amended by GASB Statement No. 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in an additional amount of $1,467,539 in pension expense.

Statement of Net Position

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

Condensed Statement of Net Position As of June 30th	**FY 2017**	**FY 2016**
Assets		
Current Assets	$ 5,015,824	$ 4,975,606
Capital Assets, net	65,811,608	66,854,910
Other Assets, non-current	4,108,138	4,105,785
Total Assets	**$ 74,935,571**	**$ 75,936,300**
Deferred Outflows	**$ 1,068,824**	**$ 793,031**
Liabilities		
Current Liabilities	$ 3,522,948	$ 3,908,232
Other Liabilities, non-current	26,486,623	27,427,494
Total Liabilities	**$ 30,009,571**	**$ 31,335,726**
Deferred Inflows	**$ 492,961**	**$ 535,306**
Net Position	**$ 45,501,863**	**$ 44,858,298**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. Current assets remained relatively constant increasing by about $40 thousand when compared to FY 2016. Capital assets, net of depreciation decreased by about $1 million from the prior year. Other non-current assets consist primarily of the long-term portion of certain investments.

Deferred outflows of resources totaling $1.07 million are related to the net pension liability recorded on the College's financials.

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

The decrease in current liabilities from FY 2016 to FY 2017 is primarily due to a decrease in accounts payable of about $554 thousand. Much of the decrease in accounts payable is due to a large grant payable in FY 2016 which had been accrued as a liability in FY 2016.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, pension liability and the long-term portion of COP debt. The College's non-current liabilities had a net decrease of approximately $941 thousand compared to FY 2016 balances. This is mainly due to the net effect of a decrease in GASB Statement No. 73 of $360 thousand, a reduction of approximately $1.27 million from FY 2016 balances as the College pays down the principal owed on COP and an increase in the net pension liability booked in compliance with GASB Statement No. 68 of $645 thousand.

Deferred inflows of resources related to the College's net pension liability totaled $493 thousand. 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 expenses but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. As a result, the College is not reporting any balance in this category.

__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.

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

As stated earlier in this section, the College's prior year net position was adjusted by $1.83 million to reflect the implementation of GASB Statement No. 73 to report the net pension liability and the offsetting adjustment to net position.

Net Position As of June 30th	**FY 2017**	**FY 2016**
Net investment in capital assets	$ 44,981,608	$ 44,794,910
Restricted		
Expendable (3.5% Financial Aid in Fund 860)	510,483	483,754
Unexpendable (description)		
Unrestricted	9,772	1,406,716
Cumulative effect of change in accounting principle	-	(1,827,082)
Total Net Position	**$ 45,501,863**	**$ 44,858,298**

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2017. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2017 and 2016 is presented below.

Condensed Statement of Revenue, Expenses and Changes in Net Position as of June 30th		**FY 2017**		**FY 2016**
Operating Revenues				
Student tuition and fees, net	$	6,472,374	$	6,443,398
Auxiliary enterprise sales		1,545,585		1,597,551
State and local grants and contracts		6,255,549		5,614,043
Federal grants and contracts		1,545,336		1,747,668
Other operating revenues		460,536		405,086
Total operating revenues		**16,279,380**		**15,807,746**
Operating Expenses		**36,703,235**		**34,072,772**
Operating Loss	$	20,423,855	$	18,265,026
Non-Operating Revenues				
State appropriations		14,374,972		12,452,603
Federal Pell grant revenue		5,152,231		5,508,055
Investment income, net		50,207		55,318
Non-Operating Expenses		1,757,079		1,753,218
Net non-operating revenues (expense)		**17,820,331**		**16,262,758**
Income (loss) before capital contributions		**(2,603,524)**		**(2,002,268)**
Capital Appropriations and Contributions		3,247,089		2,477,366
Change in Net Position		**643,565**		**475,098**
Net Position, Beginning of the Year		44,858,298		46,210,282
Cumulative Effect of Chane in Accounting Principle				(1,827,082)
Net Position, End of the Year	**$**	**45,501,863**	**$**	**44,858,298**

Revenues

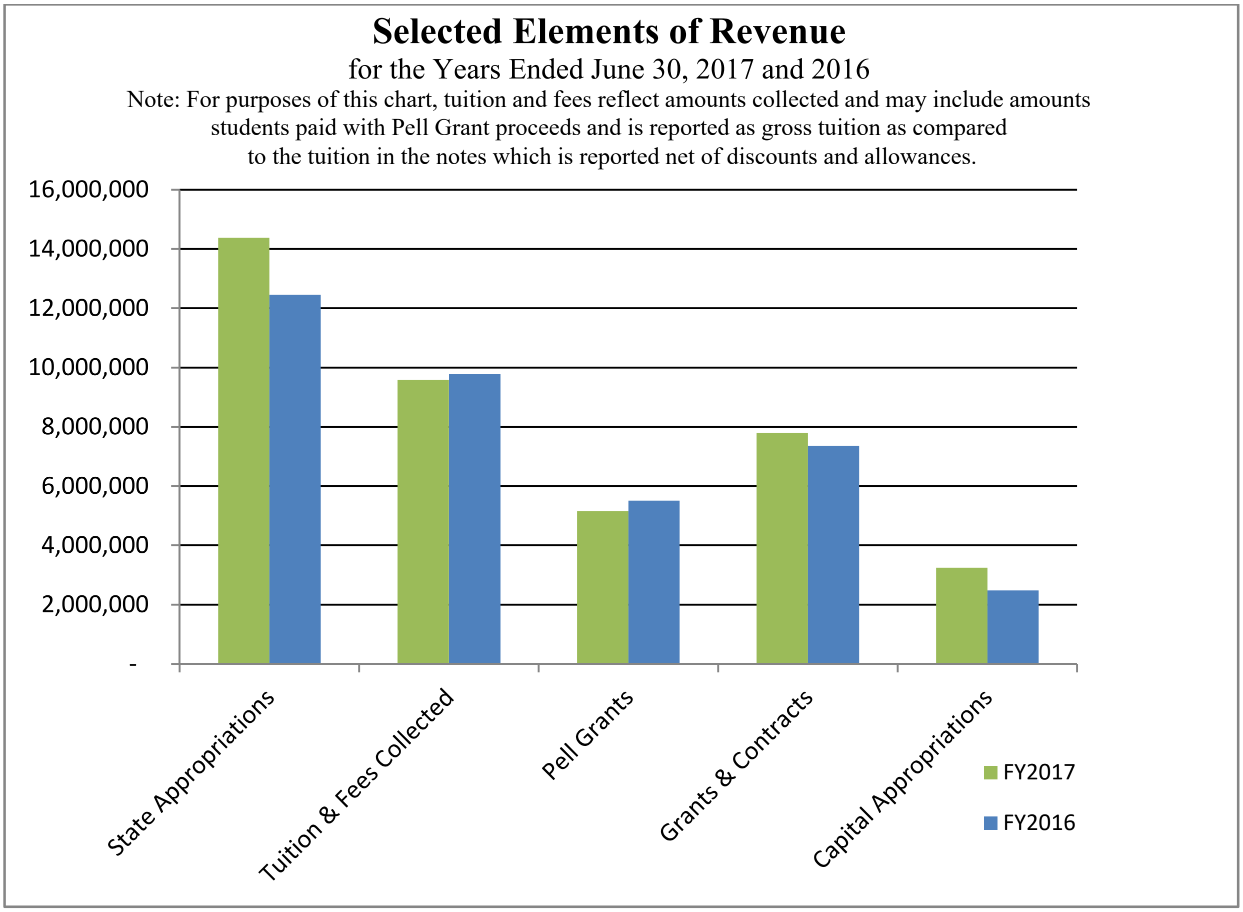
The State of Washington legislatively appropriates funds to the State Board for Community and Technical Colleges (SBCTC) which then allocates monies to each individual college. In FY 2017, the SBCTC moved forward with a new allocation model, allocating funds to each of the 34 college's based on three year average FTE actuals. In FY 2017, the College saw an increase in its state allocation due to the implementation of this new model. In addition, the College receive a one-time allocation of $141,122 for a portion of its share of Moore vs HCA settlement cost. This allocation does not carry forward to future years.

Student enrollment remained relatively stable in FY 2017. The Legislature enacted the Affordable Education Act which reduced tuition by five percent at the College for FY 2017. This reduced the amount of tuition revenue collected by the College per student however, the Legislature did backfill a significant portion of this loss through the state appropriation funding.

Despite the reduction in tuition, the College's tuition and fee revenue remained relatively unchanged. This is primarily attributable to a slight change in the College's full-time/part-time mix of students. Additionally, FY 2017 is the first year for the College to operate the baccalaureate degree program for Operations Management which provided new revenue.

The College receives capital spending authority on a biennial basis. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Capital appropriations increased by $770 thousand, when compared to FY 2016 based on project completions. Expenses from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenses that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

Comparison of Selected Elements of Revenue
The chart below shows the amount, in dollars, for selected areas of revenue for FY 2017 and FY 2016.



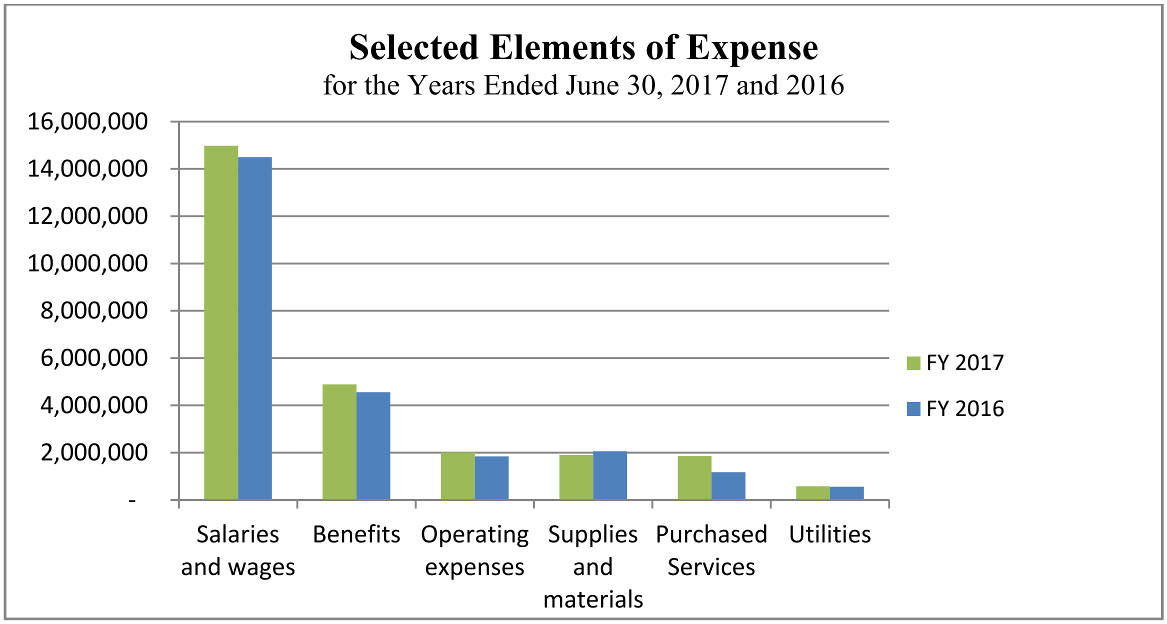
Expenses
During FY 2017, the College's expenses incrementally increased in nearly all categories over FY 2016 based on inflationary and cost of living salary and wage adjustments. In general the increased revenue has increased expenses over FY 2016. Specifically, salaries have increased as result of negotiated increases for faculty and classified staff, and increasing costs related to having to compete in the job market in order to retain and/or replace retirements and resignations.

Utility costs remained similar to the prior year based on reduced usage from new lighting technology. Expenses for supplies and materials were comparable to FY 2016 levels while purchased services increased approximately $685 thousand largely from non-capitalized facilities repair and maintenance work. All other costs are reported as operating expenses and include items such as travel, non-capitalized equipment, printing and other supplies which increased slightly in order to support campus over the prior year.

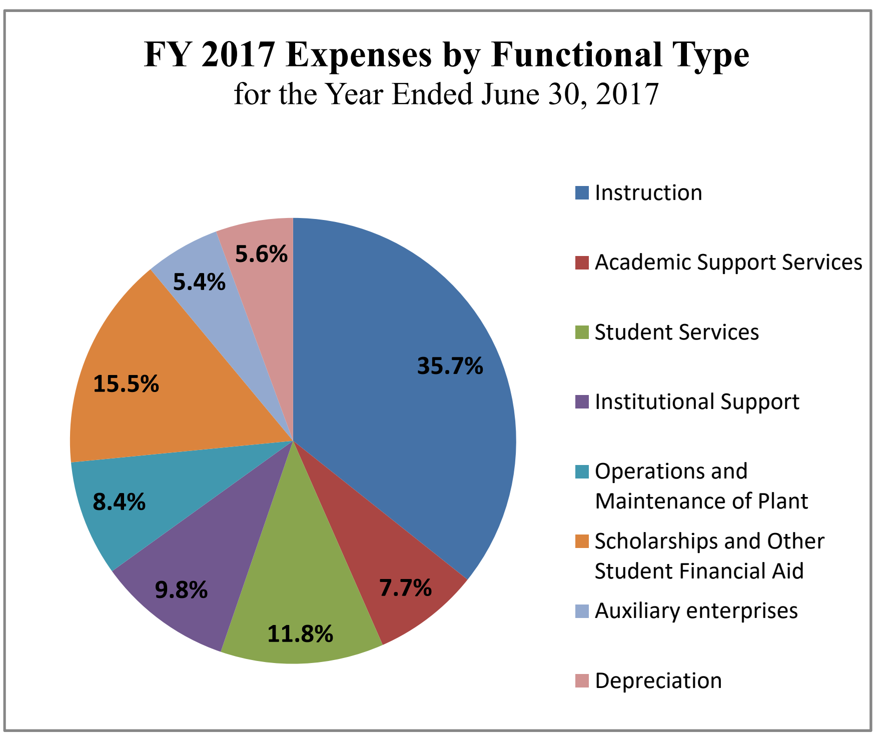
Depreciation expense is primarily driven by capital activity, with the annual depreciation expense showing an increase in any year when a new building is placed in service.

Comparison of Selected Elements of Operating Expenses

The chart below shows the amount, in dollars, for selected areas of operating expenses for FY 2017 and FY 2016.



The chart below shows the percentage of each functional area of operating expenses for FY 2017



Capital Assets and Long-Term Debt Activities

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

At June 30, 2017, the College had invested $65,811,608 in capital assets, net of accumulated depreciation. This represents a decrease of about $1.04 million from last year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	$ 803,201	$ 803,201	$ -
Construction in Progress	-	66,560	(66,560)
Buildings, net	62,956,051	63,860,363	(904,312)
Equipment, net	1,916,885	1,973,235	(56,350)
Library Resources, net	135,471	151,552	(16,081)
Total Capital Assets, Net	**$ 65,811,608**	**$ 66,854,911**	**$ (1,043,303)**

The decrease in net capital assets is attributable to depreciation on the campus buildings and few facilities projects currently increasing the value of the College's capital assets. This includes normal replacement and acquisition of equipment and library resources which were slightly more than offset by current year depreciation.

At June 30, 2017, the College had $20,830,000 in outstanding debt resulting from the College entering into two COP. In FY 2010, the College entered into a COP for the construction of the Campus Center building and remodel of the College Services and Des McArdle Center buildings. In FY 2011, the College entered into a COP for the construction of space within the Campus Center building for the Campus Store and Student Activities Center.

Description	June 30, 2017
Certificates of Participation - Campus Center & College Services	$ 19,735,000
Certificates of Participation - College Store & Student Activities Center	1,095,000
Total	**$ 20,830,000**

Additional information on Capital Assets and Long-Term Debt Activities can be found in Notes 6, 12, 13 & 14 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Economically, Washington State continues to experience slightly stronger growth than the national economy. Forecasted economic growth is projected at slightly more than two percent for the next biennium. Despite this, the financial outlook remains questionable. Student age populations are anticipated to slightly decline or remain stagnant for the next decade and as the economy improves, students often choose work over completing their degree.

The State of Washington budget remains stressed with aging infrastructure, homelessness, and K-12 education challenges all vying for greater percentages of the state budget than they've previously been supported by. This remains concerning since from FY 2009 through FY 2017, the College's state funding appropriations have already decreased by approximately 15 percent. However, in the most recent biennium, the legislature reinvested in the State Board of Community and Technical Colleges (SBCTC) through reducing tuition for students while backfilling those lost tuition dollars to the individual colleges. The SBCTC continues to request additional funds from the legislature to support student access and success.

In June of 2016, the SBCTC elected to move to a new allocation model changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments, enrollments in high priority programs/areas, student completion and student achievements. Additionally, the funding now follows students and adjusts as enrollment increases/decreases at individual colleges. Based on BTC's workforce and priority programs and the current allocation model, the College did receive additional revenue in FY 2017 and is anticipating an additional increase in FY 2018 as well. There are current tweaks to the allocation model that may reduce those increases beyond FY 2018 however.

College Statement of Net Position

Bellingham Technical College
Statement of Net Position
June 30,2017

Assets			
Current assets			
Cash and cash equivalents		$	2,249,392
Restricted cash			510,483
Accounts receivable			1,190,417
Due from state treas			918,490
Inventories			147,042
	Total current assets	**$**	**5,015,824**
Non-Current Assets			
Long-term investments		$	4,108,138
Non-depreciable capital assets			803,201
Capital assets, net of depreciation			65,008,407
	Total non-current assets	**$**	**69,919,746**
	Total assets	**$**	**74,935,571**
Deferred Outflows of Resources		$	1,068,824
Total Deferred Outflows of Resources		**$**	**1,068,824**
Liabilities			
Current Liabilities			
Accounts payable		$	288,802
Accrued liabilities			1,631,735
Unearned revenue			332,411
Leases and certificates of participation payable			1,270,000
	Total current liabilities	**$**	**3,522,948**
Noncurrent Liabilities			
Compensated absences		$	1,213,741
Pension liabilty			5,712,882
Long-term liabilities			19,560,000
	Total non-current liabilities	**$**	**26,486,623**
	Total liabilities	**$**	**30,009,571**
Deferred Inflows of Resources		$	492,961
Total Deferred Inflows of Resources		**$**	**492,961**
Net Position			
Net Investment in Capital Assets		$	44,981,608
Restricted for:			
Expendable			510,483
Unrestricted			9,772
Total Net Position		**$**	**45,501,863**

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

College Statement of Revenues, Expenses and Changes in Net Position

Bellingham Technical College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating Revenues			
Student tuition and fees, net		$	6,472,374
Auxiliary enterprise sales			1,545,585
State and local grants and contracts			6,255,549
Federal grants and contracts			1,545,336
Other operating revenues			460,536
	Total operating revenue	**$**	**16,279,380**
Operating Expenses			
Operating Expenses		$	2,014,314
Salaries and wages			14,981,776
Benefits			4,885,431
Pension liability adjustment expense			(32,393)
Scholarships and fellowships			8,449,826
Supplies and materials			1,908,627
Depreciation			2,058,980
Purchased services			1,857,698
Utilities			578,976
	Total operating expenses	**$**	**36,703,235**
	Operating income (loss)	**$**	**(20,423,855)**
Non-Operating Revenues (Expenses)			
State appropriations		$	14,374,972
Federal Pell grant revenue			5,152,231
Investment income, gains and losses			50,207
Building fee remittance			(695,199)
Innovation fund remittance			(184,762)
Interest on indebtedness			(877,118)
	Net non-operating revenues (expenses)	**$**	**17,820,331**
Income or (loss) before other revenues, expenses, gains, or losses		$	(2,603,524)
Capital Revenues			
Capital appropriations			3,247,089
	Increase (Decrease) in net position	**$**	**643,565**
Net Position			
Net position, beginning of year		**$**	**46,685,380**
Cumulative effect of change in accounting principle			(1,827,082)
Net position, end of year		**$**	**45,501,863**

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

College Statement of Cash Flows

Bellingham Technical College
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flow from operating activities		
Student tuition and fees	$	6,554,861
Grants and contracts		7,418,062
Payments to vendors		(4,343,392)
Payments for utilities		(582,232)
Payments to employees		(14,851,528)
Payments for benefits		(4,851,112)
Auxiliary enterprise sales		1,579,805
Payments for scholarships and fellowships		(8,449,826)
Other receipts (payments)		(1,286,117)
Net cash used by operating activities	**$**	**(18,811,480)**
Cash flow from noncapital financing activities		
State appropriations	$	14,630,714
Pell grants		5,152,231
Building fee remittance		(695,199)
Innovation fund remittance		(184,762)
Net cash provided by noncapital financing activities	**$**	**18,902,984**
Cash flow from capital and related financing activities		
Capital appropriations	$	3,010,931
Purchases of capital assets		(1,005,869)
Principal paid on capital debt		(1,230,000)
Interest paid		(877,118)
Net cash used by capital and related financing activities	**$**	**(102,055)**
Cash flow from investing activities		
Purchase of investments	$	(2,354)
Income of investments		50,207
Net cash provided by investing activities	**$**	**47,853**
Increase in cash and cash equivalents	**$**	**37,301**
Cash and cash equivalents at the beginning of the year		**2,722,575**
Cash and cash equivalents at the end of the year	**$**	**2,759,875**

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

College Statement of Cash Flows (continued)

Reconciliation to cash and cash equivalents		
Cash and cash equivalents in current assets	$	2,249,392
Restricted cash and cash equivalents		510,483
	$	**2,759,875**
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	**$**	**(20,423,855)**
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	$	2,058,980
Changes in assets and liabilities		
Receivables , net	$	(57,038)
Inventories		34,536
Accounts payable		(563,976)
Accrued liabilities		70,301
Unearned revenue		58,582
Compensated absences		43,383
Pension liability adjustment expense		(32,393)
Net cash used by operating activities	**$**	**(18,811,480)**

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

Foundation Statement of Financial Position

BELLINGHAM TECHNICAL COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
Current assets		
Cash	$ 78,437	$ 59,259
Pledges Receivable	8,415	21,435
Vehicles available for sale	1,100	800
Total current assets	87,952	81,494
Other assets		
Investments	3,090,495	2,746,776
Total other assets	3,090,495	2,746,776
Total assets	$ 3,178,447	$ 2,828,270

LIABILITIES AND NET ASSETS

	2017	2016
Current liabilities		
Accounts payable	$ 3,805	$ 6,024
Total current liabilities	3,805	6,024
Net assets		
Unrestricted net assets	383,128	293,523
Temporarily restricted net assets	423,376	396,503
Permanently restricted net assets	2,368,138	2,132,220
Total net assets	3,174,642	2,822,246
Total liabilities and net assets	$ 3,178,447	$ 2,828,270

The footnote disclosures are an integral part of the financial statements

Foundation Statement of Activities and Changes in Net Position

	Unrestricted					
	General	College Related	Temporarily Restricted	Permanently Restricted	Total	Jun 30, 2016 Total
Support and Revenue						
Contributions	$ 27,141	$ -	$ 206,141	$ 76,930	$ 310,312	$ 356,688
In-kind donations	-	229,086 [2]	96,282	-	325,368	290,762
Special projects	127,061	-	60,384	-	187,445	214,199
Interest and dividend income	14,487	-	-	55,430	69,917	62,424
Realized gain (loss) on investments	6	-	-	20	26	(2,428)
Unrealized gain (loss) on investments	58,317	-	-	227,727	286,044	(53,967)
Gain (loss) on sales of assets	-	-	(100)	-	(100)	(250)
Total support from revenue before net assets released from restrictions	**$ 227,012**	**$ 229,086**	**$ 362,707**	**$ 360,107**	**$ 1,179,012**	**$ 867,428**
Net assets released from restrictions	460,123	-	(335,834)	(124,189)	-	-
Total support and revenue	687,135	229,086	26,873	235,918	1,179,012	867,428
Expenses						
Scholarships	259,852	-	-	-	259,852	337,027
In-kind equipment	95,882	-	-	-	95,882	12,429
Grants and awards	8,676	-	-	-	8,676	9,367
Projects	160,008	-	-	-	160,008	215,287
Emergency funds	7,467	-	-	-	7,467	1,622
Brokerage fees	15,391	-	-	-	15,391	11,848
Administrative expenses	50,254	229,086	-	-	279,340	345,611
Total expenses	597,530	229,086	-	-	826,616	933,191
Increase (decrease) in net assets	89,605	-	26,873	235,918	352,396	(65,763)
Net assets, beginning of year	**293,523**	**-**	**396,503**	**2,132,220**	**2,822,246**	**2,888,009**
Net assets, end of year	**$ 383,128**	**$ -**	**$ 423,376**	**$ 2,368,138**	**$ 3,174,642**	**$ 2,822,246**

The footnote disclosures are an integral part of the financial statements

Notes to the Financial Statements

June 30, 2017

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Bellingham Technical College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers baccalaureate and associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the College is included in the State's Comprehensive Annual Financial Report.

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

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2017, the Foundation distributed approximately $378,801 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 by calling (360) 752-8684.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in

Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the College's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

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

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

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

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand and bank demand deposits. 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. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash, cash equivalents, U.S. Treasuries 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 and course-related supplies in the College bookstore, and consumable supplies held in storage for food services activities are valued at cost using the First In, First Out (FIFO) method.

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. 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 $1.0 million or more, building and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

In accordance with GASB Statement 42, the College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2017, no assets had been written down.

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

Tax Exemption

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

Net Pension Liability

For purposes of measuring the net pension liability in accordance with GASB 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY17, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions).* The reporting requirements are similar to GASB 68 but use current fiscal year end as the measurement date for reporting the pension liabilities.

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principal. The College does not have balances in this category.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties. This balance is comprised of the 3.5% of tuition that is in fund 860 reserved for institutional financial aid.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority. The College does not have balances in this category.

- *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.

Operating Expenses. This includes salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are $3,108,624.

State Appropriations

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

Building and Innovation Fee Remittance

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

2. Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of $1.8 million as a result of the implementation of GASB Statement No. 73.

Accounting Standard Impacting the Future

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB),* which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 17, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determine OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. This Statement will have a significant impact on the College's financial statements.

3. Cash and Investments

Cash and equivalents
Cash and cash equivalents include bank demand deposits and petty cash held at the College. Cash and cash equivalents are held with the intent of funding College operations and are classified as current assets.

As of June 30, 2017, the carrying amount of the College's cash and equivalents was $2.8 million as represented in the table below.

Cash and Cash Equivalents	June 30, 2017
Petty Cash and Change Funds	$ 4,776
Bank Demand Deposits	2,755,099
Total Cash and Cash Equivalents	**$ 2,759,875**

Restricted Cash
Restricted cash includes the 3.5 percent institutional financial aid from tuition in Fund 860. The amount of restricted cash at June 30, 2017 was $510,483.

Investments
Investments consist of U.S. Federal Agency debt. Investments in debt securities are subject to losses of all 100 percent of the balance of investments.

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years	10 or More Years
U.S. Agency Obligations	4,100,000	-	4,100,000	-	-
Total Investments	**$ 4,100,000**	**$ -**	**$ 4,100,000**	**$ -**	**$ -**

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 Bank of America. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

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

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

Custodial Credit Risk—Investments
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2017, 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 College's investment expenses for the fiscal year ended June 30, 2017 were $388.

4. Accounts Receivable

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

Accounts Receivable	Amount
Student Tuition and Fees	$ 486,911
Due from the Federal Government	169,758
Due from Other State Agencies	446,737
Auxiliary Enterprises	32,828
Other	56,386
Subtotal	**$ 1,192,620**
Less Allowance for Uncollectible Accounts	(2,203)
Total Accounts Receivable, net	**$ 1,190,417**

5. Inventories

Inventories, stated at cost using FIFO consisted of the following as of June 30, 2017.

Inventories	Amount
Consumable Inventories	$ 7,237
Merchandise Inventories	139,805
Total Inventories	**$ 147,042**

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $2,058,980.

Capital Assets	Beginning Balance	Additions / Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 803,201	$ -	$ -	$ 803,201
Construction in progress	66,560	(66,560)	-	-
Total nondepreciable capital assets	**$ 869,761**	**$ (66,560)**	**$ -**	**$ 803,201**
Depreciable capital assets				
Buildings	$ 78,714,799	$ 693,012	$ -	$ 79,407,811
Equipment	5,337,749	364,548	-	5,702,297
Library resources	874,246	24,367	(22,309)	876,304
Subtotal depreciable capital assets	**84,926,794**	**1,081,927**	**(22,309)**	**85,986,412**
Less accumulated depreciation				
Buildings	14,854,436	1,597,324	-	16,451,760
Equipment	3,364,515	420,897	-	3,785,412
Library resources	722,694	40,448	(22,309)	740,833
Total accumulated depreciation	**18,941,645**	**2,058,669**	**(22,309)**	**20,978,005**
Total depreciable capital assets, net	**$ 65,985,149**	**$ (976,742)**	**$ -**	**$ 65,008,407**
Capital assets, net of accum. depr.	**$ 66,854,910**	**$ (1,043,302)**	**$ -**	**$ 65,811,608**

7. 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.

8. Accounts Payable and Accrued Liabilities

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

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed for Employee Payroll	$ 1,463,262
Accounts Payable	457,275
Total Accounts Payable and Accrued Liabilities	**$ 1,920,537**

9. Unearned Revenue

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

Unearned Revenue	Amount
Future Quarter Tuition & Fees	$ 332,411

10. 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, 2016 through June 30, 2017, were $24,665.

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.

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25 percent 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 $589,073 and accrued sick leave totaled $624,668 at June 30, 2017. Accrued annual and sick leave are categorized as non-current liabilities.

12. Notes Payable

In June 2010, the College obtained financing in order to build the Campus Center Building and remodel the College Services and Des McArdle Center buildings through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $27,335,000. The interest rate charged is approximately 3.8 percent.

In February 2011, the College obtained financing in order to add space for the Campus Store and Student Activities Center within the Campus Center building through COP, issued by the OST in the amount of $1,410,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt related to the Student Activities space starting in 2005. The remaining portion of the debt service is paid from the accumulated retained earnings of the Campus Store. The interest rate charged is approximately 4.8 percent. Student fees and Campus Store earnings related to the COP are accounted for in dedicated funds, which are used to pay principal and interest, rather than coming out of the general operating budget.

The College's debt service requirements for these note agreements for the next five years and thereafter are denoted in the following section.

13. Annual Debt Service Requirements

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

Annual Debt Service Requirements			
	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2018	1,270,000	838,331	2,108,331
2019	1,310,000	798,421	2,108,421
2020	1,350,000	755,396	2,105,396
2021	1,400,000	707,681	2,107,681
2022	1,450,000	658,051	2,108,051
2023-2027	8,160,000	2,375,893	10,535,893
2028-2031	5,890,000	543,540	6,433,540
Total	**$ 20,830,000**	**$ 6,677,314**	**$ 27,507,314**

14. Schedule of Long Term Liabilities

Long Term Debt	Balance outstanding 6/30/16	Additions	Reductions	Balance outstanding 6/30/17	Current portion
Compensated Absenses	1,170,358	43,383		1,213,741	
Net Pension Obligation	3,600,054	3,338,105	(1,225,277)	5,712,882	
Certificates of Participation	22,060,000		(1,230,000)	20,830,000	1,270,000
Total	**$ 26,830,412**	**$ 3,381,488**	**$ (2,455,277)**	**$ 27,756,623**	**$ 1,270,000**

15. Pension Liability

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

Pension Liability by Plan		
PERS 1	$	1,711,193
PERS 2/3		2,055,658
TRS 1		361,226
TRS 2/3		117,266
SBRP		1,467,539
Total	**$**	**5,712,882**

16. Retirement Plans

A. General

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

For FY17, the payroll for the College's covered employees was $3,851,654 for PERS, $506,235 for TRS, and $8,570,440 for SBRP. Total covered payroll was $12,928,329.

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 and 73 for Bellingham Technical College, for fiscal year 2017:

Aggregate Pension Amounts - All Plans

Pension liabilities	$ 5,712,882
Deferred outflows of resources related to pensions	$ 1,068,824
Deferred inflows of resources related to pensions	$ 492,961
Pension expense	$ 459,657

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

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

PERS and TRS Plan

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 includes an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

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 percent 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, 2015, 2016, and 2017 are as follows:

Contribution Rates at June 30						
	FY 2015		**FY 2016**		**FY 2017**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.69%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	13.13%	5-15%	13.13%

Required/Actual Contributions						
Fiscal Year	**2015**		**2016**		**2017**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ -	$ 144,624	$ -	$ 181,760	$ -	$ 183,687
Plan 2	126,396	129,001	169,042	172,079	175,402	178,553
Plan 3	60,026	52,150	60,245	65,314	63,342	61,354
TRS						
Plan 1	8,506	32,021	1,743	30,760	-	31,535
Plan 2	2,219	2,546	2,658	3,006	2,855	3,224
Plan 3	29,619	9,245	38,927	26,445	44,796	30,791

Investments

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

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

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

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

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

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

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

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

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
FY16 Pension Expense	$ 100,086	$ 280,434	$ 23,196	$ 31,973	$ 435,689
FY17 Amortization of change in proportionate liability	26,813	45,188	(116,030)	7,643	(36,386)
Total Pension Expense	**$ 126,899**	**$ 325,622**	**$ (92,834)**	**$ 39,616**	**$ 399,303**

Changes in Proportionate Shares of Pension Liabilities
The changes to the College's proportionate share of pension liabilities from 2015 to 2016 for each retirement plan are listed below:

	2015	2016
PERS 1	.031377%	.031863%
PER 2/3	.040535%	.040828%
TRS 1	.013990%	.010580%
TRS 2/3	.007962%	.008539%

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

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

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

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

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

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

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

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

Pension Plan	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
PERS Plan 1	2,063,527	1,711,193	1,407,988
PERS Plan 2/3	3,784,835	2,055,658	(1,070,088)
TRS Plan 1	444,057	361,226	289,880
TRS Plan 2/3	265,389	117,266	(136,228)

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions
The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2017:

	PERS 1		PERS 2/3	
	Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience			109,462	67,861
Difference between expected and actual earnings of pension plan investments	43,085		251,553	
Changes of Assumptions			21,247	
Changes in College's proportionate share of pension liabilities			83,348	
Contributions to pension plans after measurement date	185,655		243,753	
Total	**$ 228,740**	**$ 0**	**$ 709,364**	**$ 67,861**

	TRS 1		TRS 2/3	
	Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience			8,871	5,203
Difference between expected and actual earnings of pension plan investments	11,457		18,877	
Changes of Assumptions			1,194	
Changes in College's proportionate share of pension liabilities			27,679	
Contributions to pension plans after measurement date	30,278		32,364	
Total	**$ 41,735**	**$ 0**	**$ 88,985**	**$ 5,203**

The $1,068,824 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, 2018.

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

Year ended June 30	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2018	$ (10,608)	$ 46,608	$ (2,961)	$ 7,297
2019	(10,608)	31,378	(2,961)	7,297
2020	39,569	199,965	10,719	23,089
2021	24,733	119,799	6,661	13,661
2022	-	-	-	74
2023	-	-	-	-
Total	**$ 43,086**	**$ 397,750**	**$ 11,458**	**$ 51,418**

C. College Participation in Plan Administered by the State Board for Community and Technical Colleges
State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plans

Plan Description
The State Board Retirement Plan is a privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. Bellingham Technical College participates in this plan as authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.
Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2017 were each $739,136.

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

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $902,000. The College's share of this amount was $13,927. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $42,852. This amount was not used as a part of GASB73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for $13,280,149.81 of the fund balance.

Actuarial Assumptions

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

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

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

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

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

Discount Rate

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

Pension Expense –
For the year ended June 30, 2017, Bellingham Technical College reported $60,354 for pension expense in the State Board Supplemental Retirement Plans.

Proportionate Shares of Pension Liabilities
The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 1.54%. The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's, actuarially determined.

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

Number of Participating Members				
District	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled to But Not Yet Receiving Benefits	Active Members	Total Members
25	6	-	77	83

Change in Total Pension Liability/ (Asset)
The following table presents the change in total pension liability/(asset) of State Board Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans (expressed in thousands):

Change in Total Pension Liability/(Asset)	
Total Pension Liability	Amount
Service cost	$ 83
Interest	54
Changes of benefit terms	-
Differences between expected and actual experience	(390)
Changes of assumptions	(92)
Benefit payments	(14)
Other	-
Net Change in Total Pension Liability	(359)
Total Pension Liability - Beginning	1,822
Total Pension Liability - Ending (a)	$ 1,464

Sensitivity of the Total Pension Liability/ (Asset) to Changes in the Discount Rate
The following table presents the total pension liability/(asset), calculated using the discount rate of 3.58 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate (expressed in thousands):

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% Increase
Bellingham Technical College	1,682	1,464	1,283

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the State Board Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Bellingham Technical College	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	339
Changes of assumptions	-	80
Transactions subsequent to the measurement date	-	-
Total	-	419

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

2018	(63)
2019	(63)
2020	(63)
2021	(63)
2022	(63)
Thereafter	(102)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

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

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

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

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

Teachers' Retirement System Plan 3

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

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

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

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

Washington State Deferred Compensation Program

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

17. 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 $9,842,583 with an annual required contribution (ARC) of $886,837. The ARC represents the amortization of the liability for fiscal year 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $190,280. The College's net OPEB obligation (NOO) at June 30, 2017 was approximately $2,594,323. This amount is not included in the College's financial statements.

The College paid $2,417,036 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

18. Operating Expenses by Program

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

Expenses by Functional Classification	Amount
Instruction	$ 13,100,615
Academic Support Services	2,834,553
Student Services	4,345,696
Institutional Support	3,599,240
Operations and Maintenance of Plant	3,083,268
Scholarships and Other Student Financial Aid	5,692,057
Auxiliary enterprises	1,990,119
Depreciation	2,057,686
Total operating expenses	**$ 36,703,235**

19. Commitments and Contingencies

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

20. Subsequent Events

No subsequent events to report.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Bellingham Technical College's Proportionate Share of the Net Pension Liability

Schedule of Bellingham Technical College's Share of the Net Pension Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30			
	2014	**2015**	**2016**
College's proportion of the net pension liability	0.030512%	0.031377%	0.031863%
College proportionate share of the net pension liability	$ 1,537,056	$ 1,641,309	$ 1,711,193
Covered payroll	$ 3,360,407	$ 3,596,623	$ 3,813,204
College's proportionate share of the net pension liability as a percentage of its covered payroll	45.74%	45.63%	44.88%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%

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

Cost Sharing Employer Plans

Schedules of Bellingham Technical College's Proportionate Share of the Net Pension Liability

Schedule of Bellingham Technical College's Share of the Net Pension Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30			
	2014	2015	2016
College's proportion of the net pension liability	0.039284%	0.040535%	0.040828%
College proportionate share of the net pension liability	$ 794,072	$ 1,448,339	$2,055,658
Covered payroll	$ 3,360,407	$ 3,596,623	$3,813,204
College's proportionate share of the net pension liability as a percentage of its covered payroll	23.63%	40.27%	53.91%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%

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

Cost Sharing Employer Plans
Schedules of Bellingham Technical College’s Proportionate Share of the Net Pension Liability

Schedule of Bellingham Technical College's Share of the Net Pension Teachers’ Retirement System (TRS) Plan 1 Measurement Date of June 30			
	2014	**2015**	**2016**
College’s proportion of the net pension liability	0.014121%	0.013990%	0.010580%
College proportionate share of the net pension liability	$ 416,492	$ 443,223	$ 361,226
Covered payroll	$ 416,514	$ 513,871	$ 483,106
College’s proportionate share of the net pension liability as a percentage of its covered payroll	99.99%	86.25%	74.77%
Plan’s fiduciary net position as a percentage of the total pension liability	68.77%	65.70%	62.07%

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

Cost Sharing Employer Plans

Schedules of Bellingham Technical College's Proportionate Share of the Net Pension Liability

Schedule of Bellingham Technical College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30			
	2014	**2015**	**2016**
College's proportion of the net pension liability	0.004624%	0.007962%	0.008539%
College proportionate share of the net pension liability	$ 14,935	$ 67,184	$ 117,226
Covered payroll	$ 204,912	$ 372,106	$ 422,881
College's proportionate share of the net pension liability as a percentage of its covered payroll	7.29%	18.06%	27.72%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%	92.48%	88.72%

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

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 135,056	$ 135,056	$ -	$ 3,360,407	4.02%
2015	$ 144,210	$ 144,210	$ -	$ 3,596,623	4.01%
2016	$ 180,693	$ 180,693	$ -	$ 3,813,204	4.74%
2017	$ 183,290	$ 183,290	$ -	$ 3,842,535	4.77%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions

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

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 165,953	$ 165,953	$ -	$ 3,360,407	4.94%
2015	$ 180,566	$ 180,566	$ -	$ 3,596,623	5.02%
2016	$ 235,697	$ 235,697	$ -	$ 3,813,204	6.18%
2017	$ 239,388	$ 239,388	$ -	$ 3,842,535	6.23%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 27,926	$ 27,926	$ -	$ 416,514	6.70%
2015	$ 31,307	$ 31,307	$ -	$ 513,871	6.09%
2016	$ 32,155	$ 32,155	$ -	$ 483,106	6.66%
2017	$ 30,362	$ 30,362	$ -	$ 487,350	6.23%
2018					
2019					
2020					
2021					
2022					
2023					

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

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions

Teachers' Retirement System (TRS) Plan 2/3

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 11,345	$ 11,345	$ -	$ 204,912	5.54%
2015	$ 21,160	$ 21,160	$ -	$ 372,106	5.69%
2016	$ 27,873	$ 27,873	$ -	$ 422,881	6.59%
2017	$ 32,750	$ 32,750	$ -	$ 487,350	6.72%
2018					
2019					
2020					
2021					
2022					
2023					

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

State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios Bellingham Technical College Fiscal Year Ended June 30 *(expressed in thousands)*		
		2017
Total Pension Liability		
Service Cost	$	84
Interest		54
Changes of benefit terms		-
Differences between expected and actual experience		(391)
Changes of assumptions		(92)
Benefit Payments		(14)
Other		-
Net Change in Total Pension Liability		**(360)**
Total Pension Liability - Beginning		**1,827**
Total Pension Liability - Ending	**$**	**1,468**
College's Proportion of the Pension Liability		1.543965%
Covered-employee payroll	$	8,570
Total Pension Liability as a percentage of covered-employee payroll		17.12%

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

State Board Supplemental Defined Benefit Plans
Notes to Required Supplementary Information

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

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	
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Toll-free Citizen Hotline	(866) 902-3900
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