



# **Walla Walla Community College 2013 Annual Financial Report**

*Fiscal Year Ended June 30, 2013*



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## Trustees and Administrative Officers, June 30, 2013

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## Management's Discussion and Analysis

### Walla Walla Community College

The following discussion and analysis provides an overview of the financial position and activities of Walla Walla Community College (the College) for the fiscal year ended June 30, 2013 (FY 2013). The 2013 report constitutes the College's inaugural audited financial statements. As a result, any comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2012 (FY 2012), if available.

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*

Walla Walla Community 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 10,900 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1967 and its primary purpose is to inspire students to discover their potential and achieve their goals by providing relevant, equitable, and innovative learning opportunities and services.

The College's main campus is located in Walla Walla, Washington, a community of about 32,000 residents. The College also has a campus in Clarkston, Washington. The College provides contracted educational services for the Department of Corrections at the Washington State Penitentiary in Walla Walla and at the Coyote Ridge Corrections Center in Connell. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees

has full control of the College, except as otherwise provided by law.

#### *Using the Financial Statements*

The financial statements presented in this report encompass the College and its discretely presented component unit. The 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 at a moment in time, at year-end. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over a period of time. 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.

## Statement of Net Position

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

<b>Condensed Statement of Net Position</b>	
<i>as of June 30th</i>	
<b>FY 2013</b>	
<b>Assets</b>	
Current Assets	\$14,516,937
Capital Assets, net	\$53,487,451
Other Assets, non-current	\$885,983
<b>Total Assets</b>	<b>\$68,890,372</b>
<b>Liabilities</b>	
Current Liabilities	\$3,969,822
Other Liabilities, non-current	\$4,229,080
<b>Total Liabilities</b>	<b>\$8,198,902</b>
<b>Net Position</b>	<b>\$60,691,469</b>
<b>Total Liabilities and Net Position</b>	<b>\$68,890,372</b>

Current assets consist primarily of cash, investments, various accounts receivables, inventories, and the short-term portion of student loans receivable, net of allowances. Cash and investment balances increased when compared to the unaudited balances from FY 2012 while the amount of receivables decreased. These normal fluctuations resulted in a modest increase in the value of the current assets reported.

Net capital assets increased from FY 2012 to FY 2013 by \$1,151,463 which is after taking into consideration current depreciation expense of \$1,930,289. Around half of the increase is attributed to normal levels of purchases of capitalized equipment. Most of the other half of the increase reflects completion of construction on the Clarkston Health Science building expansion and an expansion of the Wind Energy Program facility. Construction in progress on a large solar panel purchase and installation project also contributed to the overall increase.

Non-current assets reflect the long-term portion of student loans receivable, net of allowances. The college makes student loans as part of the Perkins Federal loan program. The overall asset value of loans receivable was relatively flat when compared to FY 2012 due to new loans issued being offset by principal payments received during the year.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt 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.

Current liabilities increased considerably from FY 2012 to FY 2013. Regular accounts payable balances related to outstanding invoices as of year-end increased by almost \$194,000 when compared to the unaudited FY 2012 balances. This increase is due to normal fluctuations related to invoices for FY 2013 expenses that got paid after 6/30/13. Accrued liabilities increased by over \$146,000 due to normal fluctuations in both salaries payable and other accrued liabilities. Unearned revenue normally fluctuates from year to year and it increased by almost \$409,000 over the FY 2012 level. Approximately half of this change can be attributed to the 4% increase in summer quarter enrollment for 2013 when compared to the level for summer of 2012. Summer quarter tuition collected before June 30<sup>th</sup> each year is treated as unearned revenue. The remaining increase in unearned

revenues was primarily due to a couple of new grants and contracts where revenue was received in advance of being earned by the College.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees (compensated absences) and the long-term portion of Certificates of Participation debt.

Net position represents the value of the College's assets after liabilities 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:**

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

**Expendable** – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are student loans. The changes in student loan balances were discussed earlier in this section.

**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.

<b>Condensed Net Position</b>	
<i>as of June 30th</i>	
	<b>FY 2013</b>
<b>Net Investment in Capital Assets</b>	\$51,247,451
<b>Restricted:</b>	
Expendable - Student Loans	\$1,335,546
<b>Unrestricted</b>	<b>\$8,108,472</b>
<b>Total Net Position</b>	<b>\$60,691,469</b>

## 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 2013. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenues, expenses, gains and losses of the College.

The College's overall decrease of around \$141,000 in non-current liabilities is due to a combination of an increase of around \$94,000 for compensated absences combined with a decrease in the principal amount owed on four COPs. The principal amount outstanding declined by \$235,000 during FY 2013 due to scheduled annual debt service payments plus the refinancing of two of the COP's.

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 entity without directly giving equal value to that entity 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 statement of revenues, expenses and changes in net position is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

<b>Condensed Stmt. of Revenues, Expenses and Changes in Net Position</b>	
<i>as of June 30th</i>	<b>FY 2013</b>
Operating Revenues	\$29,226,809
Operating Expenses	\$49,883,917
<b>Net Operating Loss</b>	<b>\$(20,657,109)</b>
Non-Operating Revenues	\$21,671,937
Non-Operating Expenses	\$102,605
<b>Gain (Loss) Before Other</b>	<b>\$912,223</b>
Capital Appropriations	\$1,960,367
<b>Increase (Decrease) in Net Position</b>	<b>\$2,872,590</b>
Net Position, Beginning of the Year	\$57,818,879
<b>Net Position, End of the Year</b>	<b>\$60,691,469</b>

### **Revenues**

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased again in FY 2013. The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 have been reduced by almost 24%.

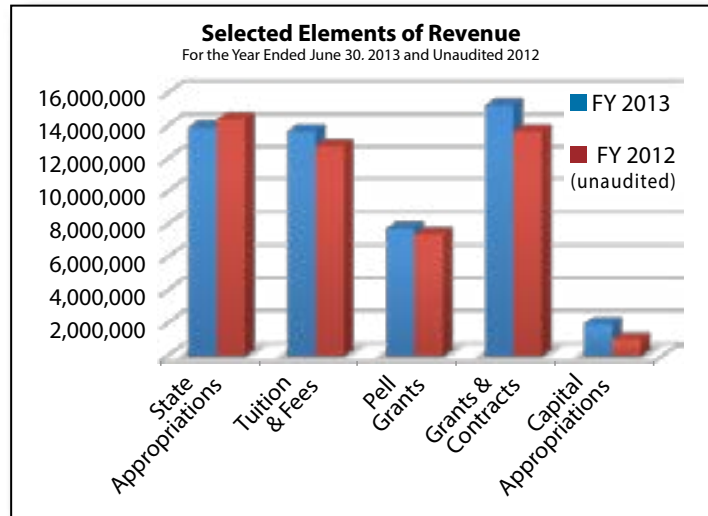
Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Since enrollments decreased in FY 2013, the College's increase in tuition and fee revenue is primarily attributable to the increased tuition rates. Pell grant revenues generally follow enrollment trends so as the College's enrollment softened during FY 2013, so did the College's Pell grant revenue. For FY 2013,

the College attempted to hold student fees as stable as possible, resulting in very little change to these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2013, grant and contract revenues increased by \$1,701,354 when compared with FY 2012. A majority of this increase is attributed to an increase in contracted educational services provided to the Department of Corrections sites at Washington State Penitentiary and Coyote Ridge Corrections Center. The College continued to serve students under the terms of many other contracted programs. The College also contracts with local high schools to enroll Running Start and Alternative Education Program students who earn either high school credits, college credits or both for courses taken as a part of these programs.



The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year.



**Expenses**

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

More recently, in FY 2013, salary and benefit costs increased as a result of adding positions in grants and contracts like the Correctional Education Program as well as in the operating budget in accordance with strategic planning initiatives.

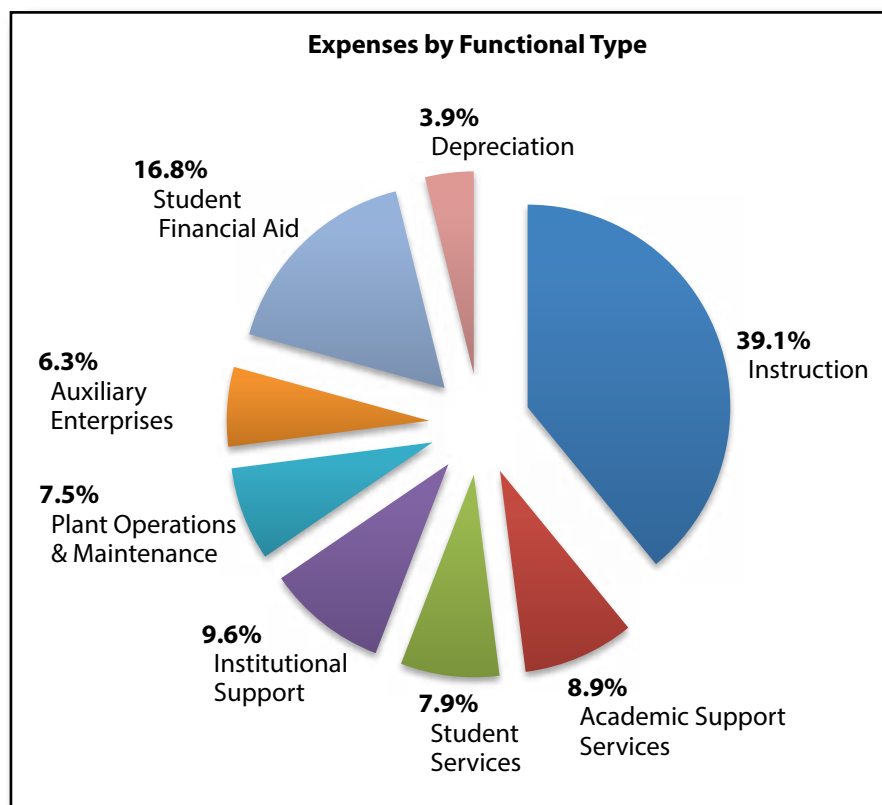
Expenses for utility costs remained flat when compared to FY 2012. Supplies and materials and purchased services are significantly higher in FY 2013, primarily as a result of increased spending related to capital projects. A large portion of the increase this year was due to the construction of

new vocational shop space at the Washington State Penitentiary instructional site. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses under supplies and materials or purchased services. Those expenditures that meet the capitalization standard are not shown as expenses in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a large increase in any year when a new building is placed in service. Fluctuations of this nature are to be expected.

All other costs are reported as operating expenses and include items such as travel, non-capitalized equipment, printing and other supplies.

### Operating Expenses by Function

The following chart shows the amount, by percentage, of operating expenses for each functional area for FY 2013.



### Statement of Cash Flows

The Statement of Cash Flows gives a general picture of where the College obtains and spends its cash and cash equivalents. The statement gives detailed information about cash flows related to four different types of activities within the institution.

The first section shows cash received and spent on the operations of the college. Since tuition and fees and other operating revenue alone do not normally cover the operating costs of a public higher education institution, this section can be expected to show more cash used than provided.

The second section shows cash received and spent on non-capital financing activities of the College. Here the college reports cash from state appropriations and cash related to federally-funded Pell grants. This section also includes any activity that cannot be reported in one of the other sections.

The third section shows cash received and spent on capital and related financing activities. This includes state capital appropriations for major projects, minor works and repairs. It also includes cash proceeds, loan origination costs, interest and principal payments related to Certificates of Participation. Since colleges periodically use local funds to supplement these sources, it is not unusual for this section to show more cash used than provided.

The fourth section shows cash received and spent on investing activities, including the purchase and sale of investment instruments, interest earnings and realized gains or losses from investments.

Next the statement shows how the current year's change in cash combined with the prior year's cash balance results in the ending cash and cash equivalents balance shown on the College's Statement of Net

Position. Finally, the statement includes a detailed reconciliation of operating activity only, between the operating loss shown as a subtotal on the Statement

of Revenues, Expenses and Changes in Net Position and the net cash used by operating activities shown on the Cash Flow Statement.

A condensed statement of cash flows is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

<b>Condensed Statement of Cash Flow</b>	
<i>as of June 30th</i>	<b>FY 2013</b>
Operating Activities	\$(17,836,611)
Non-Capital Financing Activities	\$20,913,675
Capital Investing Activities	\$(2,526,342)
Investing Activities	\$25,124
<b>Net Change in Cash</b>	<b>\$575,847</b>
Cash, Beginning of Year	\$7,750,974
<b>Cash, End of Year</b>	<b>\$8,326,821</b>

The College's cash and cash equivalents at June 30<sup>th</sup> increased in 2013 by \$575,847. One of the primary contributing factors was an increase in the amount of unearned revenue received before June 30<sup>th</sup> for summer quarter tuition when compared to the previous year. The other factor relates to a decline in receivables indicating that amounts owed to the College are less at 6/30/13 than they were for the previous year which usually results in an increase in cash on hand. These fluctuations and timing factors are a normal part of the operations of the college.

### Capital Assets and Long-Term Debt Activities

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

At June 30, 2013, the College had invested \$53,487,453 in capital assets, net of accumulated depreciation. This represents an increase of \$1,151,463 from last year, as shown in the table below.

<b>Asset Type</b>	<b>June 30, 2013</b>	<b>June 30, 2012</b> <i>(unaudited)</i>	<b>Change</b>
Land	\$2,553,379	\$2,553,379	\$0
Construction in Progress	\$394,321	\$258,001	\$136,320
Buildings, net	\$48,000,163	\$47,551,324	\$448,839
Equipment, net	\$2,381,416	\$1,810,733	\$570,683
Library Resources, net	\$158,172	\$162,554	\$(4,382)
<b>Total Capital Assets, Net</b>	<b>\$53,487,451</b>	<b>\$52,335,991</b>	<b>\$1,151,460</b>

The increase in net capital assets can be attributed to the completion of several capital projects including the Clarkston Health Science Building expansion and an expansion of the Wind Energy Program facility as well as construction in progress on a solar

panel installation project. The remaining increase is due to the normal replacement and acquisition of equipment. Additional information on capital assets can be found in Note 6 of the Notes to the Financial Statements.

At June 30, 2013, the College had \$2,240,000 in outstanding debt on four Certificates of Participation (COP). The College refinanced two of the four COPs during FY 2013 dropping the interest rates charged to approximately 1.95% on \$930,000 of the total debt outstanding. The two refinanced COPs were originally issued in 2004. The College has no capital leases. Additional information on notes payable, long term debt and debt service schedules can be found in Notes 12, 13, and 14 of the Notes to the Financial Statements.

<b>Long-Term Debt</b>	
<i>as of June 30th</i>	
	<b>FY 2013</b>
Certificates of Participation	\$2,240,000
Capital Leases	\$0
<b>Total</b>	<b>\$2,240,000</b>

## Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature and the State Board to keep FY 2014 tuition flat for resident, non-resident and baccalaureate students. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers

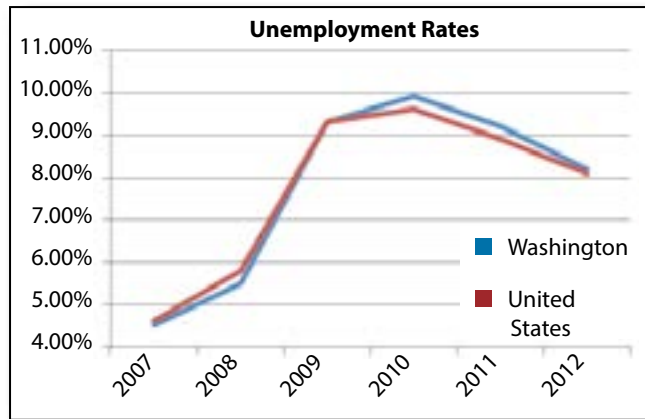
continue to grapple with court-mandated basic education obligations.

Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its most recent forecast (February 2014), the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies. However, the passage of a federal budget in January and the recent suspension of the debt ceiling reduce uncertainty surrounding federal fiscal policy.

Closer to home, Washington continues to add jobs, including showing growth in the manufacturing sector. Housing construction, home prices and car sales also increased and exports are at an all-time high. Both employment in Washington state and personal income are expected to continue to grow

in 2014 and through 2019, the end of the period covered by the forecast.

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. The College enrolled 182 full-time equivalent students above its state funded enrollment target during FY 2013. However, enrollment is down about 8% from its most recent peak in FY 2010.



# Independent Auditor's Report on Financial Statements



**Washington State Auditor  
Troy Kelley**

## **INDEPENDENT AUDITOR'S REPORT**

November 5, 2014

Walla Walla Community College  
Walla Walla, Washington

### **REPORT ON FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Walla Walla Community College, Walla Walla County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

#### **Auditor's Responsibility**

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, based on our audit and the report of 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 Walla Walla Community College, Washington, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Matters of Emphasis**

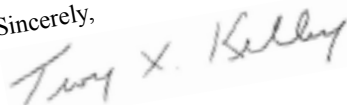
As discussed in Note 1, the financial statements of Walla Walla Community College are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the State of Washington that is attributable to the transactions of the College and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the State of Washington as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 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.

Sincerely,



**TROY KELLEY**  
STATE AUDITOR

## College Statement of Net Position

### Walla Walla Community College Statement of Net Position June 30, 2013

#### Assets

##### Current assets

Cash and cash equivalents	\$8,326,821
Accounts receivable, net of allowances	4,950,435
Student loans receivable, net of allowances	181,953
Inventories	1,003,899
Prepaid expenses	53,830
<b>Total current assets</b>	<b>\$14,516,937</b>

##### Non-Current Assets

Student loans receivable, net of allowances	\$885,983
Capital assets, net of depreciation	53,487,451
<b>Total non-current assets</b>	<b>\$54,373,434</b>
<b>Total assets</b>	<b>\$68,890,372</b>

#### Liabilities

##### Current Liabilities

Accounts payable	\$759,147
Accrued liabilities	1,485,605
Unearned revenue	1,595,070
Leases and Certificates of Participation payable	130,000
<b>Total current liabilities</b>	<b>\$3,969,822</b>

##### Non-Current Liabilities

Compensated absences	\$2,119,080
Long-term liabilities	2,110,000
<b>Total non-current liabilities</b>	<b>\$4,229,080</b>

**Total liabilities** **\$8,198,903**

#### Net Position

Net investment in capital assets	\$51,247,451
Restricted for:	
Student loans	\$1,335,546
Unrestricted	8,108,472
<b>Total net position</b>	<b>\$60,691,469</b>

**Total liabilities and net position** **\$68,890,372**

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



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

### Walla Walla Community College Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2013

#### Operating Revenues

Student tuition and fees, net of discounts	\$9,664,335
Auxiliary enterprise sales	2,362,412
State and local grants and contracts	14,094,274
Federal grants and contracts	1,138,992
Other operating revenues	1,946,057
Interest on loans to students	20,738
<b>Total operating revenue</b>	<b>\$29,226,809</b>

#### Operating Expenses

Operating expenses	\$4,296,797
Salaries and wages	21,965,498
Benefits	6,913,311
Scholarships and fellowships, net of discounts	8,404,125
Supplies and materials	3,781,453
Depreciation	1,930,289
Purchased services	1,836,489
Utilities	755,955
<b>Total operating expenses</b>	<b>\$49,883,917</b>
<b>Operating income (loss)</b>	<b>\$(20,657,109)</b>

#### Non-Operating Revenues

State appropriations	\$13,909,229
Federal Pell grant revenue	7,737,584
Investment income, gains and losses	25,124
<b>Net non-operating revenues</b>	<b>\$21,671,937</b>

#### Non-Operating Expenses

Interest on indebtedness	\$102,605
<b>Net non-operating expenses</b>	<b>\$102,605</b>
<b>Income or (loss) before other revenues, expenses, gains, or losses</b>	<b>\$912,223</b>

#### Capital Revenues

Capital appropriations	\$1,960,367
<b>Increase (decrease) in net position</b>	<b>\$2,872,590</b>

#### Net Position

<b>Net position, beginning of year</b>	<b>\$57,818,879</b>
<b>Net position, end of year</b>	<b>\$60,691,469</b>

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

## College Statement of Cash Flows

### Walla Walla Community College Statement of Cash Flows For the Year Ended June 30, 2013

#### Cash flow from operating activities

Student tuition and fees, net of discounts	\$9,743,273
Grants and contracts	15,818,931
Payments to vendors	(9,778,928)
Payments for utilities	(748,804)
Payments to employees	(21,853,798)
Payments for benefits	(6,913,197)
Auxiliary enterprise sales, net of COGS	2,339,926
Payments for scholarships and fellowships, net of discounts	(8,404,125)
Loans issued to students and employees	(182,333)
Collection of loans to students and employees	130,284
Other receipts	2,012,161
<b>Net cash used by operating activities</b>	<b><u>\$(17,836,611)</u></b>

#### Cash flow from noncapital financing activities

State appropriations	\$13,176,091
Pell grants	7,737,584
<b>Net cash provided by noncapital financing activities</b>	<b><u>\$20,913,675</u></b>

#### Cash flow from capital and related financing activities

Capital appropriations	\$811,813
Purchases of capital assets	(3,093,393)
Certificate of Participation proceeds	2,843
Principal paid on capital debt	(145,000)
Interest paid	(102,605)
<b>Net cash used by capital and related financing activities</b>	<b><u>\$(2,526,342)</u></b>

#### Cash flow from investing activities

Income from investments	\$25,124
<b>Net cash provided by investing activities</b>	<b><u>\$25,124</u></b>

#### Increase in cash and cash equivalents

<b>Cash and cash equivalents at the beginning of the year</b>	<b><u>\$7,750,974</u></b>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>\$8,326,821</u></b>

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

*Cash flow Statement Continued*

**Reconciliation of operating loss to net cash used by operating activities**

<b>Operating loss</b>	\$(20,657,109)
<b>Adjustments to reconcile net loss to net cash used by operating activities</b>	
Depreciation expense	\$1,930,289
<b>Changes in assets and liabilities</b>	
Receivables, net of allowances	\$229,205
Inventories	\$(88,564)
Other assets	\$70,366
Accounts payable	\$193,640
Accrued liabilities	\$146,778
Deferred revenue	\$408,648
Compensated absences	\$2,923
Loans to students	\$(72,787)
<b>Net cash used by operating activities</b>	<b><u>\$(17,836,611)</u></b>

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



## Foundation Statement of Financial Position

### Walla Walla Community College Foundation And Subsidiary Consolidated Statement Of Financial Position December 31, 2012

#### Assets

##### Current Assets

Cash and Cash Equivalents	\$293,184
Marketable Securities	5,418,219
Prepaid Tuition	600,550
Inventory	45,737
Assets Held For Resale	76,198
Prepaid Expenses And Other Assets	19,157
<b>Total Current Assets</b>	<b>\$6,453,045</b>

##### Property and Equipment, Net

	1,757,838
<b>Total Assets</b>	<b>\$8,210,883</b>

#### LIABILITIES AND NET ASSETS

##### Current Liabilities

Accounts Payable	\$5,623
Accrued Expenses	2,187
<b>Total Liabilities</b>	<b>\$7,810</b>

##### Net Assets

Unrestricted Net Assets	\$2,485,279
Temporarily Restricted Net Assets	5,717,794
<b>Total Net Assets</b>	<b>\$8,203,073</b>
<b>Total Liabilities And Net Assets</b>	<b>\$8,210,883</b>

## Foundation Statement of Activities and Changes in Net Assets

### WALLA WALLA COMMUNITY COLLEGE FOUNDATION AND SUBSIDIARY CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>Revenue</b>			
Contributions And Grants	\$ -	\$477,752	\$477,752
Unrealized Gain On Investments	8,445	327,757	336,202
Lease Income	176,381	-	176,381
Interest And Dividends	7,446	115,940	123,386
Market Value Change In Prepaid Tuition	-	79,465	79,465
Entwine Auction	71,845	-	71,845
Donated Service And Materials	36,848	-	36,848
Warrior Club	21,641	-	21,641
Realized Gain On Investments	-	20,477	20,477
Gain On Sale Of Asset	11,606	-	11,606
Other Income	6,460	-	6,460
Program Revenue	1,150	-	1,150
<b>Wine Operations</b>			
Retail Sales	98,386	-	\$98,386
Less: Cost Of Goods Sold	(27,546)	-	(27,546)
<b>Gross Profit</b>	<b>70,840</b>	<b>-</b>	<b>70,840</b>
<b>Net Assets Released From Restrictions</b>	654,897	(654,897)	-
<b>Total Public Support, Revenue, and Reclassifications</b>	<b>\$1,067,559</b>	<b>\$366,494</b>	<b>\$1,434,053</b>

## Foundation Statement of Activities and Changes in Net Position

### Walla Walla Community College Foundation And Subsidiary Consolidated Statement Of Activities And Changes In Net Assets (Continued) Year Ended December 31, 2012

Expenses	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>Scholarships and Awards:</b>			
Scholarships And Awards	\$421,506	\$ -	\$421,506
Grant Expenditures	101,243	-	101,243
Program Expenses	98,197	-	98,197
<b>Administration:</b>			
Selling Expense	3,173	-	3,173
Advertising	16,451	-	16,451
Bank Fees	4,325	-	4,325
Administrative Fee	24,000	-	24,000
Professional Services	113,123	-	113,123
Investment Expense	23,747	-	23,747
Depreciation	77,895	-	77,895
Insurance	18,789	-	18,789
Supplies	17,130	-	17,130
Taxes And Licenses	6,077	-	6,077
Travel	9,318	-	9,318
Dues And Subscriptions	1,900	-	1,900
Repair And Maintenance	5,418	-	5,418
Donated Service And Materials	36,848	-	36,848
Miscellaneous	44,134	-	44,134
<b>Fundraising Event Expenses:</b>			
Entwine	71,640	-	71,640
Warrior Club	21,606	-	21,606
<b>Total Expenses</b>	<b><u>\$1,116,520</u></b>	<b><u>-</u></b>	<b><u>\$1,116,520</u></b>
<b>Change In Net Assets</b>	<b><u>\$(48,961)</u></b>	<b><u>\$366,494</u></b>	<b><u>\$317,533</u></b>
<b>Net Assets - Beginning Of Year</b>	<b><u>2,534,240</u></b>	<b><u>5,351,300</u></b>	<b><u>7,885,540</u></b>
<b>Net Assets - End Of Year</b>	<b><u>\$2,485,279</u></b>	<b><u>\$5,717,794</u></b>	<b><u>\$8,203,073</u></b>

## Notes to the Financial Statements

June 30, 2013

*These notes form an integral part of the financial statements.*

### 1. Summary of Significant Accounting Policies

#### *Financial Reporting Entity*

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

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

The Walla Walla Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to support the educational and cultural programs of the College through an annual fund drive and other fund raising events. Because the majority of the Foundation's income and resources is restricted by donors and may only be used for the benefit of the College or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. 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, 2013, the Foundation distributed approximately \$677,506 to the College for restricted and unrestricted purposes, which includes both student scholarships and program support. A copy of the Foundation's complete financial statements may be obtained from the Vice-President of Financial Services, Walla Walla Community College, 500 Tausick Way, Walla Walla, WA 99362 or by calling (509)527-4201.

#### *Basis of Presentation*

The College follows all GASB pronouncements. 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, liabilities, net position, revenues, expenses, changes in net position and cash flows.

#### *New Accounting Pronouncements*

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The College has no significant arrangements allowing external parties to operate college capital assets.

Beginning in fiscal year 2012-13, the College adopted the

provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62) and amendments contained in GASB Statement No. 66 *Technical Corrections – 2012*, which incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in the pronouncements of the FASB and American Institute of Certified Public Accountants (AICPA). This statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement amends the net asset reporting requirement in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The College did not identify any transactions requiring treatment as a deferred inflow or outflow.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for financial statements for periods beginning after December 15, 2012. The impact of this pronouncement is uncertain at this time.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after December 15, 2014. The impact of this pronouncement is uncertain at this time.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which improves recognition, measurement and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The impact of this pronouncement is uncertain at this time.

### ***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.

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

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



During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, inter-fund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

### ***Cash, Cash Equivalents and Investments***

Cash and cash equivalents include cash on hand and bank demand deposits. Cash and cash equivalents that are held with the intent to fund college operations are classified as current assets.

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. This process is reviewed periodically to ensure that funds are being distributed equitably. The internal investment pool is comprised of cash and cash equivalents.

### ***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 consist of merchandise for resale and course-related supplies in the College bookstore, and consumable supplies held in the stockroom and café. These inventories are valued at cost using FIFO. Items being repaired for resale by the vocational programs (work in process) are valued at actual costs incurred for each individual project.

### ***Capital Assets***

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington.  
Property titles

are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the College, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, only fixed assets with a unit cost of \$5,000 or greater are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and components, 20 to 25 years for infrastructure and land improvements, 7 years for library resources and 5 to 7 years for equipment.

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, 2013, 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 relate to the subsequent fiscal year. The College has recorded summer and fall quarter tuition and fees, auxiliary enterprise fees, and advanced grant proceeds as unearned revenue.

### ***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 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 Loans.** The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.

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

### **Classification of Revenues**

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

**Operating Revenues.** This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

**Non-operating Revenues.** This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

### **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-

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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, 2013 are \$4,019,964.

### **State Appropriations**

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

### **Operating Revenues/Expenses**

Operating revenues consist of tuition and fees, grants and contracts, sales and service of educational activities and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as nonoperating revenues and expenses including state general appropriations, federal Pell grant revenues, investment income and interest expense.



## 2. Cash and Investments

Cash and cash equivalents include bank demand deposits and petty cash held at the College.

As of June 30, 2013, the carrying amount of the College's cash and equivalents was \$8,326,821 as represented in this table.

<b>Cash and Cash Equivalents</b>	<b>June 30, 2013</b>
Petty Cash and Change Funds	\$8,800
Bank Demand and Time Deposits	8,318,021
<b>Total Cash and Cash Equivalents</b>	<b>\$8,326,821</b>

### *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 Columbia Bank. 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).

## 3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2013, accounts receivable were as follows.

<b>Accounts Receivable</b>	<b>Amount</b>
Student Tuition and Fees	\$771,949
Due from the Federal Government	546,125
Due from Other State Agencies	2,799,927
Auxiliary Enterprises	94,009
Other	772,925
<b>Subtotal</b>	<b>\$4,984,935</b>
Less Allowance for Uncollectible Accounts	(34,500)
<b>Total Accounts Receivable, net</b>	<b>\$4,950,435</b>

## 4. Loans Receivable

Loans receivable as of June 30, 2013 consisted primarily of student loans, as follows.

<b>Loans Receivable</b>	<b>Amount</b>
Perkins Loans Receivable	\$1,143,836
Less Allowance for Uncollectible Accounts	(75,900)
<b>Total Loans Receivable, net</b>	<b>\$1,067,936</b>

## 5. Inventories

Inventories, stated at cost using FIFO or actual project cost incurred, consisted of the following as of June 30, 2013.

<b>Inventories</b>	<b>Amount</b>
Consumable Inventories	\$84,716
Merchandise Inventories	374,039
Work In Process Inventories	545,144
<b>Total Inventories</b>	<b>\$1,003,899</b>

## 6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2013 is presented as follows. The current year depreciation expense was \$1,930,289.

<b>Capital Assets</b>	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Reductions/ Retirements</b>	<b>Ending Balance</b>
<b>Nondepreciable Capital Assets</b>				
Land	\$2,553,379			\$2,553,379
Construction in progress	\$258,001	\$ 250,915	(114,595)	\$394,321
<b>Total nondepreciable capital assets</b>	<b>\$2,811,380</b>	<b>250,915</b>	<b>(114,595)</b>	<b>\$2,947,700</b>
<b>Depreciable Capital Assets</b>				
Buildings	\$63,642,888	\$1,762,304		\$65,405,192
Other improvements and infrastructure				
Equipment	\$4,899,671	1,151,460	(114,043)	\$5,937,088
Library resources	\$2,697,027	43,307		\$2,740,334
<b>Subtotal depreciable capital assets</b>	<b>\$71,239,586</b>	<b>2,957,070</b>	<b>(114,043)</b>	<b>\$74,082,613</b>
<b>Less Accumulated Depreciation</b>				
Buildings	\$16,091,564	\$1,313,465		\$17,405,029
Other improvements and infrastructure				
Equipment	\$3,088,937	569,135	(102,402)	3,555,670
Library resources	\$2,534,473	47,689		2,582,162
<b>Total accumulated depreciation</b>	<b>\$21,714,974</b>	<b>1,930,289</b>	<b>(102,402)</b>	<b>23,542,861</b>
<b>Total depreciable capital assets, net of depr.</b>	<b>\$49,524,612</b>	<b>\$1,026,781</b>	<b>\$(11,641)</b>	<b>\$50,539,752</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$52,335,991</b>	<b>\$1,277,696</b>	<b>\$(126,236)</b>	<b>\$53,487,451</b>

## 7. Accounts Payable and Accrued Liabilities

At June 30, 2013, accrued liabilities are the following.

<b>Accounts Payable and Accrued Liabilities</b>	<b>Amount</b>
Amounts Owed to Employees	\$754,875
Accounts Payable	863,110
Amounts Held for Others	626,766
<b>Total Payables &amp; Liabilities</b>	<b>\$2,244,752</b>

## 8. Unearned Revenue

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

<b>Unearned Revenue</b>	<b>Amount</b>
Summer and Fall Quarter Tuition & Fees	\$1,213,494
Auxiliary Enterprises	3,791
Contracts & Grants	377,785
<b>Total Unearned Revenue</b>	<b>\$1,595,070</b>

## 9. Risk Management

The College, in accordance with state policy, self-insures unemployment compensation for all employees. Payments made for claims from July 1, 2012 through June 30, 2013, were \$40,138.48.

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

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to \$10,000,000 for each claim

with no deductible. The College has had no claims in excess of the coverage amount within the past three years.

## 10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by college employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled \$887,801.50 at June 30, and accrued sick leave totaled \$1,231,278.65 at June 30, 2013.

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

## 11. Leases Payable

The College has leases for property and office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2013, the minimum lease payments under operating leases consist of the following.

<b>Leases Payable Fiscal year</b>	<b>Equipment Leases</b>	<b>Property Leases</b>
2014	\$46,569	\$104,705
2015	43,703	6,080
2016	42,271	6,080
2017	39,847	6,080
2018	5,482	6,080
2019-2023	209	30,400
<b>Total minimum lease payments</b>	<b>\$178,081</b>	<b>\$159,425</b>

## 12. Notes Payable

In June, 2004, the College obtained financing to purchase property and buildings adjacent to the Clarkston Campus through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$530,000. This COP was refinanced in March 2013 through the OST with principal balance of \$300,000. The interest rate charged is approximately 1.94084% with all other terms and conditions remaining the same as the original COP.

In June, 2004, the College obtained financing in order to purchase property adjacent to the main Walla Walla Campus through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$1,110,000. This COP was refinanced through the OST in March of 2013 with principal balance of \$630,000. The interest rate charged is approximately 1.96203% with all other terms and conditions remaining the same as the original COP.

In June, 2006, the College obtained financing in order to purchase land and construct the Walla Walla Health Science building through a certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$1,095,000. The interest rate charged is approximately 4.727%.

In June, 2007, the College obtained financing in order to build the Clarkston Health Science Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$650,000. The interest rate charged is approximately 4.409%.

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

### 13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2013 are as follows.

<b>Annual Debt Service Requirements Certificates of Participation</b>			
<b>Fiscal year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$130,000	\$108,138	\$238,138
2015	150,000	90,850	240,850
2016	150,000	84,788	234,788
2017	170,000	77,963	247,963
2018	170,000	70,148	240,148
2019-2023	970,000	232,176	1,202,176
2024-2028	500,000	41,284	541,284
<b>Total</b>	<b>\$2,240,000</b>	<b>\$705,347</b>	<b>\$2,945,347</b>

### 14. Schedule of Long Term Debt

	<b>Balance Outstanding 6/30/12</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance Outstanding 6/20/13</b>	<b>Current Portion</b>
<b>Certificates of Participation</b>	\$2,490,000		\$(250,000)	\$2,240,000	\$130,000

### 15. Pension Plans

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

For FY 2012-13, the payroll for the College’s employees was \$4,897,732 for PERS, \$242,203 for TRS, and \$13,661,235 for SBRP. Total covered payroll was \$17,536,845.

### *PERS and TRS*

#### *Plan Descriptions.*

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

**TRS Plan 3** provides retirement benefits to certain eligible faculty hired on or after October 1, 1997. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contribution only. Benefits are vested after an employee completes five or ten years of eligible

service, depending on the employee's age and service credit, and include an annual cost of living adjustment. The defined contribution component is fully funded by employee contribution and investment performance.

The College also has 3 faculty members with pre-existing eligibility who continue to participate in TRS 1 or 2.

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

at <http://www.drs.wa.gov/administration>.

### ***Funding Policy***

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

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

### ***Contribution Rates and Required Contributions.***

The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2013, 2012 and 2011 are as follows.

<b>PERS and TRS Contribution Rates</b>						
<b>PLAN</b>	<b>June 30, 2013</b>		<b>June 30, 2012</b>		<b>June 30, 2011</b>	
	Employee	College	Employee	College	Employee	College
<b>PERS</b>						
<b>Plan 1</b>	6.00%	7.21%	6.00%	7.08%	6.00%	5.31%
<b>Plan 2</b>	4.64%	7.21%	4.64%	7.08%	3.90%	5.31%
<b>Plan 3</b>	Various	7.21%	Various	7.08%	Various	5.31%
<b>TRS</b>						
<b>Plan 1</b>	6.00%	8.05%	6.00%	8.04%	6.00%	6.14%
<b>Plan 2</b>	4.69%	8.05%	4.69%	8.04%	3.36%	6.14%
<b>Plan 3</b>	Various	8.05%	Various	8.04%	Various	6.14%

<b>Required Contributions</b>						
<b>PLAN</b>	<b>2013</b>		<b>2012</b>		<b>2011</b>	
	Employee	College	Employee	College	Employee	College
<b>PERS</b>						
<b>Plan 1</b>	\$12,030	\$14,481	\$20,624	\$24,692	\$23,580	\$20,869
<b>Plan 2</b>	\$163,981	\$254,938	\$160,248	\$248,784	\$133,080	\$181,195
<b>Plan 3</b>	\$83,087	\$83,894	\$82,488	\$86,020	\$91,641	\$67,334
<b>TRS</b>						
<b>Plan 1</b>	\$4,134	\$5,677	\$4,134	\$5,321	\$4,389	\$4,491
<b>Plan 2</b>	\$3,463	\$5,943	\$3,736	\$6,463	\$2,805	\$5,126
<b>Plan 3</b>	\$9,116	\$8,617	\$7,536	\$4,987	\$7,146	\$4,911



## **State Board Retirement Plan**

### **Plan Description.**

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

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

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

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

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

### **Contributions.**

Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2013 were each \$1,190,974.25.

The SBRP supplemental  
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benefits are unfunded. For the year ended June 30, 2013, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of \$30,204.10. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2013, the College paid into this fund at a rate of 0.25% of covered salaries, totaling \$34,154.05. As of June 30, 2013, the Community and Technical College system accounted for \$2,052,816 of the fund balance.

The unfunded actuarial accrued liability calculated at July 1, 2013 was \$69,213,000 under the plan's entry age normal method and is amortized over an 11 year period. The annual required contribution (ARC) is projected at \$11,041,000. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability by SBCTC. The net pension obligation as of June 30, 2013 is \$54,894,190.

### **Washington State Deferred Compensation Program**

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

### **Other Post-Employment Benefits**

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

agencies may also charge employees for certain higher cost options elected by the employee.

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

The State of Washington funds OPEB obligations at a state-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB Statement No. 45, does not exist at department levels, and as a result, the Actuarial Accrued Liability (AAL) is not available for the College.

The State of Washington's Comprehensive Annual Financial Report (CAFR) includes the state's measurement and recognition of OPEB expense/expenditures, liabilities, note disclosures, and required supplementary information specified by GASB Statement No. 45. The State Actuary's report is available at: [http://osa.leg.wa.gov/Actuarial\\_Services/OPEB/OPEB.htm](http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm)

The College paid \$3,560,589 for healthcare expenses in 2013, which includes medical, dental, life and pay-as-you-go portion of the OPEB liability.

## 16. Operating Expenses by Function

In the Statement of Revenues, Expenses and Changes in Net Assets, 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, academic support, and financial aid. The following table lists operating expenses by program for the year ending June 30, 2013.

<b>Expenses by Functional Classification</b>	
Instruction	\$19,496,271
Academic Support Services	4,434,642
Student Services	3,929,225
Institutional Support	4,797,619
Operation and Maintenance of Plant	3,732,864
Auxiliary Enterprises	3,158,884
Student Financial Aid	8,404,125
Depreciation	1,930,289
<b>Total operating expenses</b>	<b>\$49,883,917</b>

## 17. Commitments and Contingencies

There is a class action filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

Additionally, the College is not currently engaged in any legal actions.

The College has commitments of \$44,273 for various capital improvement projects that includes completion of a solar project and renovation/addition to an existing building.

## 18. Subsequent Events

The College is not aware of any subsequent events or factors affecting these financial statements.

**We would like to acknowledge  
the following staff responsible for  
the content of this report:**

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**Walla Walla Community College...**  
*your best choice.*