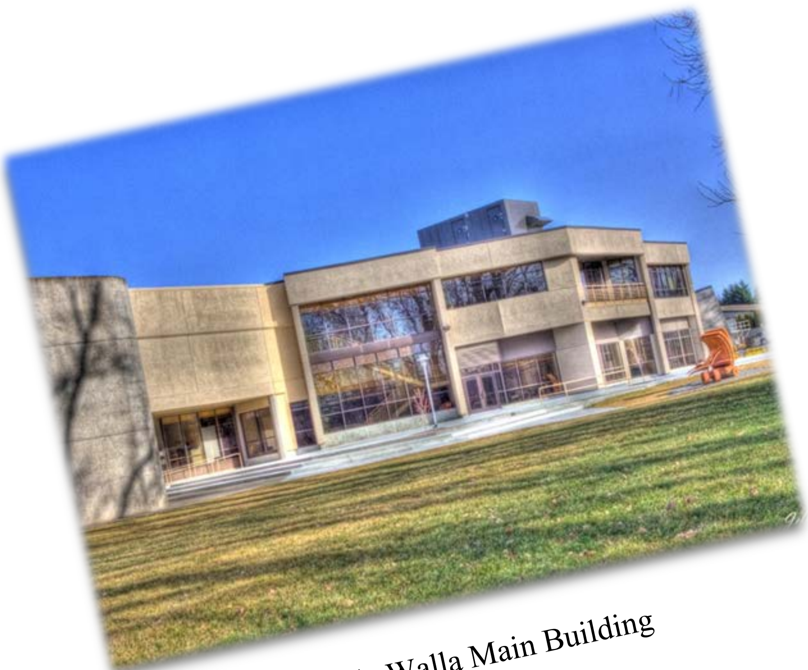
Walla Walla Community College

2017 Annual Financial Report

Fiscal Year Ended June 30, 2017



Walla Walla Main Building

Clarkston Health Science

2017 Financial Report

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For information about the financial data included in this report, contact:
Vice President of Administrative Services
Walla Walla Community College
500 Tausick Way
Walla Walla, WA 99362
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You may view the financial report at *http://www.wwcc.edu/annual-financial-reports/*

For information about enrollment, degrees awarded, or academic programs, contact:
Research & Planning
Walla Walla Community College
500 Tausick Way
Walla Walla, WA 99362
(509) 527-3685

Trustees and Administrative Officers

Trustees and Executive Officer list effective as of June 30, 2017

Independent Auditor’s Report on Financial Statements

The complete fiscal year 2016-17 audit report can be found at the following link:

www.wwcc.edu/wp-content/uploads/2016/02/2017-SAO-Audit-Report.pdf

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, 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

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 10,000 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 – Walla Walla Community College Foundation. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2017. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered 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 $3,336,910 in pension liability with a corresponding decrease in Net Position.

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 as of the fiscal year-end. A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position			
	As of June 30, 2017	**As of June 30, 2016 as restated**	**Change**
Assets			
Current Assets	$ 16,593,351	$ 16,546,018	$ 47,333
Capital Assets, net	54,880,512	52,095,771	2,784,741
Other Assets, non-current	804,950	845,646	(40,696)
Total Assets	**$ 72,278,813**	**$ 69,487,436**	**$ 2,791,377**
Deferred Outflows	**$ 1,393,025**	**$ 1,011,092**	**$ 381,933**
Liabilities			
Current Liabilities	3,915,181	3,617,460	297,721
Other Liabilities, non-current	13,298,034	11,755,981	1,542,053
Total Liabilities	**$ 17,213,215**	**$ 15,373,441**	**$ 1,839,774**
Deferred Inflows	**$ 906,647**	**$ 752,079**	**$ 154,568**
Net Position	**$ 55,551,976**	**$ 54,373,008**	**$ 1,178,968**

Current assets consist primarily of cash, accounts receivable, inventories, and the short-term portion of student loans receivable, net of allowances. Cash and cash equivalents decreased $3.14 million due to a corresponding increase in accounts receivable. The receivable increase of $3.3 million consists of an increase due from the federal government at year-end of $1.84 million for the Economic Development Administration's (EDA) portion of the Clarkston Workforce and Business Development building project. An increase of $278,000 is due from the WWCC Foundation as part of the funding package for the new Clarkston building. Receivables also increased by almost $754,000 due to an increase in the state's Vendor Payment Advance receivable along with an increase in receivables of $226,000 for Pell Grants. Other miscellaneous receivables account for the remainder of the increase. Inventories decreased by $164,000 primarily due to a decrease of $116,000 in bookstore inventory held for resale and an additional $50,000 decrease is due to the completion and sale of work-in-progress inventory from ancillary activities that take place in Workforce instructional programs. These changes netted to an increase of just over $47,000 in current assets.

Net capital assets increased by nearly $2.8 million from FY 2016 to FY 2017. This increase was primarily due to the completion and capitalization of the Workforce and Business Development Center on the Clarkston campus. Total cost of this new building was $5.2 million, which includes $505,000 that accumulated in prior years as construction in progress. Additional increases were due to acquisitions of new equipment and library assets that together totaled almost $875,000. These increases were offset by annual depreciation of just under $2.8 million.

Other 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 loans receivable balance decreased slightly due to students paying down loan balances and taking advantage of the service cancellations available through the program.

Deferred outflows of resources and deferred inflows of resources represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in FY 2015 and Statement No. 73 in FY 2017. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to the actuarial assumptions. The College recorded $1,011,092 in FY 2016 and $1,393,025 in FY 2017 of pension-related deferred outflows.

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, unearned revenue, and the current portion of compensated absences. Current liabilities generally 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 increase in current liabilities from FY 2016 to FY 2017 is due to a number of normal fluctuations in balances owed at the time the books are closed for year-end. Normal fluctuations in accounts payable balances at year-end resulted in an increase of $295,000. An offset to that increase was a decrease in accrued liabilities of around $95,000 primarily due to changes in the amount of accrued wages that were owed as of June 30th. Unearned revenue consisting of Summer and Fall tuition and fees increased by a modest $87,000 along with an increase in earned grant revenue. Other small changes in the balances of the current portion of compensated absences liability, and the current portion of debt owed on long-term Certificates of Participation round out the other changes to current liabilities.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees (compensated absences), pension liabilities and the long-term portion of Certificates of Participation debt. The College's overall increase of just over $1.5 million in non-current liabilities after restating for GASB 73 beginning net pension liability is due primarily to the sale of a $1.5 million COP for construction of the new Clarkston building. The principal amount owed on the new debt is only $1.3 million due to the issuance of the debt at a premium. The principal amount outstanding also declined by $160,000 during FY 2017 due to normally scheduled annual debt service payments. Other changes affecting non-current liabilities were an increase of $156,000 in compensated absences combined with an increase in net pension liability of almost $266,000 which includes the additional liability due to implementation of GASB statement No. 73.

Deferred inflows of resources related to the College's net pension liability increased by $154,568. This increase was caused by the implementation of GASB 73, which increased deferred inflows by $766,883. This increase was offset by a decrease in GASB 68 deferred inflows of $612,315. Changes in the amount booked for deferred inflows can be due to the differences between actual and projected earnings on pension plan investments and it can also be due to changes like demographics or future economic assumptions affecting the state's pension plans.

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:

Non Expendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. 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. Student loans make up the majority of the College's expendable restricted funds, but there is also a small amount of student financial aid that falls under this classification. The changes in student loan balances were discussed 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.

As mentioned earlier in this section, the College's beginning net position decreased by $3,336,910 reflecting the amount of beginning net pension liability that was restated. This change relates to the College's implementation of 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.

Condensed Net Position As of June 30th	**FY2017**	**FY 2016 as restated**	**Change**
Net investment in capital assets	$ 52,055,512	$ 50,410,771	$ 1,644,741
Restricted			
Expendable for financial aid	(158,307)	31,270	(189,577)
Expendable for student loans	1,024,180	1,059,728	(35,548)
Unrestricted	2,630,591	2,871,238	(240,647)
Total Net Position	**$ 55,551,976**	**$ 54,373,008**	**$ 1,178,968**

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 received, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenues, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, grants and contracts are included in this category. In contrast, non-operating revenues include monies the College receives from another 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.

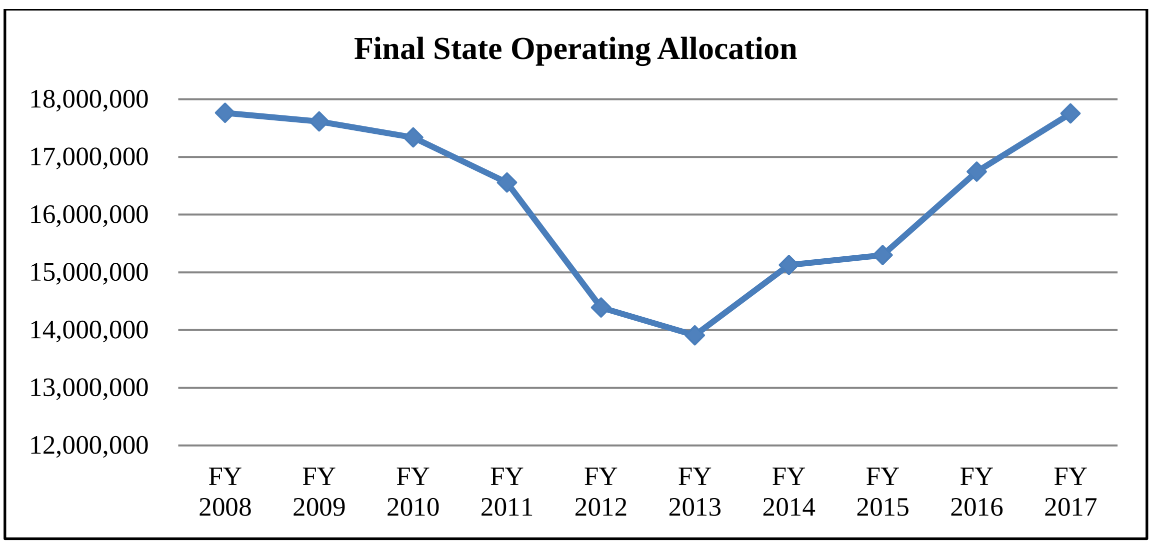
A comparison of the Condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2017 and 2016 is presented below.

Condensed Statement of Revenue, Expenses and Changes in Net Position			
For year ended June 30	**2017**	**2016 as restated**	**Change**
Operating Revenues	$ 27,629,820	$ 28,628,820	$ (999,000)
Operating Expenses	52,556,709	52,518,670	38,039
Net Operating Loss	$ (24,926,889)	$ (23,889,850)	$ (1,037,039)
Non-Operating Revenues (Expenses)	$ 21,936,013	$ 21,590,909	$ 345,104
Gain (Loss) Before Capital Contributions	$ (2,990,876)	$ (2,298,941)	$ (691,935)
Capital Appropriations, Gifts and Grants	4,169,844	1,298,197	2,871,647
Increase (Decrease) in Net Position	$ 1,178,968	$ (1,000,744)	$ 2,179,713
Net Position, Beginning of the Year	$ 54,373,008	$ 55,373,752	$ (1,000,744)
Net Position, End of the Year	$ 55,551,976	$ 54,373,008	$ 1,178,968

Revenues

The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and then as a result of the great recession were reduced by almost 24% by FY 2013. In FY 2015, the Legislature reinstated a small portion of the previous cuts. During FY 2016, appropriations increased almost $1.5 million all of which passed through either as employee raises averaging 3% or to cover employee benefit cost increases for health care and retirement. The College was required to use operating funds to cover a portion of employee raises and benefit cost increases that were not funded by the Legislature.

In FY 2017, state appropriations grew by over $1 million with almost $425,000 of that growth coming from one-year only appropriations that will not continue for FY 2018. Those increases were in Worker Retraining, Opportunity Grant and an allocation of $252,415 to fund a portion of our share of the Moore vs Health Care Authority (HCA) settlement. The remaining $500,000 increase was for employee raises averaging 1.8% and employee benefit cost increases that again had to be matched with local operating revenues to cover the full costs. Also impacting the College during FY 2017, the SBCTC adopted a new funding allocation model that dramatically changed the methodology for distribution of state funds to system colleges. Based on this new model, the College experiences a 4.1% decrease in its share of the state allocation phased in over a four-year period. The annual reduction is approximately $175,000 resulting in a $700,000 funding reduction by the end of FY 2020.

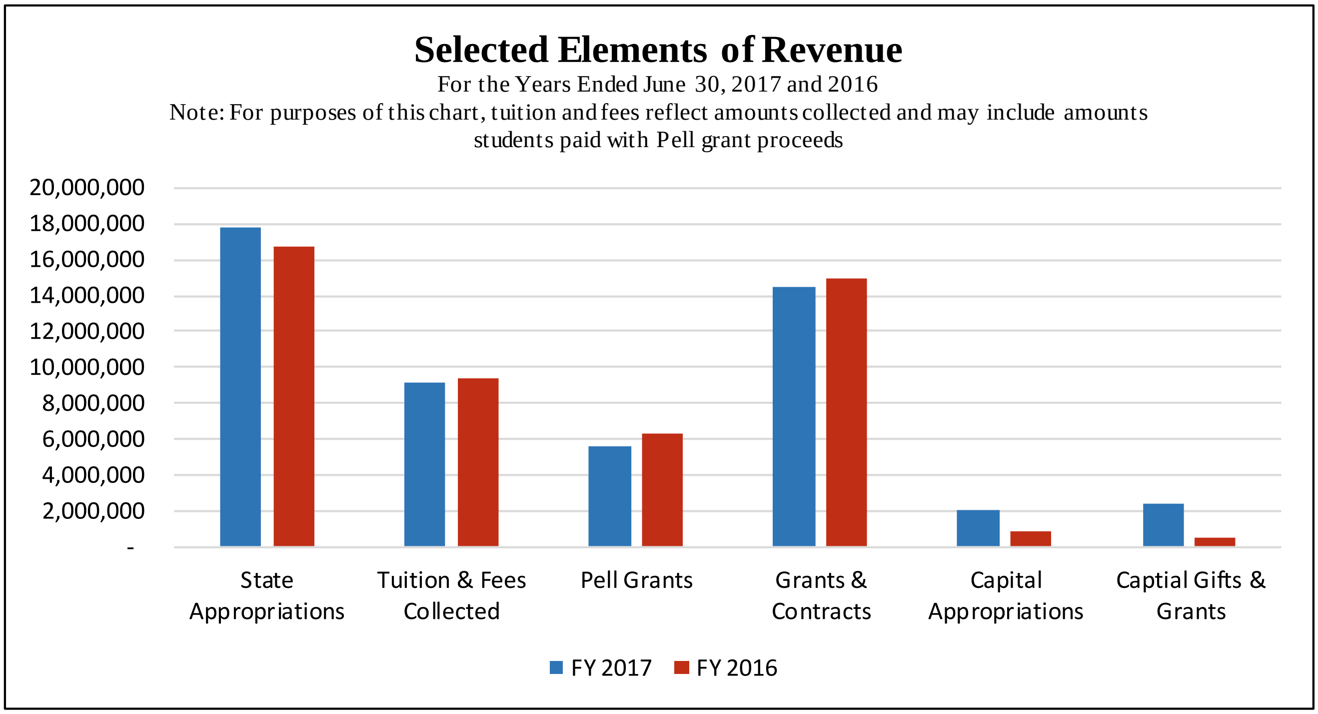


The Legislature did not allow tuition increases for the two-year colleges in FY 2014, FY 2015 or FY 2017. In FY 2016, the Legislature enacted the Affordable Education Act, which decreased tuition by 5%. The Legislature backfilled a portion of foregone tuition revenue with state funding as seen in the graph above. State-funded enrollment declined 1.5% during FY 2016 and then another 8%, or 245 full-time equivalent students, for FY 2017. Operating tuition revenue decreased by over $500,000 adding to the College's revenue challenges during the fiscal year. Pell grant revenues received by the College decreased by $696,000 or 10.97%. In June of 2016, students at both campuses voted in a $5 increase in facility use fees to fund future capital projects focused on student recreation and activity space at each campus. The fees started Fall Quarter of 2016 resulting in an overall increase of $541,000 in fee revenue. The College continues to serve some students by offering programs on a fee-only basis, as allowed by law.

In FY 2017, grant and contract revenues decreased by approximately $525,771, or 3.5%, when compared with FY 2016. The two largest contributing factors to this decrease were the ending of the Title III grant in FY 2016 causing a $238,000 decrease and the final year spenddown in FY 2017 of the USDA Ag Center grant, which added in another $260,000 decrease. The College continued to serve students under the terms of all contracted programs. Other changes in grant and contract revenue consist of normal annual fluctuations to programs and services. The College 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 is generally required to expend all funding during the biennium it is appropriated. 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 fluctuate based on the number of projects that are funded so fluctuations in revenue are expected and appropriate. Compared to FY 2016, the College received and expended just over $1.2 million more in capital appropriations during FY 2017. For FY 2017, a total of just over $2 million was received with nearly $840,000 included in capitalized costs for the Clarkston Workforce & Business Development Center and the remaining $1.2 million being accounted for as operating expenses instead of being capitalized as assets on the Statement of Net Position. These non-capitalized costs consisted of the completion of several large repair projects including a major heating and air conditioning project for Building D in Walla Walla, a water line repair and replacement for the Vocational-Technical building and replacement of a cross connection for the water main feeding the Walla Walla campus.

During FY 2017, just over $2.1 million was received as capital gifts and grants to help fund construction costs on the Clarkston Workforce and Business Development Center. This building was completed and capitalized in FY 2017.



Expenses

For FY 2017, salary expenditures decreased slightly when compared to FY 2016. Total employee benefit costs increased by almost $541,000 including a $178,000 increase in the cost of employer paid health care. Post-employment benefit costs increased by $173,000 due mostly to the implementation of GASB 73, along with an increase of $201,000 in other employee benefits, which is primarily comprised of the annual adjustments to the compensated absences liability.

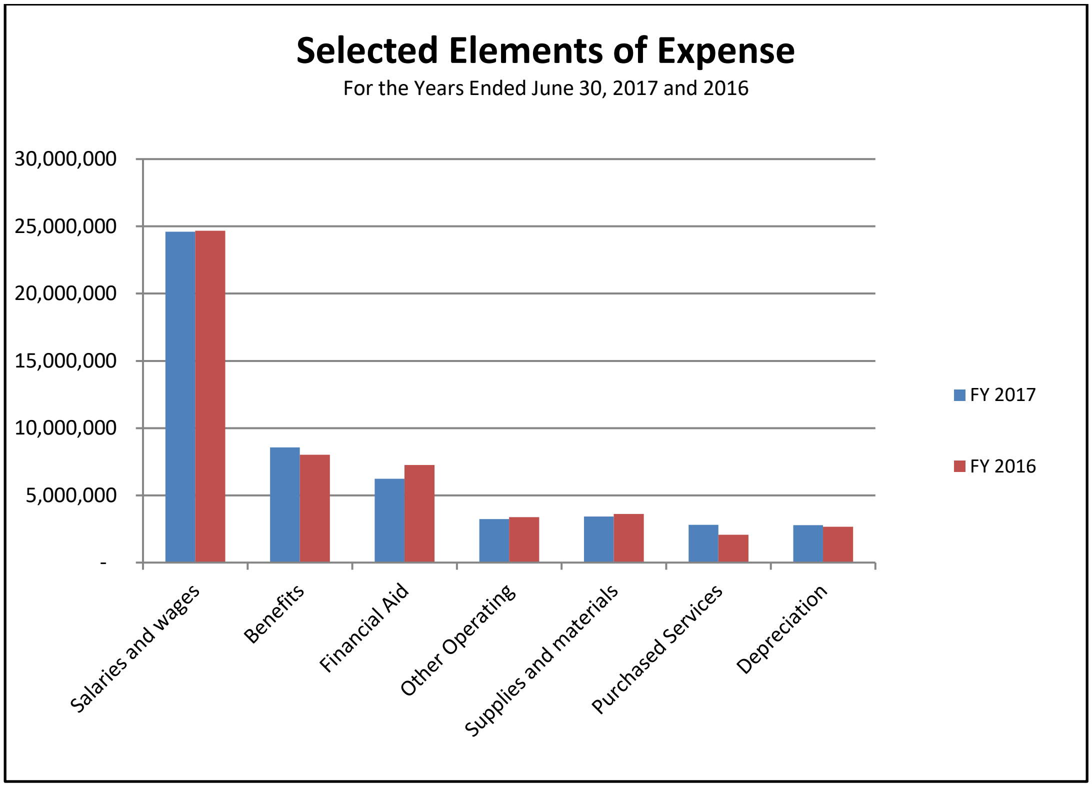
Expenditures for student financial aid declined by just over $1 million or about 14%. This decrease in student aid expenditures is consistent with the large decline in Pell Grant revenues reported previously as well an enrollment decline of 8%.

The combined expenses for supplies and materials and other operating expenses decreased slightly while expenditures on purchased services increased by over $700,000. The increase in purchased services expenses is a direct result of increased spending for repairs to College facilities. Capital appropriations from the state for repair work are often used to procure contractors or for other non-capitalized equipment purchases. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset. Other costs reported as operating expenses include items such as travel, employee training, non-capitalized equipment, software, printing and other supplies.

Utility costs were around 7.5% higher, or $64,000, when compared to FY 2016 primarily due to increased rates from service providers and a colder than normal winter. Depreciation expense is driven by capital activity, with the annual depreciation expense showing an increase in any year when new capital projects are completed and placed in service. Fluctuations of this nature are to be expected.

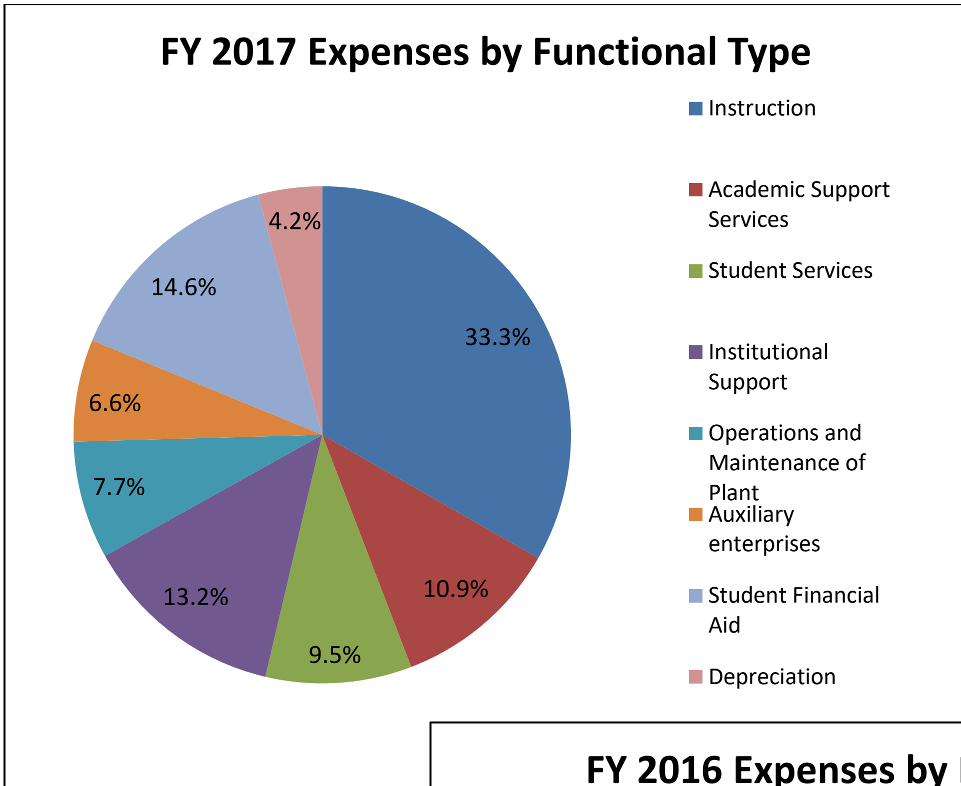
Comparison of Selected Elements of Operating Expenses

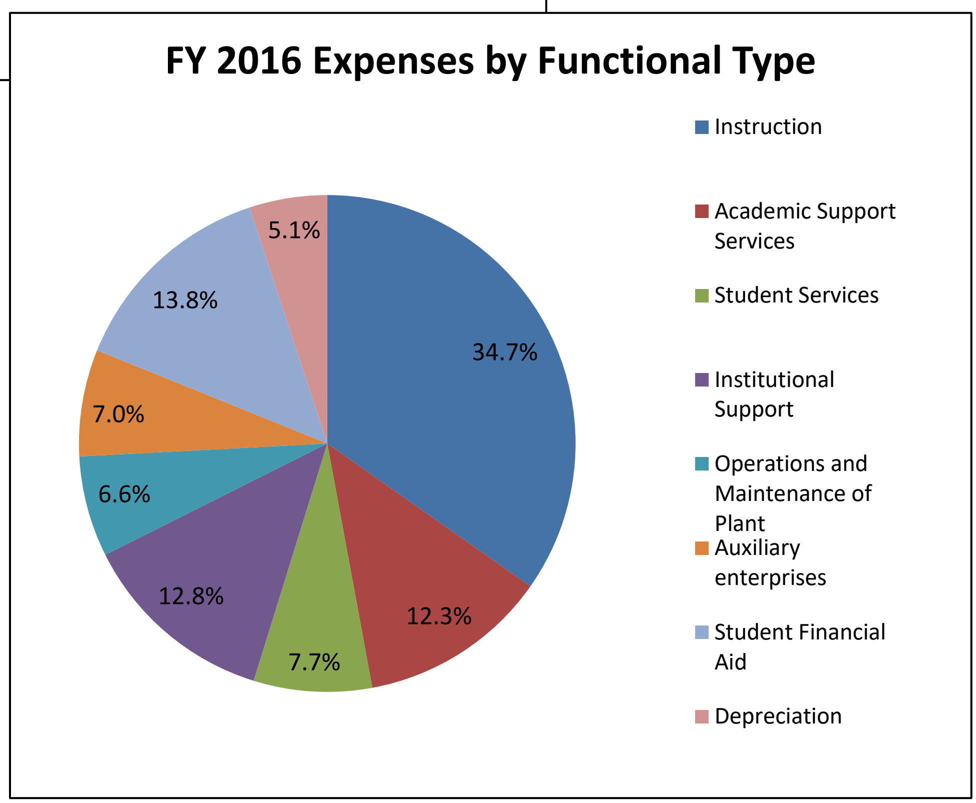
The following chart shows the amount, in dollars, for selected elements of operating expenses for FY 2017 and FY 2016.



Operating Expenses by Function

The following charts show the amount, by percentage, of operating expenses for each functional area for FY 2016 and FY 2017.


FY 2017 Expenses by Functional Type
Instruction
Academic Support Services
Student Services
Institutional Support
Operations and Maintenance of Plant
Auxiliary enterprises
Student Financial Aid
Depreciation
33.3%
10.9%
9.5%
13.2%
7.7%
6.6%
14.6%
4.2%


FY 2016 Expenses by Functional Type
Instruction
Academic Support Services
Student Services
Institutional Support
Operations and Maintenance of Plant
Auxiliary enterprises
Student Financial Aid
Depreciation
34.7%
12.3%
7.7%
12.8%
6.6%
7.0%
13.8%
5.1%

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 that is expected to continue to impact the number of new projects that can be financed.

At June 30, 2017, the College had invested $54,880,510 in capital assets, net of accumulated depreciation. This represents an increase of $2,784,739 from last year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	$ 2,553,379	$ 2,553,379	$ -
Construction in Progress	25,558	531,239	(505,681)
Buildings, net	47,623,079	43,745,486	3,877,593
Other Improvements and Infrastructure, net	1,735,204	2,259,335	(524,131)
Equipment, net	2,822,388	2,875,442	(53,054)
Library Resources, net	120,902	130,890	(9,988)
Total Capital Assets, Net	**$ 54,880,510**	**$ 52,095,771**	**$ 2,784,739**

During FY 2017, the Clarkston Workforce and Business Development Center building was placed into service resulting in a decrease in construction in progress of $505,681 and an increase in buildings of $5,210,790. Two pieces of donated equipment were accepted during the fiscal year with fair market value of $22,000. These net increases were offset by accumulated depreciation of $2,786,133. Other changes to capital assets occur from the normal purchase and retirement of equipment and library resources. Additional information on capital assets can be found in Note 7 of the Notes to the Financial Statements.

At June 30, 2017, the College had $2,825,000 in outstanding debt on five Certificates of Participation (COP). The increase in outstanding debt occurred in February 2017, when the college secured $1,300,000 in debt to help fund the construction of the new Clarkston building.

Debt	June 30, 2016	June 30, 2015	Change
Certificates of Participation	$ 2,825,000	$ 1,685,000	$ 1,140,000
Total	**$ 2,825,000**	**$ 1,685,000**	**$ 1,140,000**

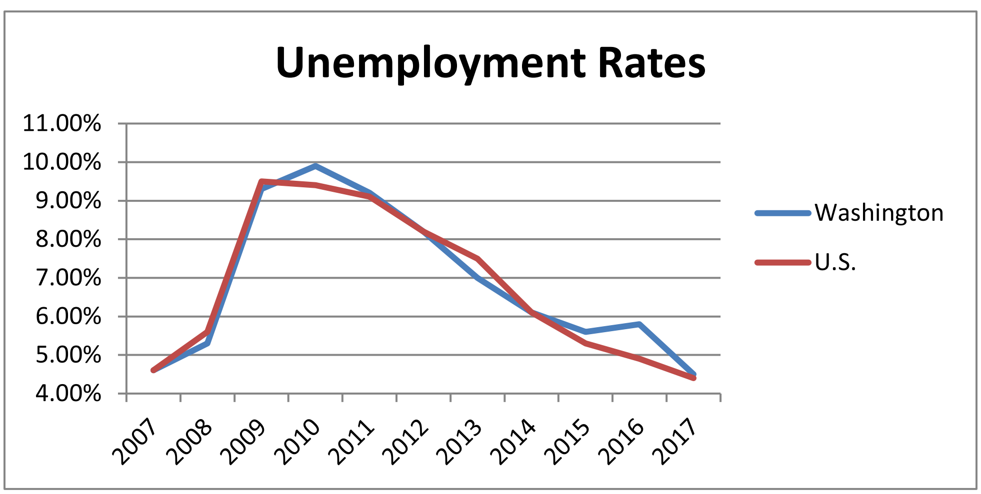
Additional information on long-term debt and debt service schedules can be found in Notes 14, 15 and 16 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. When creating the 2013-2015 biennial budget, the state Legislature made some modest reinvestments in community and technical colleges. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the community colleges. This reduction reduced the amount of tuition collected although the Legislature did partially backfill the loss of tuition revenue to the College. Starting in FY 2017, the State Board for Community and Technical Colleges elected to move to a new allocation model that changed how all state allocated funds are distributed amongst the colleges. The new model has several indicators built in that affect each College's allocation including a 5% share of the system's appropriation that is based on a few performance indicators like student completions and achievement points. Another key factor used in the new formula is the use of a three-year rolling average of actual enrollments dictating a College's targeted funding level for the upcoming year. Lastly, the new model weights certain full-time equivalent students (FTES) based on a high priority indicator so that some FTES are actually treated as 1.3 instead of 1. The old funding formula actually funded WWCC at a higher amount per FTES and therefore WWCC will lose almost $700,000 of state funding due to the adoption of this new allocation model.

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

A hallmark of community colleges is the flexibility respond quickly to the needs of our local communities. This demand and our desire to respond results in an enrollment pattern of high enrollments during economic downturns when jobs are scarce and unemployment is high. The opposite happens as well, in that community colleges often experience lower enrollment when the job market is strong and unemployment rates are low. While the Great Recession of 2008 had a lingering effect on the job market in Washington, a significant improvement has occurred in the last few years. Like most community colleges in the state, WWCC has experienced enrollment declines as the state economy improves, repeating those historic enrollment patterns related to unemployment rates. Enrollment fluctuations are a more significant concern for higher education finances in the current environment where state support has been reduced and tuition revenues make up a larger share of a college's overall funding.



College Statement of Net Position

Walla Walla Community College
Statement of Net Position
June 30, 2017

Assets		
Current assets		
Cash and cash equivalents	$	6,191,797
Restricted cash		212,020
Accounts receivable, net of allowances		9,503,186
Student loans receivable, net of allowances		170,444
Inventories		419,449
Prepaid expenses		96,454
Total current assets	**$**	**16,593,351**
Non-Current Assets		
Student loans receivable, net of allowances	$	804,950
Capital assets, not being depreciated		2,578,937
Capital assets, net of accumulated depreciation		52,301,575
Total non-current assets	**$**	**55,685,463**
Total assets	**$**	**72,278,814**
Deferred Outflows of Resources Related to Pensions	**$**	**1,393,025**
Liabilities		
Current Liabilities		
Accounts payable	$	782,339
Accrued liabilities		1,449,143
Compensated absences		240,441
Unearned revenue		1,263,258
Certificates of participation payable		180,000
Total current liabilities	**$**	**3,915,181**
Noncurrent Liabilities		
Compensated absences	$	2,044,138
Pension liability		8,608,896
Long-term liabilities		2,645,000
Total non-current liabilities	**$**	**13,298,034**
Total liabilities	**$**	**17,213,215**
Deferred Inflows of Resources Related to Pensions	**$**	**906,647**
Net Position		
Net investment in capital assets	$	52,055,512
Restricted for:		
Expendable for financial aid		(158,307)
Expendable for student loans		1,024,180
Unrestricted		2,630,591
Total net position	**$**	**55,551,976**

The accompanying notes are an integral part of these financial statements

Foundation Statement of Financial Position

Walla Walla Community College Foundation and Subsidiary
Consolidated Statements of Financial Position
December 31, 2016

Assets			
Current assets			
Cash and cash equivalents		$	927,295
Investments			5,796,101
Pledge receivable, current			9,612
Inventory			112,337
Assets held for resale			54,585
Prepaid expenses and other assets			17,260
	Total current assets	$	6,917,190
Property and equipment, net of accumulated depreciation			1,589,628
Other assets			
Pledge receivable, noncurrent		$	21,424
	Total assets	$	8,528,242
Liabilities and net assets			
Current liabilities			
Accounts payable		$	65,167
Accrued expenses			11,130
	Total liabilities	$	76,297
Net assets			
Unrestricted net assets		$	2,275,839
Temporarily restricted net assets			6,176,106
	Total net assets	$	8,451,945
	Total liabilities and net assets	$	8,528,242

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, 2017

Operating Revenues		
Student tuition and fees, net of discounts	$	9,172,357
Auxiliary enterprise sales		2,012,861
State and local grants and contracts		13,640,468
Federal grants and contracts		789,055
Other operating revenues		1,999,985
Interest on loans to students		15,093
Total operating revenue	**$**	**27,629,820**
Operating Expenses		
Other operating expenses	$	3,242,103
Salaries and wages		24,591,340
Benefits		8,558,570
Scholarships and fellowships		6,243,364
Supplies and materials		3,421,269
Depreciation		2,786,133
Purchased services		2,801,009
Utilities		912,921
Total operating expenses	**$**	**52,556,709**
Operating income (loss)	**$**	**(24,926,889)**
Non-Operating Revenues (Expenses)		
State appropriations	$	17,751,528
Federal Pell grant revenue		5,648,524
Investment income, gains and losses		35,152
Building fee remittance		(1,171,887)
Innovation fund remittance		(245,003)
Interest on indebtedness		(82,301)
Net non-operating revenues (expenses)	**$**	**21,936,013**
Income (Loss) before capital contributions	**$**	**(2,990,876)**
Capital appropriations		2,025,350
Capital gifts and grants		2,144,495
Increase (Decrease) in net position	**$**	**1,178,968**
Net Position		
Net position, beginning of year		57,709,918
Cumulative effect of a change in accounting principle (GASB 73)		(3,336,910)
Net position, beginning of year, as restated	**$**	**54,373,008**
Net position, end of year	**$**	**55,551,976**

The accompanying notes are an integral part of these financial statements

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
Year ended Dec. 31, 2016

	Unrestricted	Temporarily Restricted	Totals
Revenue			
Contributions and grants	$ 79,395	$ 795,788	$ 875,183
Unrealized gain on investments	28,619	205,028	233,647
Lease income	208,746	-	208,746
Interest and dividends	35,679	137,234	172,913
Donated service and materials	162,930	-	162,930
Warrior club	31,749	-	31,749
Realized gain on investments	13,667	111,300	124,967
Gain on sale of asset	9,791	-	9,791
Other income	4,927	-	4,927
Program revenue	29,027	-	29,027
Wine Operations			
Retail Sales	332,388	-	$ 332,388
Less: Cost of goods sold	(117,259)	-	(117,259)
Gross Profit	215,129	-	215,129
Net assets released from restrictions	1,256,910	(1,256,910)	-
Total public support, revenue and reclassifications	$ 2,076,569	$ (7,560)	$ 2,069,009

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Walla Walla Community College Foundation and Subsidiary
Consolidated Statement of Activities and Changes in Net Assets (cont.)
Year ended Dec. 31, 2016

	Unrestricted	Temporarily Restricted	Totals
Expenses			
Scholarships and awards:			
Scholarships and awards	$ 831,188	$ -	$ 831,188
Grant expenditures	56,856	-	56,856
Program expenses	225,620	-	225,620
Administration:			
Advertising	59,625	-	59,625
Bank fees	2,923	-	2,923
Administrative fee	298,000	-	298,000
Professional services	18,537	-	18,537
Investment expense	26,999	-	26,999
Depreciation	84,223	-	84,223
Insurance	18,823	-	18,823
Supplies	10,331	-	10,331
Taxes and licenses	17,345	-	17,345
Travel	6,175	-	6,175
Dues and subscriptions	12,205	-	12,205
Repair and maintenance	13,276	-	13,276
Donated service and materials	116,445	-	116,445
Rent	3,972		3,972
Miscellaneous	107,377	-	107,377
Fundraising event expenses:			
Warrior club	31,805	-	31,805
Total Expenses	$ 1,941,725	$ -	$ 1,941,725
Change in net assets	$ 134,844	$ (7,560)	$ 127,284
Net assets - beginning of year	2,140,995	6,183,666	8,324,661
Net assets - end of year	$ 2,275,839	$ 6,176,106	$ 8,451,945

College Statement of Cash Flows

Walla Walla Community College
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flow from operating activities		
Student tuition and fees, net of discounts	$	9,129,794
Grants and contracts		12,083,690
Payments to vendors		(8,977,804)
Payments for utilities		(913,514)
Payments to employees		(24,693,530)
Payments for benefits		(8,368,328)
Auxiliary enterprise sales		2,031,263
Payments for scholarships		(6,243,364)
Loans issued to students		(108,000)
Collection of loans to students		121,555
Other receipts		1,857,584
Net cash used by operating activities	**$**	**(24,080,654)**
Cash flow from noncapital financing activities		
State appropriations	$	17,301,168
Federal Pell grant revenue		5,648,524
Building fee remittance		(1,156,063)
Innovation fund remittance		(241,594)
Net cash provided by noncapital financing activities	**$**	**21,552,036**
Cash flow from capital and related financing activities		
Proceeds of capital debt	$	1,300,000
Capital appropriations		1,721,505
Purchases of capital assets		(5,573,873)
Capital gifts and grants		2,144,495
Principal paid on capital debt		(160,000)
Interest paid on indebtedness		(82,301)
Net cash provided by capital and related financing activities	**$**	**(650,175)**
Cash flow from investing activities		
Income of investments	$	35,152
Net cash provided by investing activities	**$**	**35,152**
Increase in cash and cash equivalents	**$**	**(3,143,641)**
Cash and cash equivalents at the beginning of the year	**$**	**9,547,458**
Cash and cash equivalents at the end of the year	**$**	**6,403,818**

The accompanying notes are an integral part of the financial statements

(Cash Flow Statement - cont.)

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	**$**	**(24,926,889)**
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	$	2,786,133
Changes in assets and liabilities		
Receivables, net of allowances	$	(2,597,612)
Inventories		164,239
Other assets		(4,999)
Accounts payable		295,578
Accrued liabilities		(111,065)
Unearned revenue		87,214
Compensated absences		145,965
Pension liability		38,482
Loans to students		42,299
Net cash used by operating activities	**$**	**(24,080,654)**
Non Cash Transactions		
Donated assets	$	22,000

The accompanying notes are an integral part of these 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
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 associate 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 are 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. The Foundation's statements have been prepared and audited 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 $524,460 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Vice President of Administrative Services, Walla Walla Community College, 500 Tausick Way, Walla Walla, WA 99362 or by calling (509)527-4201.

Basis of Presentation
The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a

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

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

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

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

Cash, Cash Equivalents and Investments
Cash and cash equivalents include cash on hand 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. 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.

Student loans receivable consist of amounts due from loans given out through participation in the Federal Perkins Loan Program.

Inventories
Merchandise inventory consists solely of merchandise held for resale in the bookstore and is valued at cost using the FIFO method. Consumable inventories consist solely of inventories of food supplies held for use by the campus café and are valued at cost using the FIFO method. The

College’s vocational programs purchase student project vehicles and valuation of these work-in-process projects are valued at actual costs incurred.

Prepaid Items

Prepaid items are generally outstanding credit memos received by the College’s on-campus bookstore for items returned. Prepaid items also exist due to deposits on equipment.

Capital Assets

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

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

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

Unearned Revenues

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

Tax Exemption

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

Net Pension Liability

For purposes of measuring the net pension liability in accordance with GASB 68, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY17, the College also reported its share of the pension liability for the State Board Retirement Plan in accordance with GASB73 *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 GASB68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net pension 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.* Resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by statute, granting authorities, or third parties.
    - *Expendable for Financial Aid*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
    - *Expendable for Student 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 and Expenses
The College has classified its revenues and expenses as either operating or non-operating 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. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.

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

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

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2017 are $3,793,975.

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

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

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 $3,336,910 as a result of the implementation of GASB Statement No. 73.

Accounting Standard Impacting the Future

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

3. Cash and Investments

Cash and cash equivalents include bank demand deposits, restricted cash held for retainage, and petty cash held at the College.

As of June 30, 2017, the carrying amount of the College's cash and equivalents was $6,403,818 as represented in the table below.

Cash and Cash Equivalents	**June 30, 2017**
Petty Cash and Change Funds	$ 9,375
Bank Demand and Time Deposits	6,182,422
Restricted Cash Held for Retainage	212,020
Total Cash and Cash Equivalents	**$ 6,403,818**

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 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).

4. Accounts Receivable

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

Accounts Receivable	Amount	
Student Tuition and Fees	$	1,178,229
Due from the Federal Government		2,693,158
Due from Other State Agencies		4,453,230
Auxiliary Enterprises		155,277
Other		1,078,892
Subtotal	$	9,558,786
Less Allowance for Uncollectible Accounts		(55,600)
Total Accounts Receivable, net of allowances	**$**	**9,503,186**

5. Loans Receivable
Loans receivable as of June 30, 2017 consisted primarily of student loans, as follows.

Loans Receivable	Amount	
Student Loans Receivable	$	1,037,294
Less Allowance for Uncollectible Accounts		(61,900)
Total Loans Receivable, net of allowances	**$**	**975,394**

6. Inventories
Inventories, stated at cost using FIFO or actual project costs incurred, consisted of the following as of June 30, 2017.

Inventories	Amount		Valuation Method
Consumable Inventories	$	14,569	FIFO
Merchandise Inventories	$	268,193	FIFO
Work in Progress Inventories	$	136,688	Actual Cost
Total Inventories	**$**	**419,449**	

7. Capital Assets
A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $2,786,133. The college received two donated assets totaling $22,000 during this fiscal year. These donated assets were recorded at fair market value. Interest expense during the year was $82,301, none of which was capitalized.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 2,553,379			$ 2,553,379
Construction in progress	531,239		(505,681)	25,558
Total nondepreciable capital assets	3,084,618	-	(505,681)	2,578,937
Depreciable capital assets				
Buildings	65,167,826	5,210,790		70,378,616
Other improvements and infrastructure	2,801,091			2,801,091
Equipment	8,108,644	853,806	(179,533)	8,782,917
Library resources	2,900,595	25,184		2,925,779
Subtotal depreciable capital assets	78,978,156	6,089,780	(179,533)	84,888,403
Less accumulated depreciation				
Buildings	21,422,340	1,333,197		22,755,537
Other improvements and infrastructure	541,756	524,131		1,065,887
Equipment	5,233,202	893,633	(166,308)	5,960,527
Library resources	2,769,705	35,172		2,804,877
Total accumulated depreciation	29,967,003	2,786,133	(166,308)	32,586,828
Total depreciable capital assets	49,011,153	3,303,647	(13,225)	52,301,575
Capital assets, net of accumulated depreciation	52,095,771	3,303,647	(518,906)	54,880,512

8. Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

9. Accounts Payable and Accrued Liabilities

At June 30, 2017, accounts payable and accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount	
Amounts Owed to Employees	$	866,344
Accounts Payable		244,451
Amounts Held for Others		1,120,687
Total Accounts Payable and Accrued Liabilities	**$**	**2,231,482**

10. Unearned Revenue

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

Unearned Revenue	Amount	
Summer & Fall Quarter Tuition & Fees	$	1,212,939
Auxiliary Enterprises	$	2,921
Grants and Contracts		47,398
Total Unearned Revenue	**$**	**1,263,258**

11. Risk Management

The College is exposed to various risks of loss related to tort liability, injuries to employees, errors and omissions, theft of, damage to, and destruction of assets, and natural disasters. Some of the key insurance coverages used by the College to mitigate these risks are summarized below. Management believes these coverages are sufficient to preclude significant uninsured losses.

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 $29,098.

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.

12. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $974,087, and accrued sick leave totaled $1,310,492 at June 30, 2017.

Accrued annual vacation and sick leave are generally categorized as non-current liabilities, however, an estimated amount, based on a three-year average payout, has been re-classed as a current liability. Compensatory time is categorized as a current liability since it must be used before other leave. As of June 30, 2017 there was no compensatory time liability.

13. Leases Payable

The College has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2017, the minimum lease payments under operating leases consist of the following.

Operating Leases Payable		
Fiscal year	**Equipment Leases**	**Property Leases**
2018	$ 6,172	$ 3,450
2019	360	3,519
2020		3,589
2021		
2022		
2023-2027		
Total minimum lease payments	**$ 6,532**	**$ 10,558**

14. 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. The interest rate charged is approximately 1.94084%.

In June, 2004, the College obtained financing in order to purchase property adjacent to the Walla Walla Campus through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $1,110,000. The interest rate charged is approximately 1.96203%.

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. This COP was refinanced through the OST in October of 2015 with a principal balance of $635,000. The interest rate charged is approximately 2.12571% with all other terms and conditions remaining the same as the original COP.

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. This COP was refinanced through the OST in March of 2016 with a principal balance of $360,000. The interest rate charged is approximately 2.11868% with all other terms and conditions remaining the same as the original COP.

In February, 2017, the college obtained financing to build a Workforce and Business Education building on the Clarkston Campus through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $1,300,000. The interest rate charged is approximately 3.40725%.

The College's debt service requirements for these note agreements for the next five years and thereafter are shown in Note #15.

15. Annual Debt Service Requirements

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

Annual Debt Service Requirements			
Certificates of Participation			
Fiscal year	**Principal**	**Interest**	**Total**
2018	$ 180,000	$ 156,836	$ 336,836
2019	215,000	126,600	341,600
2020	220,000	116,750	336,750
2021	230,000	106,650	336,650
2022	235,000	96,100	331,100
2023-2027	925,000	322,350	1,247,350
2028-2032	360,000	170,750	530,750
2033-2037	460,000	70,750	530,750
Total	**$2,825,000**	**$1,166,786**	**$3,991,786**

16. Schedule of Long Term Liability

	Balance outstanding 6/30/16	**Additions**	**Reductions**	**Balance outstanding 6/30/17**	**Current portion**
Certificates of Participation	$ 1,685,000	$ 1,300,000	$ 160,000	$ 2,825,000	$ 180,000
Compensated Absences	2,138,614	$ 1,286,602	$ 1,140,636	$ 2,284,579	240,441
Net pension liability	8,343,049	$ 2,138,709	$ 1,872,863	$ 8,608,896	
Total	**$ 12,166,663**	**$ 4,725,311**	**$ 3,173,499**	**$ 13,718,475**	**$ 420,441**

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

Pension Liability by Plan		
PERS 1	$	2,510,158
PERS 2/3		2,949,105
TRS 1		362,660
TRS 2/3		106,718
SBRP		2,680,255
Total	**$**	**8,608,896**

18. Retirement Plans

A. General
The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a 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 FY2017, the payroll for the College's employees was $5,516,558 for PERS, $395,745 for TRS, and $15,893,710 for SBRP. Total covered payroll was $21,806,013.

The College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the State Board Retirement Plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB. In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

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 Retirement Plan in alignment with the State CAFR.

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for the College, for fiscal year 2017:

Aggregate Pension Amounts - All Plans

Pension liabilities	$ 8,608,896
Deferred outflows of resources related to pensions	$ 1,393,025
Deferred inflows of resources related to pensions	$ 906,647
Pension expense	$ 701,633

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

PERS and TRS

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

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

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

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of

Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

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

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

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

PERS and TRS 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 Contributions						
	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 4,902	$ 7,524	$ 3,468	$ 6,463	$ 1,233	$ 2,293
Plan 2	199,078	372,646	256,416	468,390	248,632	454,149
Plan 3	90,971	116,349	95,025	143,302	106,290	160,943
TRS						
Plan 1	$ 4,325	$ 7,489	$ 4,470	$ 9,442	$ 4,987	$ 10,912
Plan 2	6,451	13,513	6,772	14,854	3,718	8,205
Plan 3	12,963	19,001	17,310	34,385	17,587	32,844

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% 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 plan's expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
FY16 Pension Expense	$ 146,816	$ 402,318	$ 23,288	$ 29,098	$ 601,520
FY17 Amortization of change in proportionate liability	(64,440)	(11,773)	31,100	7,006	$ (38,107)
FY16 Amortization of change in proportionate liability		27,993			$ 27,993
Total Pension Expense	**$ 82,376**	**$ 418,538**	**$ 54,388**	**$ 36,104**	**$ 591,406**

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	.047908%	.046740%
PER 2/3	.059767%	.058573%
TRS 1	.009708%	.010622%
TRS 2/3	.006759%	.007771%

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

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

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

<u>Sensitivity of the net pension liability to changes in the discount rate:</u> The following presents the net pension liability of the College calculated using the discount rate of 7.50%, 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%) or 1-percentage-point higher (8.50%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Pension Plan	**6.50%**	**7.50%**	**8.50%**
PERS Plan 1	$ 3,026,998	$ 2,510,158	$ 2,065,385
PERS Plan 2/3	5,429,831	2,949,104	(1,535,179)
TRS Plan 1	445,820	362,660	291,030
TRS Plan 2/3	241,519	106,719	(123,975)

<u>Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions</u>**:** 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	$ 63,202		$ 157,038	$ 97,355
Difference between expected and actual earnings of pension plan investments			360,885	
Changes of Assumptions			30,481	
Changes in College's proportionate share of pension liabilities			57,738	37,674
Contributions to pension plans after measurement date	267,818		348,006	
	$ 331,020	$ -	$ 954,148	$ 135,029

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			$ 8,073	$ 4,735
Difference between expected and actual earnings of pension plan investments	$ 11,503		17,179	
Changes of Assumptions			1,087	
Changes in College's proportionate share of pension liabilities			22,687	
Contributions to pension plans after measurement date	28,466		18,862	
	$ 39,969	$ -	$ 67,888	$ 4,735

The $663,152 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	Total
2018	$ (15,562)	$ 18,257	$ (2,973)	$ 6,691	$ 6,413
2019	(15,562)	13,010	(2,973)	6,691	1,166
2020	58,044	271,164	10,761	19,498	359,467
2021	36,281	168,683	6,688	10,969	222,621
2022				442	442
2023					-
Total	**$ 63,201**	**$ 471,114**	**$ 11,503**	**$ 44,291**	**$590,109**

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 plan with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee’s retirement date. The supplemental component is financed on a pay-as-you-go basis. The 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 $1,349,930.

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% 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 all colleges in the amount of $902,000. Walla Walla Community College's share of this amount was $25,435. 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 $79,619. This amount was not used as a part of GASB73 calculations as its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for $13,280,149.81 of the fund balance.

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

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

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

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

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% for the June 30, 2017 measurement date.

Pension Expense: For the year ended June 30, 2017, the College reported $135,662 for pension expense in the State Board Retirement Plans.

Proportionate Shares of Pension Liabilities: The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 2.82%. 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 enititled to but not yet receiving benefits	Active members	Total members
Walla Walla Community College	15	1	172	188

Change in Total Pension Liability/ (Asset): The following table presents the change in total pension liability/(asset) of the State Board 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	
Service cost	$ 153
Interest	99
Changes of benefit terms	-
Differences between expected and actual experience	(714)
Changes of assumptions	(169)
Benefit payments	(25)
Other	-
Net change in total pension liability	$ (656)
Total pension liability - beginning	$ 3,337
Total pension liability - ending (a)	$ 2,681

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%, 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%) or 1 percentage point higher (4.58%) than the current rate (expressed in thousands):

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% Increase
	2.58%	3.58%	4.58%
Walla Walla Community College	$ 3,079	$ 2,680	$ 2,350

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

State Board Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 620
Changes of assumptions		146
Transactions subsequent to the measurement date		
Total	$ -	$ 766

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):

Year ended June 30	SBRP
2018	$ 116
2019	116
2020	116
2021	116
2022	116
Thereafter	186
Total	$ 766

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% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

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

Teachers' Retirement System Plan 3

The 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% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

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

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

Washington State Deferred Compensation Program

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits 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.

19. Other Post-Employment Benefits

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

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

The actuary allocated the statewide disclosure information to the community and technical College system level. The SBCTC further allocated these amounts among the Colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $17,269,587, with an annual required contribution (ARC) of $1,556,025. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $333,862. The College's net OPEB obligation at June 30, 2017 was approximately $4,551,943. This amount is not included in the College's financial statements.

The College paid $4,304,617 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

20. Operating Expenses by Functional Classification

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, academic support, and student services. The following table lists operating expenses by functional classification for the year ending June 30, 2017.

Expenses by Functional Classification		
Instruction	$	17,830,061
Academic Support Services		5,851,692
Student Services		5,090,933
Institutional Support		7,091,275
Operations and Maintenance of Plant		4,103,395
Auxiliary Enterprises		3,559,856
Student Financial Aid		6,243,364
Depreciation		2,786,133
Total operating expenses	**$**	**52,556,709**

21. Beginning Net Position Restatement

The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 73. The net position has been restated as follows:

Net Position as previously report at June 30, 2016	$ 57,709,918
Prior period adjustment:	
Net Pension Liability	(3,336,910)
Net Position, as restated	$ 54,373,008

22. Commitments and Contingencies

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

23. 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:

Lori Carambot, Director of Special Fiscal Services
Sue Willis, Executive Director of Budget and Finance
Davina Fogg, Vice President of Administrative Services

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Walla Walla Community College's Proportionate Share of the Net Pension Liability

Schedule of Walla Walla Community College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30			
	2014	**2015**	**2016**
College's proportion of the net pension liability	0.047047%	0.047908%	0.046740%
College proportionate share of the net pension liability	$ 2,370,015	$ 2,506,034	$ 2,510,158
College covered payroll	$ 5,057,376	$ 5,386,887	$ 5,522,193
College's proportionate share of the net pension liability as a percentage of its covered payroll	46.86%	46.52%	45.46%
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 Walla Walla Community College's Proportionate Share of the Net Pension Liability

Schedule of Walla Walla Community College's Share of the Net Pension Liability

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

Measurement Date of June 30

	2014	2015	2016
College's proportion of the net pension liability	0.057918%	0.059767%	0.058573%
College proportionate share of the net pension liability	$ 1,170,732	$ 2,135,509	$ 2,949,105
College covered payroll	$ 4,955,365	$ 5,303,083	$ 5,468,697
College's proportionate share of the net pension liability as a percentage of its covered payroll	23.63%	40.27%	53.93%
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 Walla Walla Community College’s Proportionate Share of the Net Pension Liability

Schedule of Walla Walla Community College's Share of the Net Pension Liability Teachers’ Retirement System (TRS) Plan 1 Measurement Date of June 30			
	2014	**2015**	**2016**
College’s proportion of the net pension liability	0.009257%	0.009708%	0.010622%
College proportionate share of the net pension liability	$ 273,031	$ 307,563	$ 362,660
College covered payroll	$ 338,142	$ 387,476	$ 459,740
College’s proportionate share of the net pension liability as a percentage of its covered payroll	80.7444%	79.3761%	78.8836%
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 Walla Walla Community College's Proportionate Share of the Net Pension Liability

Schedule of Walla Walla Community 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	0.006200%	0.006759%	0.007771%
College proportionate share of the net pension liability	$ 20,025	$ 57,033	$ 106,719
College covered payroll	$ 266,847	$ 315,420	$ 385,341
College's proportionate share of the net pension liability as a percentage of its covered payroll	7.5043%	18.0816%	27.6947%
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	$ 208,243	$ 208,243	$ -	$ 5,057,376	4.12%
2015	$ 220,184	$ 220,184	$ -	$ 5,386,887	4.09%
2016	$ 265,060	$ 265,060	$ -	$ 5,522,193	4.80%
2017	$ 264,406	$ 264,406	$ -	$ 5,510,818	4.80%
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 Employees' 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	$ 244,668	$ 244,668	$ -	$ 4,955,365	4.94%
2015	$ 266,232	$ 266,232	$ -	$ 5,303,083	5.02%
2016	$ 338,137	$ 338,137	$ -	$ 5,468,697	6.18%
2017	$ 341,774	$ 341,774	$ -	$ 5,484,177	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	$ 18,306	$ 18,306	$ -	$ 338,142	5.41%
2015	$ 21,724	$ 21,724	$ -	$ 387,476	5.61%
2016	$ 26,475	$ 26,475	$ -	$ 459,740	5.76%
2017	$ 28,545	$ 28,545	$ -	$ 366,150	7.80%
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	$ 15,214	$ 15,214	$ -	$ 266,847	5.70%
2015	$ 17,962	$ 17,962	$ -	$ 315,420	5.69%
2016	$ 31,172	$ 31,172	$ -	$ 385,341	8.09%
2017	$ 19,087	$ 19,087	$ -	$ 284,032	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 State Board Retirement Plan Fiscal Year Ended June 30 *(expressed in thousands)*		
		2017
Total Pension Liability		
Service Cost	$	153
Interest		99
Changes of benefit terms		-
Differences between expected and actual experience		(714)
Changes of assumptions		(169)
Benefit Payments		(25)
Other		-
Net Change in Total Pension Liability		**(656)**
Total Pension Liability - Beginning		**3,337**
Total Pension Liability - Ending	**$**	**2,681**
College's Proportion of the Pension Liability		2.820%
Covered-employee payroll	$	15,894
Total Pension Liability as a percentage of covered-employee payroll		16.86800%

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.