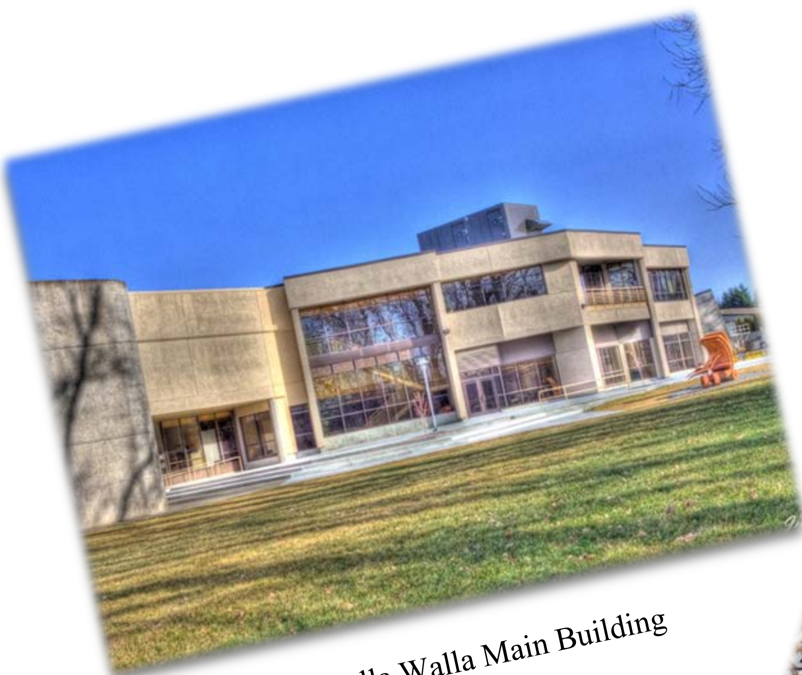
Walla Walla Community College

2014 Annual Financial Report

Fiscal Year Ended June 30, 2014



Walla Walla Main Building

Clarkston Health Science

2014 Financial Report

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For information about the financial data included in this report, contact:
Vice President of Financial and 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
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Trustees and Administrative Officers

Independent Auditor's Report on Financial Statements

Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT

December 18, 2015

Board of Trustees
Walla Walla Community College
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Walla Walla Community College, Walla Walla County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Walla Walla Community College, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America..

Matters of Emphasis

As discussed in Note 1, the financial statements of the Walla Walla Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

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, 2014 (FY 2014).

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

Reporting Entity

Walla Walla Community College is one of thirty public community and technical college districts in the State of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 10,900 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1967 and its primary purpose is to inspire students to discover their potential and achieve their goals by providing relevant, equitable, and innovative learning opportunities and services.

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

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College at a moment in time, at year-end. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over a period of time. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health as a whole.

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

Statement of Net Position

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

Condensed Statement of Net Position		
	As of June 30, 2014	As of June 30, 2013 (restated)
Assets		
Current Assets	15,731,432	15,194,823
Capital Assets, net	51,868,723	53,321,952
Other Assets, non-current	870,647	885,983
Total Assets	**$ 68,470,802**	**$ 69,402,758**
Liabilities		
Current Liabilities	2,987,532	3,507,272
Other Liabilities, non-current	4,168,215	4,229,080
Total Liabilities	**7,155,747**	**7,736,352**
Net Position	**61,315,055**	**61,666,406**
Total Liabilities and Net Position	**68,470,802**	**69,402,758**

Current assets consist primarily of cash, investments, various accounts receivables, inventories, and the short-term portion of student loans receivable, net of allowances. A modest increase in current assets during FY 2014 can be attributed to an increase in accounts receivable. This is due to amounts owed to the College by the Washington State Treasurer as reimbursement for capital and operating expenses from state funds at year-end.

Net capital assets decreased by $1,453,229 from FY 2013 to FY 2014. This decrease is primarily due to recording depreciation expense in the amount of $2,139,394. The decrease is partially offset by adding in the value of acquisitions of capitalizable equipment.

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 primarily due to students paying down loan balances.

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

The decrease in current liabilities from FY 2013 to FY 2014 is due primarily to normal fluctuations in unearned income. Summer quarter tuition and fees collected before June 30th each year are treated as unearned revenue and for FY 2014 that amount decreased by approximately $180,000 when compared to FY 2013. Unearned revenue from grants and contracts decreased by approximately $325,000 as revenue previously reported as unearned at June 30, 3013 was earned during FY 2014.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees (compensated absences) and the long-term portion of Certificates of Participation debt. The College's overall decrease of around $61,000 in non-current liabilities is due to a combination of an increase of around $90,000 for compensated absences combined with a decrease in the principal amount owed on four COPs. The principal amount outstanding declined by $150,000 during FY 2014 due to normally scheduled annual debt service payments.

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.

Condensed Net Position As of June 30th	**FY 2014**	**FY 2013 (restated)**
Net investment in capital assets	$ 49,758,723	$ 51,081,952
Restricted		
Expendable for financial aid	70,096	35,907
Expendable for student loans	1,190,928	1,335,546
Unrestricted	10,295,307	9,213,001
Total Net Position	**$ 61,315,055**	**$ 61,666,406**

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 2014. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenues, expenses, gains and losses of the College.

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

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

A comparison of the condensed statement of revenues, expenses and changes in net position is presented below.

Condensed Statement of Revenue, Expenses and Changes in Net Position

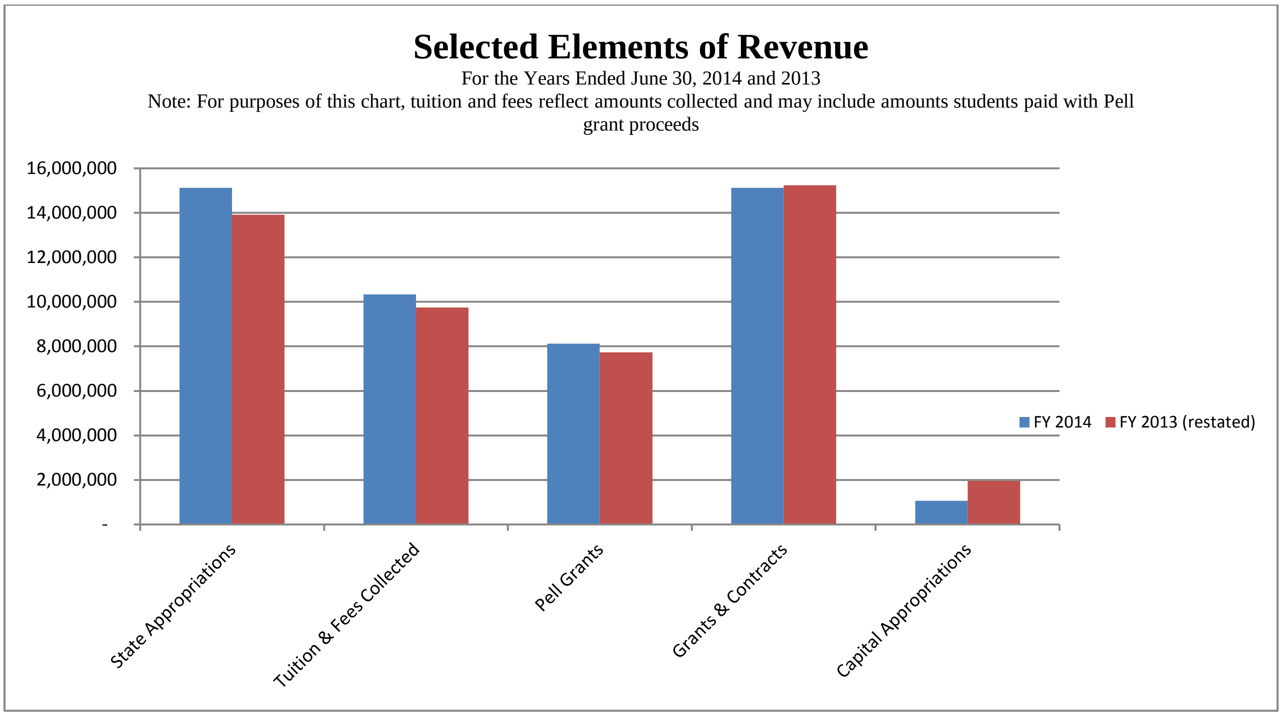
For year ended June 30	2014	2013 (restated)
Operating Revenues	$ 29,635,751	$ 29,163,216
Operating Expenses	52,768,313	50,003,209
Net Operating Loss	$ (23,132,562)	$ (20,839,993)
Non-Operating Revenues	$ 23,263,459	21,671,937
Non-Operating Expenses	1,542,760	$ 1,553,566
Gain (Loss) Before Other	$ (1,411,864)	$ (721,622)
Capital Appropriations	1,060,513	1,960,367
Increase (Decrease) in Net Position	$ (351,351)	$ 1,238,745
Net Position, Beginning of the Year	$ 61,666,406	$ 60,427,661
Net Position, End of the Year	$ 61,315,055	$ 61,666,406

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 as a result of the great recession were reduced by almost 24% by FY 2013. In FY 2014, the Legislature reinstated a small portion of the previous cuts.

The Legislature did not allow tuition increases for the two-year colleges in FY 2014. An increase of around 97 full-time equivalent students resulted in an increase in the College's tuition and fee revenue for FY 2014. Pell grant revenues generally follow enrollment trends so as the College's enrollment increased so did the College's Pell grant revenue. For FY 2014, the College held other fees as stable as possible, resulting in very little change in these revenues other than due to increased enrollments. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2014, grant and contract revenues declined by less than 1%, $107,500, when compared with FY 2013. The College continued to serve students under the terms of contracted programs. The College also contracts with local high schools to enroll Running Start and Alternative Education Program students who earn either high school credits, college credits or both for courses taken as a part of these programs.

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



Expenses

Faced with severe budget cuts between 2009 and 2013, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

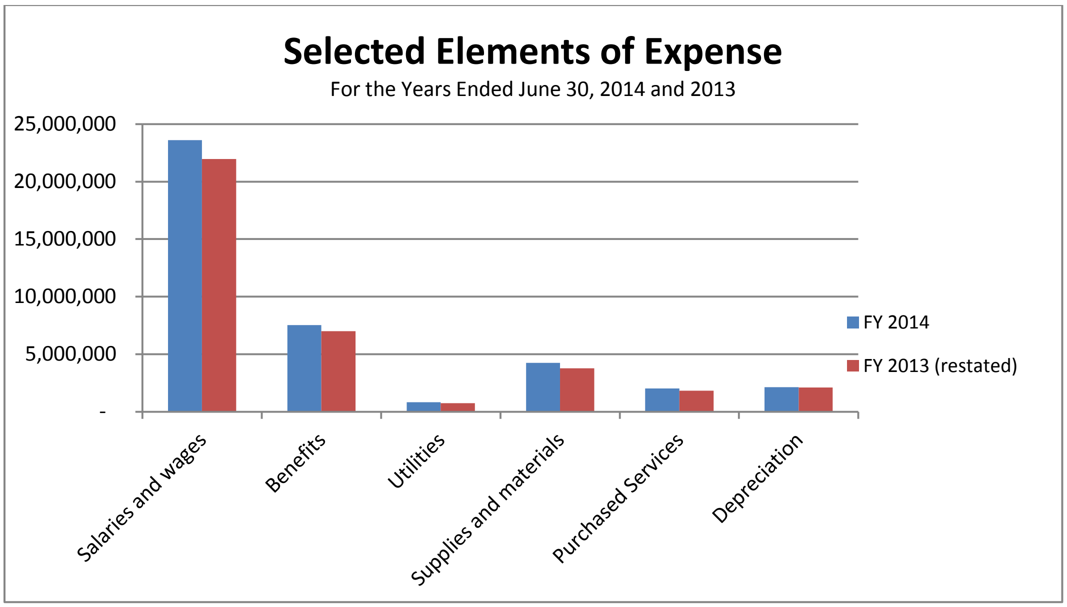
More recently, in FY 2014, salary and benefit costs increased as result of the legislature's appropriation of funds to restore a 3% classified staff pay reduction. In addition, the legislature restored some funds to the college and granted permission for those funds to be used for pay increases for faculty and exempt personnel. The College restored the classified staff pay cut of 3% and also granted 2.3% increases to faculty and exempt staff.

Supplies and materials, purchased services and other operating expenses increased in FY 2014, primarily as a result of increased spending related to capital project planning services and non-capitalized equipment purchases. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as other 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, non-capitalized equipment, printing and other supplies.

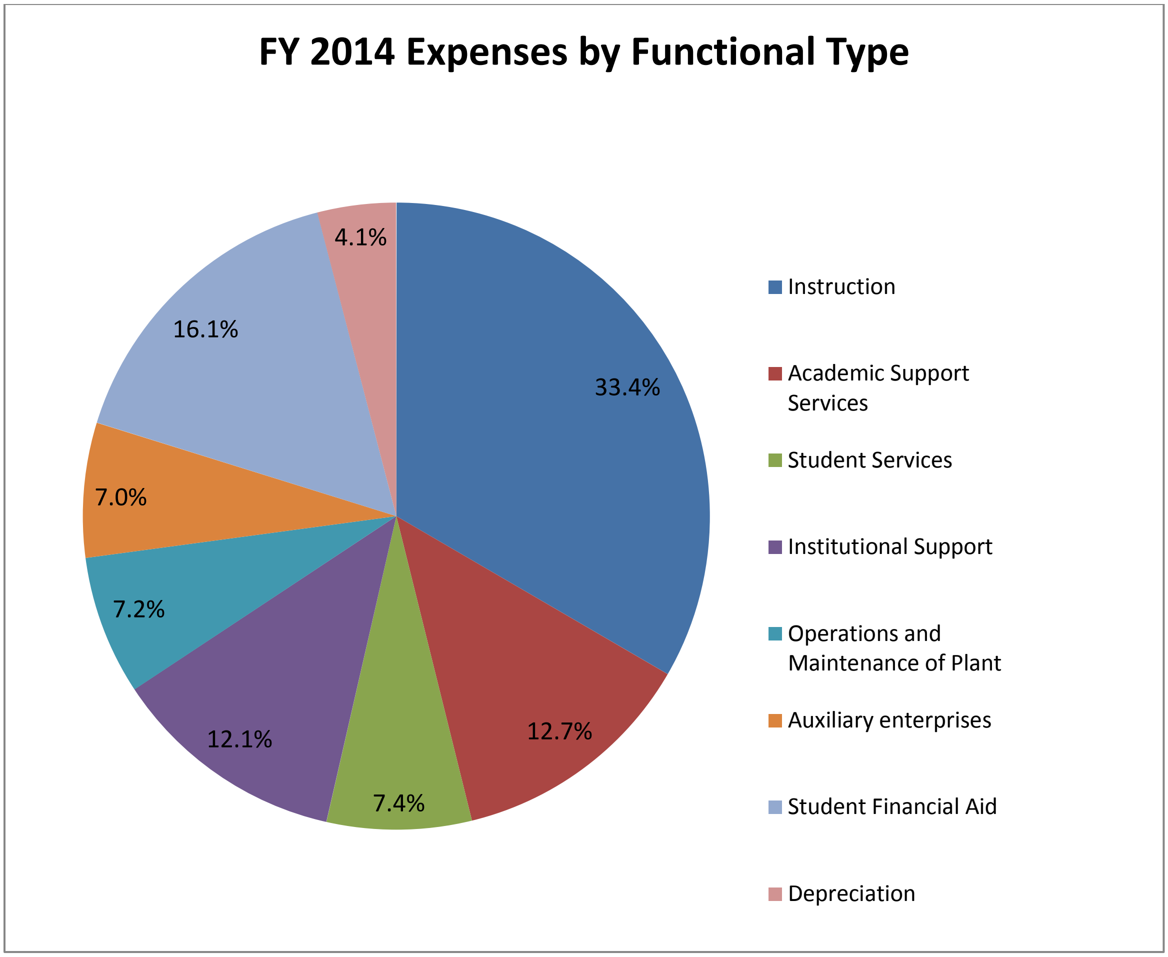
Utility costs were also around $69,000, or 9.1% higher when compared to FY 2013. Depreciation expense is driven by capital activity, with the annual depreciation expense showing a large increase in any year when a new building is placed in service. Fluctuations of this nature are to be expected.

Comparison of Selected Elements of Operating Expenses

The following chart shows the amount, in dollars, for selected elements of operating expenses for FY 2014 and FY 2013.



Operating Expenses by Function
The following chart shows the amount, by percentage, of operating expenses for each functional area for FY 2014.



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

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

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

The third section shows cash received and spent on capital and related financing activities. This includes state capital appropriations for major projects, minor works and repairs. It also includes cash proceeds, loan origination costs, and interest and principal payments related to Certificates of

Participation. Since colleges periodically use local funds to supplement these sources, it is not unusual for this section to show more cash used than provided.

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

Next, the statement shows how the current year's change in cash combined with the prior year's cash balance results in the ending cash and cash equivalents balance shown on the College's Statement of Net Position. Finally, the statement includes a detailed reconciliation of operating activity only, between the operating loss shown as a subtotal on the Statement of Revenues, Expenses and Changes in Net Position and the net cash used by operating activities shown on the Statement of Cash Flows.

A comparison of the condensed statement of cash flows is presented below.

Condensed Statement of Cash Flows As of June 30th	**FY 2014**	**FY 2013 (restated)**
Operating Activities	$ (21,450,691)	$ (17,691,833)
Non-Capital Financing Activities	21,352,286	19,743,620
Capital Financing Activities	(24,312)	(1,501,064)
Investing Activities	19,301	25,124
Net Change in Cash	**$ (103,416)**	**$ 575,847**
Cash, Beginning of Year	8,326,821	7,750,974
Cash, End of Year	**$ 8,223,404**	**$ 8,326,821**

The College's cash and cash equivalents at June 30th decreased by $103,416 in 2014. The use of cash for operating activities increased by $3.75 million due primarily to an increase in payments for employee salary and benefits costs, an increase in payments to vendors and a decrease in cash received from grants and contracts. This large increase in the use of cash for operating activities was partially offset by an increase in cash received from state appropriations and Pell grants under non-capital financing activities. Another offset was due to a decline in the use of cash for the purchase of capital assets with a decrease in cash received for state capital appropriations being the other notable change under the use of cash for capital financing activities section.

Capital Assets and Long-Term Debt Activities

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

At June 30, 2014, the College had invested $51,868,723 in capital assets, net of accumulated depreciation. This represents a decrease of $1,453,229 from last year, as shown in the table below.

Asset Type	June 30, 2014	June 30, 2013 (restated)	Change
Land	$ 2,553,379	$ 2,553,379	$ -
Construction in Progress	102,672	468,090	(365,418)
Buildings, net	46,417,826	47,758,167	(1,340,341)
Other Improvements and Infrastructure, net	359,427		359,427
Equipment, net	2,281,492	2,384,144	(102,652)
Library Resources, net	153,928	158,172	(4,244)
Total Capital Assets, Net	**$ 51,868,723**	**$ 53,321,952**	**$ (1,453,229)**

The decrease in net capital assets can be attributed to annual depreciation expense which was offset by an increase in asset values for the normal replacement and acquisition of equipment and library resources. Three pieces of equipment were donated during the fiscal year at a value of $79,873. The amount shown under construction in progress at June 30, 2014 covers the installation of several wind turbines and a solar energy project both of which are located on the Walla Walla Campus.

At June 30, 2014, the College had $2,110,000 in outstanding debt on four Certificates of Participation (COP).

Debt	June 30, 2014
Certificates of Participation	$ 2,110,000
Total	**$ 2,110,000**

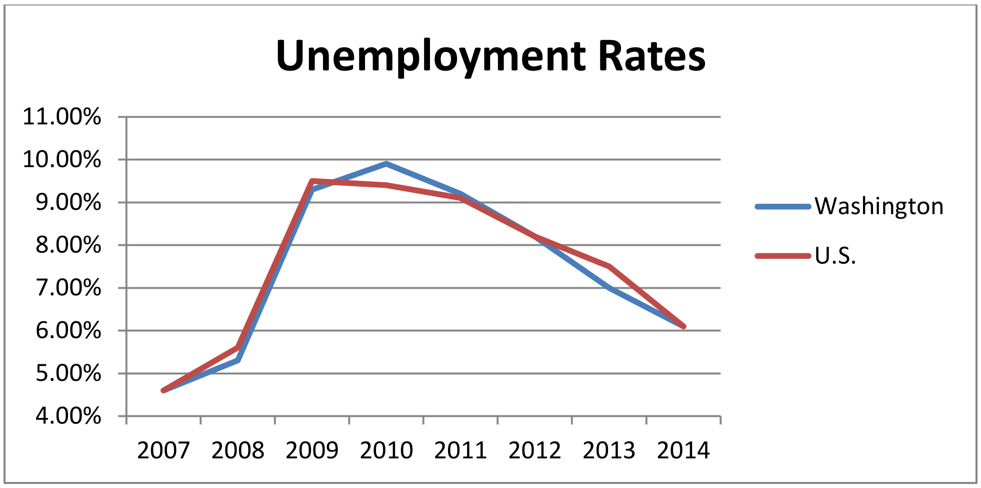
Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013-2015 biennial budget, the state Legislature made some modest reinvestments in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. Despite these reinvestments by the Legislature, the net reduction for the community college system between FY 2009 and the expected funding level by the end of FY 2015 will still be a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2014 tuition levels flat for all students. It is unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years as state budget writers continue to grapple with court-mandated basic education obligations.

Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its most recent forecast (February 2015), the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies. However, the passage of a federal budget in January 2015 and the recent suspension of the debt ceiling reduce uncertainty surrounding federal fiscal policy.

Closer to home, Washington continues to add jobs, including showing growth in the manufacturing sector. Housing construction, home prices and car sales also increased and exports are at an all-time high. Washington State's employment and personal income levels are expected to continue to grow through 2019, the end of the period covered by the forecast.

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. 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 and larger share of college budgets. The College has experienced enrollment declines as the state economy improves, repeating the College's historic enrollment patterns related to unemployment rates.



College Statement of Net Position

Walla Walla Community College
Statement of Net Position
June 30, 2014

Assets		
Current Assets		
Cash and cash equivalents	$	8,223,404
Accounts receivable, net of allowances		6,312,819
Student loans receivable, net of allowances		179,805
Inventories		974,835
Prepaid expenses		40,568
Total current assets	**$**	**15,731,432**
Non-Current Assets		
Student loans receivable, net of allowances	$	870,647
Capital assets, net of depreciation		51,868,723
Total non-current assets	**$**	**52,739,370**
Total assets	**$**	**68,470,802**
Liabilities		
Current Liabilities		
Accounts payable	$	615,879
Accrued liabilities		1,131,721
Unearned revenue		1,089,931
Certificates of Participation payable		150,000
Total current liabilities	**$**	**2,987,532**
Non-Current Liabilities		
Compensated absences	$	2,208,215
Long-term liabilities		1,960,000
Total non-current liabilities	**$**	**4,168,215**
Total liabilities	**$**	**7,155,747**
Net Position		
Net Investment in Capital Assets	$	49,758,723
Restricted:		
Expendable for Financial Aid		70,096
Expendable for Student Loans		1,190,928
Unrestricted		10,295,307
Total net position	**$**	**61,315,055**
Total liabilities and net position	**$**	**68,470,802**

The accompanying notes are an integral part of the financial statements

College Statement of Revenues, Expenditures and Changes in Net Position

Walla Walla Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Operating Revenues		
Student tuition and fees, net of discounts	$	10,331,770
Auxiliary enterprise sales		2,303,564
State and local grants and contracts		13,794,401
Federal grants and contracts		1,331,365
Other operating revenues		1,852,768
Interest on loans to students		21,884
Total operating revenue	**$**	**29,635,751**
Operating Expenses		
Operating expenses	$	3,851,475
Salaries and wages		23,617,907
Benefits		7,532,585
Scholarships and fellowships		8,509,284
Supplies and materials		4,257,992
Depreciation		2,139,394
Purchased services		2,034,743
Utilities		824,932
Total operating expenses	**$**	**52,768,313**
Operating income (loss)	**$**	**(23,132,562)**
Non-Operating Revenues		
State appropriations	$	15,128,509
Federal Pell grant revenue		8,115,649
Investment income, gains and losses		19,301
Net non-operating revenues	**$**	**23,263,459**
Non-Operating Expenses		
Interest on indebtedness	$	108,639
Building and Innovation fee remittance		1,434,121
Net non-operating expenses	**$**	**1,542,760**
Income (Loss) before capital appropriations	**$**	**(1,411,864)**
Capital Appropriations		
Capital appropriations	$	1,060,513
Increase (Decrease) in net position	**$**	**(351,351)**
Net Position		
Net position, beginning of year	$	60,691,469
Prior period adjustments		974,937
Net position, beginning of year, as restated	**$**	**61,666,406**
Net position, end of year	**$**	**61,315,055**

The accompanying notes are an integral part of the financial statements

College Statement of Cash Flows

Walla Walla Community College
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flow from operating activities		
Student tuition and fees, net of discounts	$	10,079,396
Grants and contracts		14,873,021
Payments to vendors		(10,236,600)
Payments for utilities		(832,388)
Payments to employees		(23,560,376)
Payments for benefits		(7,447,409)
Auxiliary enterprise sales		2,258,464
Payments for scholarships, net of discounts		(8,509,284)
Loans issued to students		(150,428)
Collection of loans to students		189,795
Other receipts		1,885,118
Net cash used by operating activities	**$**	**(21,450,691)**
Cash flow from noncapital financing activities		
State appropriations	$	14,664,623
Pell grants		8,115,649
Building & Innovation fees		(1,427,985)
Net cash provided by noncapital financing activities	**$**	**21,352,286**
Cash flow from capital and related financing activities		
Capital appropriations	$	900,492
Purchases of capital assets		(686,165)
Principal paid on capital debt		(130,000)
Interest paid		(108,639)
Net cash used by capital and related financing activities	**$**	**(24,313)**
Cash flow from investing activities		
Income from investments	$	19,301
Net cash provided by investing activities	**$**	**19,301**
Increase (Decrease) in cash and cash equivalents	**$**	**(103,416)**
Cash and cash equivalents at the beginning of the year	**$**	**8,326,821**
Cash and cash equivalents at the end of the year	**$**	**8,223,404**

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	**$**	**(23,132,562)**
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	$	2,139,394
Changes in assets and liabilities		
Receivables , net of allowances	$	(25,992)
Inventories		29,064
Other assets		13,262
Accounts payable		(154,468)
Accrued liabilities		79,131
Unearned revenue		(505,139)
Compensated absences		89,135
Loans to students		17,485
Net cash used by operating activities	**$**	**(21,450,691)**
Noncash Transactions		
Donated Assets	$	79,873

The accompanying notes are an integral part of the financial statements

Foundation Statement of Financial Position

Walla Walla Community College Foundation and Subsidiary
Consolidated Statement of Financial Position
December 31, 2013

ASSETS			
Current assets			
Cash and cash equivalents		$	528,252
Investments			6,083,393
Prepaid tuition			545,950
Inventory			41,027
Assets held for resale			52,378
Prepaid expenses and other assets			31,546
	Total current assets	**$**	**7,282,546**
Property and equipment, net			**1,730,308**
	Total assets	**$**	**9,012,854**
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable		$	82,372
Accrued expenses			6,165
	Total liabilities	**$**	**88,537**
Net assets			
Unrestricted net assets		$	2,500,024
Temporarily restricted net assets			6,424,293
	Total net assets	**$**	**8,924,317**
	Total liabilities and net assets	**$**	**9,012,854**

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 December 31, 2013

	Unrestricted	Temporarily Restricted	Totals
Revenue			
Contributions and grants	$ 53,953	$ 746,383	$ 800,336
Unrealized gain on investments	156,878	347,578	504,456
Lease income	181,264	-	181,264
Interest and dividends	7,446	270,585	278,031
Entwine auction	76,552	-	76,552
Donated service and materials	112,259	-	112,259
Warrior club	34,697	-	34,697
Relaized gain on investments	-	30,987	30,987
Gain on sale of asset	890	-	890
Other income	226	-	226
Program revenue	125,493	-	125,493
Wine operations			
Retail sales	193,949	-	$ 193,949
Less: Cost of goods sold	(34,675)	-	(34,675)
Gross Profit	**159,274**	-	**159,274**
Net assets released from restrictions	**689,034**	**(689,034)**	-
Total public support, revenue, and reclassifications	**$ 1,597,966**	**$ 706,499**	**$ 2,304,465**

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(Continued on next page)

Walla Walla Community College Foundation and Subsidiary
Consolidated Statement of Activities and Changes in Net Assets (continued)
Year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Totals
Expenses			
Scholarships and Awards:			
Scholarships and awards	$ 545,241	$ -	$ 545,241
Grant expenditures	152,635	-	152,635
Program expenses	44,884	-	44,884
Administration:			
Selling expense	1,058	-	1,058
Advertising	18,184	-	18,184
Bank fees	5,078	-	5,078
Administrative fee	220,500	-	220,500
Professional services	375	-	375
Investment expense	27,564	-	27,564
Depreciation	76,080	-	76,080
Insurance	22,643	-	22,643
Supplies	13,463	-	13,463
Taxes and licenses	13,475	-	13,475
Travel	10,456	-	10,456
Dues and subscriptions	2,035	-	2,035
Repair and maintenance	8,547	-	8,547
Donated service and materials	112,259	-	112,259
Miscellaneous	175,131	-	175,131
Fundraising Event Expenses:			
Entwine	98,791	-	98,791
Warrior club	34,822	-	34,822
Total expenses	**$ 1,583,221**	**$ -**	**$ 1,583,221**
Change in net assets	**$ 14,745**	**$ 706,499**	**$ 721,244**
Net assets - beginning of year	**2,485,279**	**5,717,794**	**8,203,073**
Net assets - end of year	**$ 2,500,024**	**$ 6,424,293**	**$ 8,924,317**

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Notes to the Financial Statements

June 30, 2014
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 education services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the State Senate.

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

The Walla Walla Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1982 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is 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. 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, 2014, the Foundation distributed approximately $567,153 to the College for restricted and unrestricted purposes which includes both student scholarships and program support. A copy of the Foundation's complete financial statements may be obtained from the Vice-President of Financial and Administrative Services, Walla Walla Community College, 500 Tausick Way, Walla Walla, WA 99362 or by calling (509)527-4201.

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

of the College's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

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

Basis of Accounting
The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

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

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

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

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

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

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

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. 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 range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources, 2 to 10 years for most equipment and 11 to 40 years for heavy duty equipment.

In accordance with GASB Statement 42, the College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2014, no assets had been written down.

Unearned Revenues
Unearned revenues occur when funds have been collected prior to the end of the fiscal year but relate to the subsequent fiscal year. The College has recorded summer and fall quarter tuition and fees 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 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
The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

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

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

Classification of Expenses
The College has classified its expenses as either operating or non-operating according to the following criteria:

Operating Expenses. These include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.

Non-operating Expenses. This includes all other expenses of the College such as interest expense and the portion of tuition collected and remitted to the State Board.

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, 2014 are $4,065,901.

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.

2. Cash and Investments

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

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $8,223,404 as represented in this table.

Cash and Cash Equivalents		June 30, 2014
Petty Cash and Change Funds	$	9,275
Undeposited Cash	$	3,000
Bank Demand and Time Deposits	$	8,211,129
Total Cash and Cash Equivalents	**$**	**8,223,404**

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).

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2014, accounts receivable were as follows.

Accounts Receivable		Amount
Student Tuition and Fees	$	880,788
Due from the Federal Government	$	569,618
Due from Other State Agencies	$	3,719,298
Auxiliary Enterprises	$	142,359
Other	$	1,045,457
Subtotal	$	6,357,519
Less Allowance for Uncollectible Accounts	$	(44,700)
Total Accounts Receivable, net	**$**	**6,312,819**

4. Loans Receivable

Loans receivable as of June 30, 2014 consisted primarily of student loans, as follows.

Loans Receivable		Amount
Perkins Loans Receivable	$	1,125,052
Less Allowance for Uncollectible Accounts	$	(74,600)
Total Loans Receivable, net	**$**	**1,050,452**

5. Inventories

Inventories, stated at cost using FIFO or actual project costs incurred, consisted of the following as of June 30, 2014.

Inventories	**Amount**	
Consumable Inventories	$	24,453
Merchandise Inventories	$	407,306
Work in Progress Inventories	$	543,076
Total Inventories	**$**	**974,835**

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented below. The current year depreciation expense was $2,139,394. The college received three donated assets totaling $79,873 during this fiscal year. These donated assets were recorded at fair market value. Interest expense during the year was $108,639, 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	468,091	28,902	(394,321)	102,672
Total nondepreciable capital assets	$ 3,021,470	$ 28,902	$ (394,321)	$ 2,656,051
Depreciable capital assets				
Buildings	$ 65,167,826			$ 65,167,826
Other improvements and infrastructure	-	431,312		431,312
Equipment	5,944,651	589,542	(395,482)	6,138,711
Library resources	2,803,779	39,273		2,843,052
Subtotal depreciable capital assets	$ 73,916,256	$ 1,060,127	$ (395,482)	$ 74,580,901
Less accumulated depreciation				
Buildings	$ 17,409,659	$ 1,340,341		$ 18,750,000
Other improvements and infrastructure	-	71,885		71,885
Equipment	3,560,507	683,651	(386,939)	3,857,219
Library resources	2,645,607	43,517		2,689,124
Total accumulated depreciation	$ 23,615,773	$ 2,139,394	$ (386,939)	$ 25,368,228
Total depreciable capital assets	$ 50,300,483	$ (1,079,267)	$ (8,543)	$ 49,212,673
Capital assets, net of accumulated depr.	$ 53,321,952	$ (1,050,365)	$ (402,864)	$ 51,868,723

7. Accounts Payable and Accrued Liabilities
At June 30, 2014, accrued liabilities are as follows.

Accounts Payable and Accrued Liabilities	Amount	
Amounts Owed to Employees	$	812,406
Accounts Payable	$	719,595
Amounts Held for Others	$	215,599
Total Payables and Liabilities	**$**	**1,747,600**

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

Unearned Revenue	Amount	
Summer and Fall Quarter Tuition and Fees	$	1,034,600
Contracts and Grants	$	55,332
Total Unearned Revenue	$	1,089,931

9. Risk Management
The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2013 through June 30, 2014, were $21,147.

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

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

10. Compensated Absences
At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $901,145, and accrued sick leave totaled $1,307,070 at June 30, 2014.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave. As of June 30, 2014 there was no compensatory time liability.

11. Leases
The College has leases for property and office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2014, the minimum lease payments under operating leases consist of the following.

Table 10: Leases		
Fiscal year	**Equipment Leases**	**Property Leases**
2015	$ 47,504	$ 106,145
2016	45,944	79,432
2017	43,315	2,440
2018	5,967	2,489
2019	227	2,539
2020-2024		2,589
Total minimum lease payments	**$ 142,959**	**$ 195,633**

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

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

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

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

The College's debt service requirements for these note agreements for the next five years and thereafter are shown in Note #14.

13. Annual Debt Service Requirements
Future debt service requirements at June 30, 2014 are as follows.

Annual Debt Service Requirements			
Certificates of Participation			
Fiscal year	**Principal**	**Interest**	**Total**
2015	150,000	90,850	240,850
2016	150,000	84,788	234,788
2017	170,000	77,963	247,963
2018	170,000	70,148	240,148
2019	185,000	62,191	247,191
2020-2024	995,000	191,316	1,186,316
2025-2029	290,000	19,953	309,953
Total	**2,110,000**	**597,208**	**2,707,208**

14. Schedule of Long Term Debt

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificates of Participation	**2,240,000**		**(130,000)**	**2,110,000**	**150,000**

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

For FY 2013-14, the payroll for the College's employees was $4,469,997 for PERS, $339,466 for TRS, and $15,005,152 for SBRP. Total covered payroll was $19,814,615.

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 4 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 percent.

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2012, 2013, and 2014 are as follows.

PERS and TRS Contribution Rates as of June 30						
	FY2012		FY2013		FY2014	
PLAN	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.08%	6.00%	7.21%	6.00%	9.21%
Plan 2	4.64%	7.08%	4.64%	7.21%	4.92%	9.21%
Plan 3	5 - 15%	7.08%	5 - 15%	7.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	10.39%
Plan 2	4.69%	8.04%	4.69%	8.05%	4.92%	10.39%
Plan 3	5-15%	8.04%	5-15%	8.05%	5-15%	10.39%

PERS and TRS Required Contributions						
	FY2012		FY2013		FY2014	
PLAN	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$20,624	$24,692	$12,030	$14,481	$6,105	$9,369
Plan 2	$160,248	$248,784	$163,981	$254,938	$185,821	$347,668
Plan 3	$82,488	$86,020	$83,087	$83,894	$40,267	$54,426
TRS						
Plan 1	$4,134	$5,321	$4,134	$5,677	$4,284	$7,140
Plan 2	$3,736	$6,463	$3,463	$5,943	$7,540	$15,575
Plan 3	$7,536	$4,987	$9,116	$8,617	$10,555	$11,697

State Board Retirement Plan

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

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

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2014 were each $1,298,321.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $29,951. 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 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $74,972. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 of the fund balance.

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

Other Post-Employment Benefits

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

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

The State Actuary allocated the statewide disclosure information to the State Board for Community and Technical Colleges at a system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $9,353,422, with an annual required contribution (ARC) of $913,834. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $171,941. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $741,983. This amount is not included in the College's financial statements.

The College paid $3,690,485 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

16. Operating Expenses by Functional Program

In the Statement of Revenues, Expenses and Changes in Net Assets, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, academic support and financial aid. The following table lists operating expenses by program for the year ending June 30, 2014.

Expenses by Functional Program		
Instruction	$	17,615,170
Academic Support Services		6,726,906
Student Services		3,929,624
Institutional Support		6,397,130
Operations and Maintenance of Plant		3,779,565
Auxiliary Enterprises		3,671,240
Student Financial Aid		8,509,284
Depreciation		2,139,394
Total operating expenses	**$**	**52,768,313**

17. Beginning Net Position Restatement
As of July 1, 2013, net position as previously reported was restated. The College adjusted the Beginning Net Position to correct an oversight in reporting the state appropriation receivable, innovation and building fee payable, and the liability of the biennial vendor payment advance (VPA) from the State Treasurer. These items are correctly reported in the June 30, 2014 statements.

Ending Net Position as previously reported, June 30, 2013		**$ 60,691,469**
Restatements:		
State Treasurer receivable	$ 677,885	
VPA liability	(188,700)	
Removal of capital assets per OFM policy 30.20.20	(165,499)	
Innovation and building fee payable	(5,064)	
Recognition of receivables in Fund 840	656,315	
Total Restatements		**$ 974,937**
Ending Net Position as restated		**$ 61,666,406**

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

Additionally, the College is 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.

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

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

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