



Walla Walla Community College
2018 Annual Financial Report
Fiscal Year Ended June 30, 2018



2018 Financial Report

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You may view the financial report at <http://www.wbcc.edu/annual-financial-reports/>

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Management 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, 2018 (FY 2018). 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 9,300 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 33,000 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, 2018. 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 2018, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. This Statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one year lag measurement date similar to GASB Statement No. 68. This change in accounting principle resulted in an adjustment to beginning net position of \$(20,819,375).

Statement of Net Position

The Statement of Net Position provides information about the College's financial position and presents the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College as of the end of the fiscal year. A condensed comparison of the Statement of Net Position is as follows:

| Condensed Statement of Net Position | | | |
|---------------------------------------------------|------------------------|--------------------------|------------------------|
| | As of June 30, 2018 | As of June 30, 2017** | Change |
| Assets | | | |
| Current Assets | \$ 15,562,747 | \$ 16,593,351 | \$ (1,030,604) |
| Capital Assets, net | 52,587,754 | 54,880,512 | (2,292,758) |
| Other Assets, non-current | 802,624 | 804,950 | (2,326) |
| Total Assets | \$ 68,953,126 | \$ 72,278,813 | \$ (3,325,687) |
| Deferred Outflows of Resources | | | |
| Deferred Outflows Related to Pensions | \$ 1,026,706 | \$ 1,393,025 | \$ (366,319) |
| Deferred Outflows Related to OPEB | 304,886 | | 304,886 |
| Total Deferred Outflows | \$ 1,331,591 | \$ 1,393,025 | \$ (61,433) |
| Liabilities | | | |
| Current Liabilities | \$ 5,305,991 | \$ 3,915,181 | \$ 1,390,810 |
| Other Liabilities, non-current | 28,690,062 | 13,298,034 | 15,392,027 |
| Total Liabilities | \$ 33,996,053 | \$ 17,213,215 | \$ 16,782,838 |
| Deferred Inflows of Resources | | | |
| Deferred Inflows of Resources Related to Pensions | \$ 1,843,139 | \$ 906,647 | \$ 936,492 |
| Deferred Inflows of Resources Related to OPEB | 3,086,135 | | 3,086,135 |
| Total Deferred Inflows | \$ 4,929,273 | \$ 906,647 | \$ 4,022,626 |
| Net Position | \$ 31,359,391 | \$ 55,551,976 | \$ (24,192,585) |

The 2017 amounts presented here have **not been restated for prior period adjustments from implementing GASB 75. Complete information necessary to fully restate the 2017 amounts was not available. Refer to Note 2 Accounting and Reporting Changes.

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 increased a modest amount of almost \$152,000 to equal \$6.555 million, which includes restricted cash of \$448,673 held for student loans and student financial aid. Overall, current receivables decreased by \$1.1 million with almost \$730,000 of that decrease in the Due from Other State Agencies classification. The amount owed to the College from other state agencies varies based on timing of transactions at each year-end. The State Treasurer's Office, through the Vendor Payment Advance (VPA) system, owed the College \$484,000 less than the amount that was owed the previous year. Another large decrease in state agency receivables was \$224,000 for the contracted educational services offered at the correctional facilities. Other decreases in receivables include almost \$192,000 owed for PELL grants, \$165,000 from the Foundation for student financial aid and \$190,000 from the Foundation owed on the Clarkston Workforce Building construction project. Various other decreases and increases round out the change in current receivables. Inventory values decreased by almost \$21,000 and prepaid expenses by almost \$63,000 bringing the net decrease in total current assets to \$1.03 million.

Net capital assets decreased by nearly \$2.3 million from FY 2017 to FY 2018. This decrease was primarily due to recording annual depreciation expenses of \$2.8 million with an offset of \$540,000 reflecting purchases of equipment and other capitalized additions, net of any disposals.

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 represent deferrals in pension and other Postemployment benefits associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY 2018. The decrease in deferred outflows reflect the College's proportionate share of a decrease in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to actuarial assumptions. The College recorded \$1,393,025 in FY 2017 and \$1,331,591 in FY 2018 for pension and other Postemployment 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 total increase in current liabilities of \$1.4 million from FY 2017 to FY 2018 is mainly due to the recognition of short-term pension and other Postemployment benefit liabilities, which increased \$1,935,925. Other changes were the result of 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 a decrease of \$173,000. A decrease in accrued liabilities of just under \$280,000 was primarily due to a reduction of retainage payable totaling \$212,000 along with changes in the amount of accrued wages that were owed as of June 30th. Unearned revenue consisting of Summer and Fall tuition and fees decreased by over \$145,000 with an additional small decrease 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, OPEB liability and the long-term portion of Certificates of Participation debt. The College's overall increase of just under \$15.4 million in non-current liabilities is due primarily to the recognition of OPEB liability, which increased \$17.3 million. Net pension liability for GASB 68 decreased by \$1.6 million and total pension liability for GASB 73 decreased by \$280,000. Other changes to non-current liabilities include a reduction to the principal amount outstanding on Certificates of Participation, which declined by \$215,000 during FY 2018 due to normally scheduled annual debt service payments, and an increase to long-term compensated absences of \$117,400.

Deferred inflows of resources related to the College's proportionate share of net pension and OPEB liability increased by just over \$4.0 million. This increase was caused primarily by the implementation of GASB 75, which increased deferred inflows by just under \$3.1 million. Increases in deferred inflows related to pensions also increased by \$936,000. 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 and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in four categories:

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

Restricted:

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. The College is reporting a deficit in unrestricted net position due to the implementation of GASB 75.

As mentioned earlier in this section, the College’s beginning net position decreased by \$20,819,375 reflecting the restatement of the beginning OPEB liability. This change relates to the College’s implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

| Condensed Net Position | FY 2018 | FY 2017 | Change |
|----------------------------------|----------------------|----------------------|-----------------------|
| As of June 30th | | as restated | |
| Net investment in capital assets | \$ 49,942,754 | \$ 52,055,512 | \$ (2,112,758) |
| Restricted | | | |
| Expendable for financial aid | 389,122 | (158,307) | 547,429 |
| Expendable for student loans | 1,000,882 | 1,024,180 | (23,298) |
| Unrestricted | (19,973,367) | (18,188,784) | (1,784,583) |
| Total Net Position | \$ 31,359,391 | \$ 34,732,602 | \$ (3,373,211) |

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 2018. 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, 2018 and 2017 is presented below.

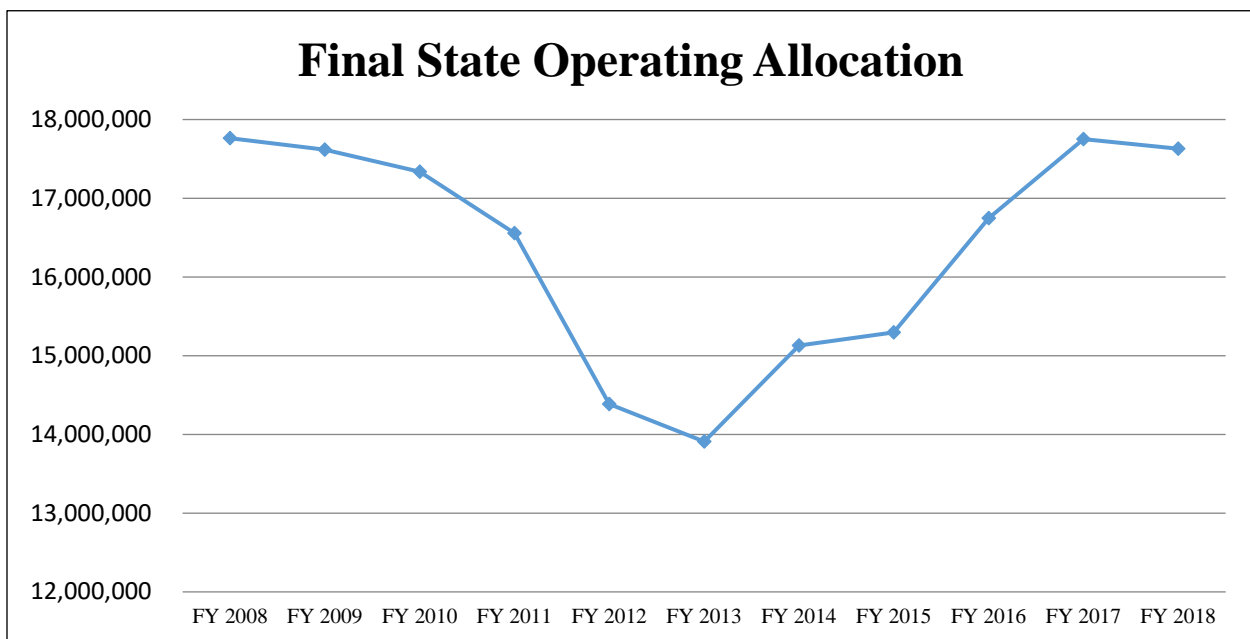
| Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2018 and 2017 | | | |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Operating Revenues | 2018 | 2017 | Change |
| Student tuition and fees, net | 9,148,521 | 9,172,357 | (23,836) |
| Auxiliary enterprise sales | 2,029,241 | 2,012,861 | 16,380 |
| State and local grants and contracts | 12,914,076 | 13,640,468 | (726,392) |
| Federal grants and contracts | 804,082 | 789,055 | 15,027 |
| Other operating revenues | 1,483,113 | 2,015,078 | (531,965) |
| Total operating revenues | 26,379,032 | 27,629,819 | (1,250,787) |
| Operating Expenses | | | |
| Salaries and wages | 24,624,412 | 24,591,340 | 33,072 |
| Benefits | 9,376,903 | 8,558,570 | 818,333 |
| Scholarships, net of discounts | 6,433,516 | 6,243,364 | 190,152 |
| Depreciation | 2,805,590 | 2,786,133 | 19,457 |
| Other operating expenses | 9,215,252 | 10,377,302 | (1,162,050) |
| Total operating expenses | 52,455,673 | 52,556,709 | (101,036) |
| Operating Income (Loss) | (26,076,641) | (24,926,890) | (1,149,751) |
| Non-Operating Revenues (Expenses) | | | |
| State appropriations | 17,628,643 | 17,751,528 | (122,885) |
| Federal Pell grant revenue | 5,961,023 | 5,648,524 | 312,499 |
| Investment income, gains and losses | 33,249 | 35,152 | (1,903) |
| Other non-operating revenues (expenses) | (1,575,009) | (1,499,191) | (75,818) |
| Net non-operating revenues (expenses) | 22,047,906 | 21,936,013 | 111,893 |
| Income or (loss) before capital contributions | (4,028,735) | (2,990,877) | (1,037,858) |
| Capital appropriations and contributions | 655,527 | 4,169,845 | (3,514,318) |
| Change in Net position | (3,373,208) | 1,178,968 | (4,552,176) |
| Net Position | | | |
| Net position, beginning of year | 55,551,976 | 57,709,918 | |
| Cumulative effect of change in accounting principle (GASB 75 - FY 2018) (GASB 73 - FY 2017) | (20,819,375) | (3,336,910) | |
| Net position, beginning of year, as restated | 34,732,601 | 54,373,008 | (19,640,408) |
| Net position, end of year | 31,359,392 | 55,551,976 | (24,192,584) |

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 the years since then, state funding has increased to an amount that is almost equal to the College's highpoint from FY 2008.

Unfortunately, from FY 2013 to present the increases did not restore the operating budget cuts the College had to absorb. Most of the state funding increases have gone to fund approximately 65% of cost of living raises and benefit cost increases for employees. The 35% shortfall in state funding required the College to absorb those costs by reducing support for other programs and services in the operating budget. During FY 2016 the Legislature partially backfilled funds the College lost due to a 5% tuition rate decrease resulting, yet again, in further reductions to other areas of the operating budget to absorb another shortfall.

Starting in 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 and for FY 2018 a \$350,000 decrease has occurred. In FY 2018, state appropriations declined by a net total of \$122,885.

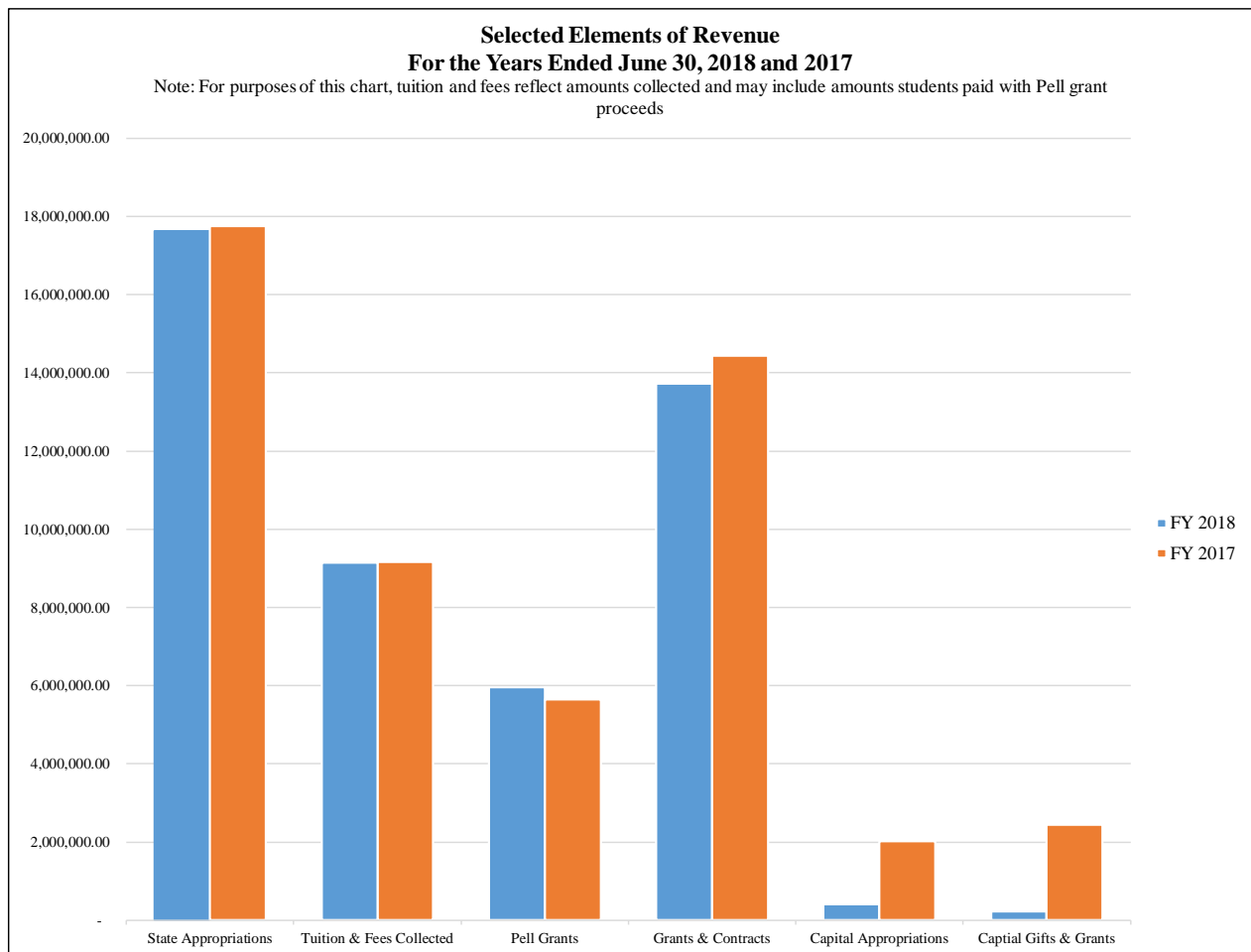


The Legislature approved a 2% tuition increase for two-year colleges in FY 2018. State-funded enrollment declined 8% during FY 2017 and another 2% during FY 2018. Operating tuition and fee revenues were flat during the fiscal year. Pell grant revenues received by the College increased by \$312,500 or 5.5%.

In FY 2018, grant and contract revenues decreased by approximately \$711,000, or 4.9%, when compared with FY 2017. The two largest contributing factors to this change was a decrease of almost \$450,000 when the TAACCCT grant ended at the beginning of FY 2018 and \$354,000 less in revenues for the USDA grant that closed out its final year early in FY 2018. These decreases were offset by revenues and changes in other grants and contracts that represent the normal fluctuations in programs and services provided. The College continued to serve students under the terms of all 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 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 2017, the College expended around \$1.6 million less in capital appropriations during FY 2018. The State Legislature did not adopt a capital budget until January 2018, six months into the fiscal year. The delay impacted the start of many projects which reduced capital drawdowns for FY 2018. Capital gifts and grants decreased by just over \$1.9 million primarily due to the completion of the Clarkston Workforce and Business Development Center in FY 2017.



Expenses

For FY 2018, salary expenditures held steady when compared to FY 2017. Total employee benefit costs increased by almost \$820,000 due primarily to the recognition of just under \$1.23 million in Other Post Employment Benefit expenses for GASB 75. This increase was offset by a decrease in the College's pension and retirement expenses of \$410,000.

Expenditures for student financial aid increased by just over \$190,000 or about 3%. This increase in student aid expenditures is consistent with a 5.5% increase in Pell grant revenues.

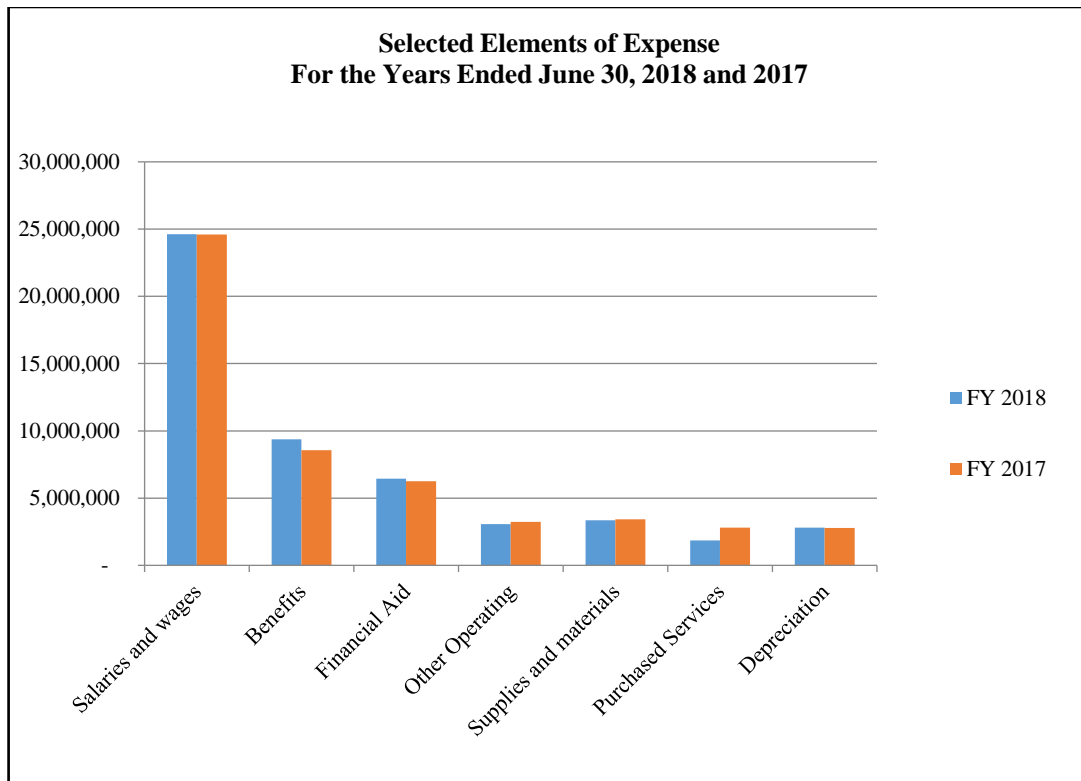
The combined expenses for supplies and materials and other operating expenses decreased by just over \$228,000 largely due to recording the final expense for the Moore vs. HCA settlement

during FY 2017. Expenditures for purchased services decreased by \$950,000 which is consistent with the decline in capital allocation revenues. The State released the capital appropriations authority late in the fiscal year which delayed many scheduled projects. 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 1.5% higher, or \$14,224, when compared to FY 2017 primarily due to an increase in rates from service providers. 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.

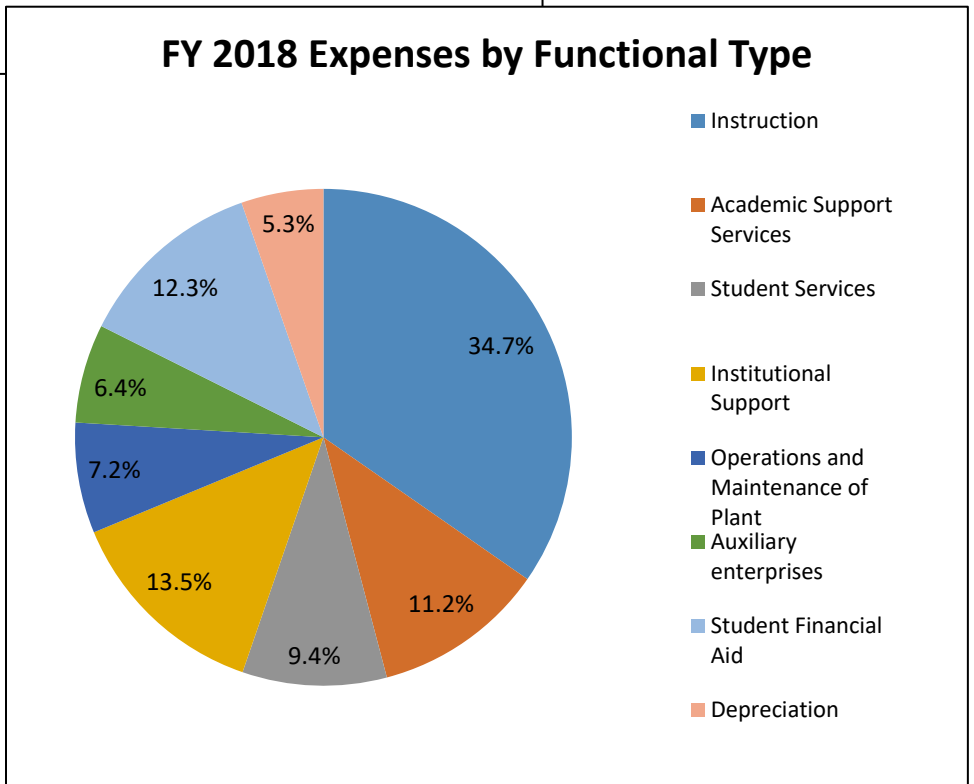
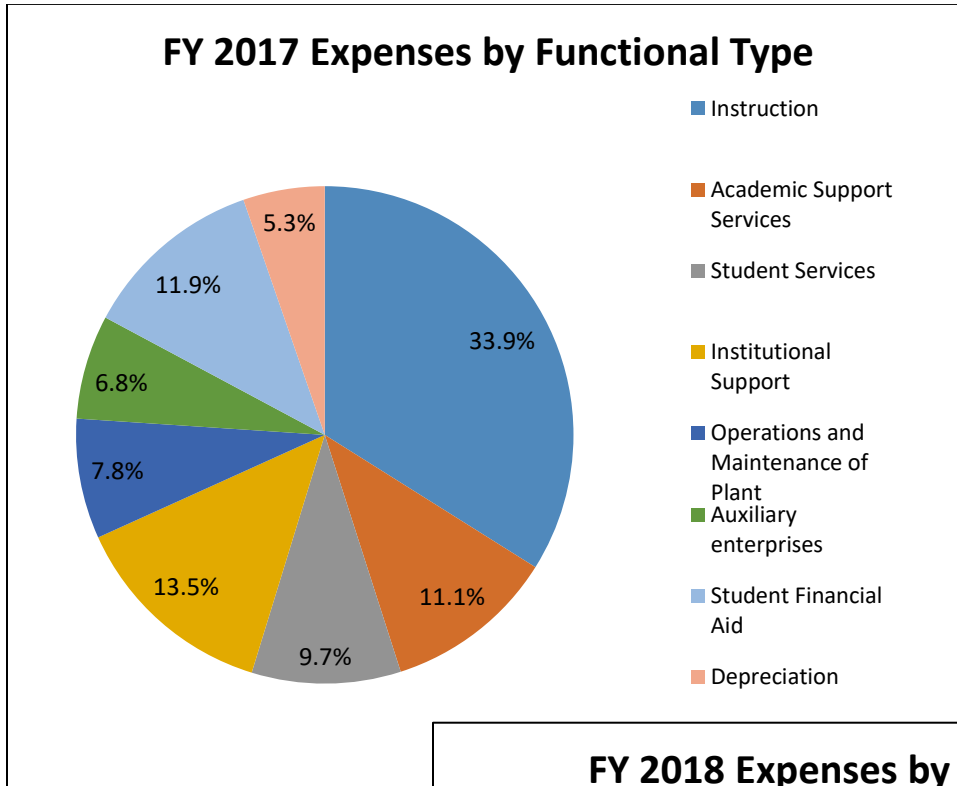
Comparison of Selected Elements of Operating Expenses

The following chart shows the amount, in dollars, for selected elements of operating expenses for FY 2018 and FY 2017.



Operating Expenses by Function

The following charts show the amount, by percentage, of operating expenses for each functional area for FY 2017 and FY 2018.



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, 2018, the College had invested \$52,587,754 in capital assets, net of accumulated depreciation. This represents a decrease of \$2,292,758 from last year, as shown in the table below.

| Asset Type | June 30, 2018 | June 30, 2017 | Change |
|--------------------------------------------|----------------------|----------------------|-----------------------|
| Land | \$ 2,553,379 | \$ 2,553,379 | \$ - |
| Construction in Progress | - | 25,558 | (25,558) |
| Buildings, net | 46,258,339 | 47,623,079 | (1,364,740) |
| Other Improvements and Infrastructure, net | 1,211,074 | 1,735,204 | (524,130) |
| Equipment, net | 2,460,529 | 2,822,388 | (361,859) |
| Library Resources, net | 104,432 | 120,902 | (16,470) |
| Total Capital Assets, Net | \$ 52,587,752 | \$ 54,880,510 | \$ (2,292,758) |

During FY 2018, the final work was completed on the Clarkston Workforce and Business Development Center building resulting in an increase in buildings of \$63,259. Two pieces of donated equipment were accepted during the fiscal year with fair market value of \$14,163. These net increases were offset by accumulated depreciation of \$2,805,590. 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, 2018, the College had \$2,645,000 in outstanding debt on five Certificates of Participation (COP).

| Debt | June 30, 2018 | June 30, 2017 | Change |
|-------------------------------|---------------------|---------------------|---------------------|
| Certificates of Participation | \$ 2,645,000 | \$ 2,825,000 | \$ (180,000) |
| Total | \$ 2,645,000 | \$ 2,825,000 | \$ (180,000) |

Additional information on long-term debt and debt service schedules can be found in Notes 13, 14 and 15 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

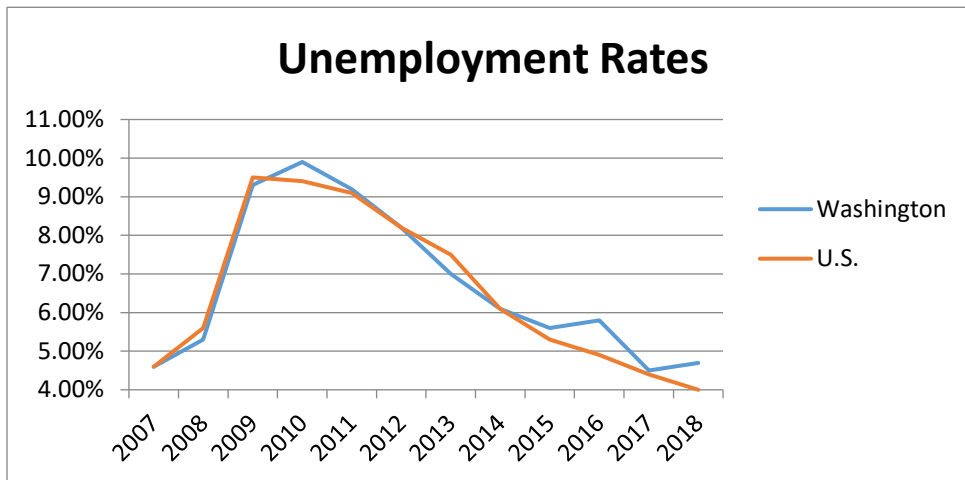
Following a trend that began in FY 2009, the College's state operating allocations continued to decrease through FY 2013. When creating the 2013-2015 biennial budget, the State Legislature made some modest reinvestments in community and technical colleges. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition rates by 5% at all community colleges. This reduction reduced the amount of tuition collected by the College although the Legislature did partially backfill that loss of tuition revenue.

Starting in FY 2017, the State Board for Community and Technical Colleges moved to a new allocation model that changed how all state allocated funds are distributed amongst the system's colleges. The old funding formula gave the College a much higher amount per full-time

equivalent student (FTES) than this new model, resulting in an initial rebasing loss of almost \$700,000 over a four year period ending in FY 2020. 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 FTES based on a high priority indicator so that some FTES are actually counted as 1.3 instead of 1.

Early indications regarding development of Washington State's 2019-21 biennial operating budget look favorable to the SBCTC system's initiatives. The Legislature believes they have finally complied with the court-mandated basic education obligations under McCleary. Funding for compensation increases, student financial aid, "foundational" support, and Guided Pathways initiatives are dependent on additional revenues that may not materialize but the State's economy and revenues are strong and higher education is a priority in early budget modeling scenarios.

A hallmark of community colleges is the flexibility to 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 occurred over the last few years. Like all of the community colleges in the state, WWCC experienced enrollment declines as the state economy improved; repeating those historic enrollment patterns related to unemployment rates. Enrollment fluctuations are a 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, 2018**

| | | | |
|---------------------------------------------|---------------------------------------------|--------------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ | 6,106,818 |
| Restricted cash | | | 448,673 |
| Accounts receivable, net of allowance | | | 8,408,519 |
| Student loans receivable, net of allowance | | | 166,451 |
| Inventories | | | 398,671 |
| Prepaid expenses | | | 33,614 |
| | Total current assets | \$ | 15,562,747 |
| Non-Current Assets | | | |
| Student loans receivable, net of allowances | | \$ | 802,624 |
| Non-depreciable capital assets | | | 2,553,379 |
| Capital assets, net of depreciation | | | 50,034,375 |
| | Total non-current assets | \$ | 53,390,379 |
| | | Total assets | \$ 68,953,126 |
| Deferred Outflows of Resources | | | |
| Deferred outflows related to pensions | | \$ | 1,026,706 |
| Deferred outflows related to OPEB | | | 304,886 |
| | Total deferred outflows of resources | \$ | 1,331,591 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | | \$ | 609,453 |
| Accrued liabilities | | | 1,169,895 |
| Compensated absences, short term | | | 261,549 |
| Unearned revenue | | | 1,114,168 |
| Certificates of participation payable | | | 215,000 |
| Pension liability, short term | | | 44,778 |
| OPEB liability, short term | | | 1,891,147 |
| | Total current liabilities | \$ | 5,305,991 |
| Non-Current Liabilities | | | |
| Compensated absences | | \$ | 2,161,574 |
| Long-term liabilities | | | 2,430,000 |
| Net pension liability | | | 4,324,366 |
| Total pension liability | | | 2,399,951 |
| OPEB liability | | | 17,374,170 |
| | Total non-current liabilities | \$ | 28,690,062 |
| | | Total liabilities | \$ 33,996,053 |
| Deferred Inflows of Resources | | | |
| Deferred inflows related to pensions | | \$ | 1,843,139 |
| Deferred inflows related to OPEB | | | 3,086,135 |
| | Total deferred inflows of resources | \$ | 4,929,273 |
| Net Position | | | |
| Net Investment in capital assets | | \$ | 49,942,754 |
| Restricted for: | | | |
| Expendable for student aid | | | 389,122 |
| Expendable for student loans | | | 1,000,882 |
| Unrestricted (deficit) | | | (19,973,367) |
| | Total Net Position | \$ | 31,359,391 |

The accompanying notes are an integral part of these financial statements

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

| Walla Walla Community College | |
|--------------------------------------------------------------------|------------------------|
| Statement of Revenues, Expenses and Changes in Net Position | |
| For the Year Ended June 30, 2018 | |
| Operating Revenues | |
| Student tuition and fees, net of discounts | \$ 9,148,521 |
| Auxiliary enterprise sales | 2,029,241 |
| State and local grants and contracts | 12,914,076 |
| Federal grants and contracts | 804,082 |
| Other operating revenues | 1,470,044 |
| Interest on loans to students | 13,068 |
| Total operating revenue | \$ 26,379,032 |
| Operating Expenses | |
| Other operating expenses | \$ 3,076,899 |
| Salaries and wages | 24,624,412 |
| Benefits | 9,376,903 |
| Scholarships | 6,433,516 |
| Supplies and materials | 3,358,168 |
| Depreciation | 2,805,590 |
| Purchased services | 1,853,040 |
| Utilities | 927,145 |
| Total operating expenses | \$ 52,455,673 |
| Operating income (loss) | \$ (26,076,641) |
| Non-Operating Revenues (Expenses) | |
| State appropriations | \$ 17,628,643 |
| Federal Pell grant revenue | 5,961,023 |
| Investment income, gains and losses | 33,249 |
| Loss on disposal of capital assets | (27,054) |
| Building fee remittance | (1,147,451) |
| Innovation fund remittance | (243,148) |
| Interest on indebtedness | (157,356) |
| Net non-operating revenue (expenses) | \$ 22,047,906 |
| Income or (loss) before capital contributions | \$ (4,028,735) |
| Capital Contributions | |
| Capital appropriations | \$ 419,540 |
| Capital gifts and grants | 235,987 |
| Increase (Decrease) in net position | \$ (3,373,208) |
| Net Position | |
| Net position, beginning of year | \$ 55,551,976 |
| Cummulative effect of change in accounting principle (GASB 75) | (20,819,375) |
| Net position, beginning of year, as restated | \$ 34,732,601 |
| Net position, end of year | \$ 31,359,391 |

The accompanying notes are an integral part of these financial statements

College Statement of Cash Flows

Walla Walla Community College Statement of Cash Flows For the Year Ended June 30, 2018

| | |
|----------------------------------------------------------------------|------------------------|
| Cash flows from operating activities | |
| Student tuition and fees, net of discounts | \$ 9,053,123 |
| Grants and contracts | 14,135,217 |
| Payments to vendors | (8,601,190) |
| Payments for utilities | (932,943) |
| Payments to employees | (24,674,931) |
| Payments for benefits | (8,557,252) |
| Auxiliary enterprise sales | 2,031,807 |
| Payments for scholarships | (6,433,516) |
| Loans issued to students | (107,654) |
| Collection of loans to students | 90,849 |
| Other receipts (payments) | 1,670,447 |
| Net cash used by operating activities | \$ (22,326,042) |
| Cash flows from noncapital financing activities | |
| State appropriations | \$ 17,663,409 |
| Federal Pell grant revenue | 5,961,023 |
| Building fee remittance | (1,163,001) |
| Innovation fund remittance | (246,372) |
| Net cash provided by noncapital financing activities | \$ 22,215,059 |
| Cash flows from capital and related financing activities | |
| Capital appropriations | \$ 870,662 |
| Capital gifts and grants | 235,987 |
| Purchases of capital assets | (539,887) |
| Principal paid on capital debt | (180,000) |
| Interest paid on indebtedness | (157,356) |
| Net cash provided by capital and related financing activities | \$ 229,407 |
| Cash flows from investing activities | |
| Income of investments | \$ 33,249 |
| Net cash provided by investing activities | \$ 33,249 |
| Increase in cash and cash equivalents | \$ 151,673 |
| Cash and cash equivalents at the beginning of the year | \$ 6,403,817 |
| Cash and cash equivalents at the end of the year | \$ 6,555,490 |

The accompany 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 | \$ (26,076,641) |
| Adjustments to reconcile net loss to net cash used by operating activities | |
| Depreciation expense | \$ 2,805,590 |
| Changes in assets and liabilities | |
| Receivables, net of allowances | \$ 610,879 |
| Inventories | 20,778 |
| Other assets | 62,840 |
| Accounts payable | (172,886) |
| Accrued liabilities | (262,575) |
| Deferred revenue | (149,090) |
| Compensated absences | 138,545 |
| Pension & OPEB liability adjustment | 690,199 |
| Loans to students | 6,319 |
| Net cash used by operating activities | \$ (22,326,042) |
| Significant Noncash Transactions | |
| Capital assets acquired through gifts | \$ 14,163 |
| Loss on disposal of capital assets | \$ 27,054 |

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, 2017 | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------|------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ | 449,817 |
| Investments | | 6,305,738 |
| Pledge receivable, current | | 9,423 |
| Inventory | | 138,715 |
| Assets held for resale | | 55,311 |
| Prepaid expenses and other assets | | 29,077 |
| Total current assets | \$ | 6,988,081 |
| Property and equipment, net of accumulated depreciation | | 1,560,416 |
| Other assets | | |
| Pledge receivable, noncurrent | \$ | 10,144 |
| Total assets | \$ | 8,558,641 |
| Liabilities and net assets | | |
| Current liabilities | | |
| Accounts payable | \$ | 78,128 |
| Accrued expenses | | 7,517 |
| Total liabilities | \$ | 85,645 |
| Net assets | | |
| Unrestricted net assets | \$ | 3,593,285 |
| Temporarily restricted net assets | | 4,879,711 |
| Total net assets | \$ | 8,472,996 |
| Total liabilities and net assets | \$ | 8,558,641 |

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, 2017 | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Totals |
| Revenue | | | |
| Contributions and grants | \$ 106,236 | \$ 891,570 | \$ 997,806 |
| Unrealized gain on investments | 6,149 | 133,251 | 139,400 |
| Lease income | 203,625 | | 203,625 |
| Interest and dividends | 90,089 | 136,374 | 226,463 |
| Donated service and materials | 102,689 | | 102,689 |
| Warrior club | 30,901 | | 30,901 |
| Realized gain on investments | 168,971 | 281,067 | 450,038 |
| Gain on sale of asset | 7,200 | | 7,200 |
| Other income | 5,060 | | 5,060 |
| Program revenue | 4,798 | | 4,798 |
| Wine Operations | | | |
| Retail Sales | 340,445 | | \$ 340,445 |
| Less: Cost of goods sold | (99,985) | | (99,985) |
| Gross Profit | 240,460 | - | 240,460 |
| Net assets released from restrictions | 2,738,657 | (2,738,657) | - |
| Total public support, revenue and reclassifications | \$ 3,704,835 | \$ (1,296,395) | \$ 2,408,440 |

(continued on next page)

Continued from previous page

| Walla Walla Community College Foundation and Subsidiary | | | |
|-------------------------------------------------------------------------------|----------------------------|-----------------------------------|----------------------------|
| Consolidated Statement of Activities and Changes in Net Assets (cont.) | | | |
| Year ended Dec. 31, 2017 | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
| Expenses | | | |
| Scholarships and awards: | | | |
| Scholarships and awards | \$ 862,381 | \$ - | \$ 862,381 |
| Grant expenditures | 85,689 | - | 85,689 |
| Program expenses | 516,131 | - | 516,131 |
| Administration: | | | |
| Advertising | 70,365 | - | 70,365 |
| Bank fees | 3,307 | - | 3,307 |
| Administrative fee | 368,000 | - | 368,000 |
| Professional services | 71,338 | - | 71,338 |
| Investment expense | 29,170 | - | 29,170 |
| Depreciation | 81,661 | - | 81,661 |
| Insurance | 18,710 | - | 18,710 |
| Supplies | 24,289 | - | 24,289 |
| Taxes and licenses | 19,395 | - | 19,395 |
| Travel | 9,477 | - | 9,477 |
| Dues and subscriptions | 12,523 | - | 12,523 |
| Repair and maintenance | 16,264 | - | 16,264 |
| Donated service and materials | 67,970 | - | 67,970 |
| Rent | 13,852 | - | 13,852 |
| Miscellaneous | 86,022 | - | 86,022 |
| Fundraising event expenses: | | | |
| Warrior club | 30,845 | - | 30,845 |
| Total Expenses | <u>\$ 2,387,389</u> | <u>\$ -</u> | <u>\$ 2,387,389</u> |
| Change in net assets | \$ 1,317,446 | \$ (1,296,395) | \$ 21,051 |
| Net assets - beginning of year | 2,275,839 | 6,176,106 | 8,451,945 |
| Net assets - end of year | <u>\$ 3,593,285</u> | <u>\$ 4,879,711</u> | <u>\$ 8,472,996</u> |

Notes to the Financial Statements

June 30, 2018

These notes form an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

Walla Walla Community College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the State Senate. The College is an agency of the State of Washington. The financial activity of the College is included in the State's Comprehensive Annual Financial Report. These notes form an integral part of the financial statements.

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 component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2018, the Foundation distributed approximately \$1,418,599 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 outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

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

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

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) 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.

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.

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, 2018, 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.

Pension Liability

For purposes of measuring the net pension liability in accordance with GASB Statement No 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.

Beginning fiscal year 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions). The reporting requirements are similar to GASB 68 but use current fiscal year-end as the measurement date for reporting the pension liabilities.

OPEB Liability

In fiscal year 2018, the College implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB). This Statement requires the College to recognize its proportionate share of the state's actuarially determined OPEB liability with a one year lag measurement date similar to GASB Statement No. 68.

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.

Deferred outflows related to 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 period of time. Deferred inflows related to pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized in the same manner as deferred outflows.

Deferred outflows and 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 College's proportionate share of pension liabilities. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. Employer transactions to pension plans made subsequent to the measurement date are also deferred and reduce pension liabilities in the subsequent year.

The portion of differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, and changes in the College's proportionate share of OPEB liability that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Differences between projected and actual earning on OPEB plan investments that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective OPEB liability should be recorded as deferred outflows of resources related to OPEB.

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 Student 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 as either operating or non-operating revenues according to the following criteria:

Operating Revenues. This includes activities that are directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) federal, state and local grants and contracts that primarily support the operational/educational activities of the College.

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

Non-operating Revenues. This includes activities that are not directly related to the ongoing operations of the College, 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, 2018 are \$3,746,079.

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's 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.

Note 2 - Accounting and Reporting Changes

Reporting Changes

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. The scope of this Statement addresses accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The College has implemented this pronouncement during the 2018 fiscal year.

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*, the College has a deficit unrestricted net position of 19,973,367. This new accounting standard requires the College to recognize its portion of the State's total OPEB liability, reducing net position by a substantial amount. Additional information regarding GASB Statement No. 75 can be found in Note 18.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and Postemployment benefits. The College took into consideration this guidance as it implemented GASB Statement No. 75 for OPEB.

Prior Period Adjustment

Beginning net position was restated by \$20,819,375 in fiscal year 2018 as a result of implementing GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*.

Accounting Standard Impacting the Future

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, to address accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The effective date of this Statement is fiscal year 2019. The College is in the process of reviewing its assets to ensure compliance with this reporting requirement.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be in effect beginning fiscal year 2021. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The College is following the State’s Office of Financial Management directives to prepare for the implementation of this Statement.

Note 3 - Cash and Investments

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

As of June 30, 2018, the carrying amount of the College’s cash and equivalents was \$6,555,491. Restricted cash included in total cash consists of amounts restricted for loans and institutional financial aid funds per RCW 28B.15.820. The classification is represented in the table below.

| Cash and Cash Equivalents | | June 30, 2018 |
|----------------------------------------|-----------|----------------------|
| Petty Cash and Change Funds | \$ | 9,375 |
| Bank Demand | | 6,097,443 |
| Restricted cash | | 448,673 |
| Total Cash and Cash Equivalents | \$ | 6,555,492 |

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).

Note 4 - Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2018, accounts receivable were as follows:

| Accounts Receivable | Amount |
|-------------------------------------------|---------------------|
| Student Tuition and Fees | \$ 1,127,249 |
| Due from the Federal Government | 2,564,444 |
| Due from Other State Agencies | 3,725,437 |
| Auxiliary Enterprises | 154,213 |
| Other | 892,975 |
| Subtotal | 8,464,319 |
| Less Allowance for Uncollectible Accounts | (55,800) |
| Accounts Receivable, net | \$ 8,408,519 |

Note 5 - Loans Receivable

Loans receivable as of June 30, 2018 consisted primarily of student loans offered as part of the Federal Perkins Loan program, as follows:

| Loans Receivable | Amount |
|-------------------------------------------|-------------------|
| Student Loans Receivable | \$ 1,028,875 |
| Less Allowance for Uncollectible Accounts | (59,800) |
| Loans Receivable, net | \$ 969,075 |

Note 6 - Inventories

Inventories, stated at cost using FIFO or actual project costs incurred, consisted of the following as of June 30, 2018:

| Inventories | Method | Amount |
|------------------------------|---------------|-------------------|
| Consumable Inventories | FIFO | \$ 14,611 |
| Merchandise Inventories | FIFO | 312,652 |
| Work in Progress Inventories | Actual Cost | 71,408 |
| Inventories | | \$ 398,671 |

Note 7 - Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2018 is presented as follows. The current year depreciation expense was \$2,805,590. The College received two donated assets totaling \$14,163 during this fiscal year. These donated assets were recorded at fair market value. Interest expense during the year was \$157,356, none of which was capitalized.

| Capital Assets | Beginning Balance | Additions/ Transfers | Retirements | Ending Balance |
|-----------------------------------------------|--------------------------|-----------------------------|--------------------|-----------------------|
| Capital assets, non-depreciable | | | | |
| Land | \$ 2,553,379 | \$ - | \$ - | \$ 2,553,379 |
| Construction in progress | 25,558 | - | (25,558) | 0 |
| Total capital assets, non-depreciable | 2,578,937 | - | (25,558) | 2,553,379 |
| Capital assets, depreciable | | | | |
| Buildings | 70,378,616 | 63,259 | - | 70,441,875 |
| Other improvements and infrastructure | 2,801,091 | - | - | 2,801,091 |
| Equipment | 8,782,915 | 462,681 | (95,329) | 9,150,267 |
| Library resources | 2,925,779 | 15,936 | - | 2,941,715 |
| Total capital assets, depreciable | 84,888,401 | 541,876 | (95,329) | 85,334,948 |
| Less accumulated depreciation | | | | |
| Buildings | 22,755,537 | 1,427,999 | - | 24,183,536 |
| Other improvements and infrastructure | 1,065,887 | 524,130 | - | 1,590,017 |
| Equipment | 5,960,527 | 821,055 | (91,844) | 6,689,738 |
| Library resources | 2,804,877 | 32,406 | - | 2,837,283 |
| Total accumulated depreciation | 32,586,828 | 2,805,590 | (91,844) | 35,300,574 |
| Total capital assets, depreciable, net | 52,301,573 | (2,263,714) | (3,485) | 50,034,374 |
| Capital assets, net | \$ 54,880,510 | \$ (2,263,714) | \$ (29,043) | \$ 52,587,754 |

Note 8 - Accounts Payable and Accrued Liabilities

Accrued liabilities as of June 30, 2018, were as follows:

| Accounts Payable and Accrued Liabilities | Amount |
|-------------------------------------------------|---------------------|
| Amounts Owed to Employees | \$ 815,825 |
| Accounts Payable | 702,309 |
| Amounts Held for Others and Retainage | 261,214 |
| Total | \$ 1,779,348 |

Note 9 - 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 | \$ 1,067,261 |
| Auxiliary Enterprises | \$ 3,522 |
| Grants and Contracts | 43,385 |
| Total Unearned Revenue | \$ 1,114,168 |

Note 10 - Risk Management

The College is exposed to various risk of loss related to tort liability, injuries to employees, errors and omissions, theft of, damage to, and destruction of assets, and natural disasters. The College purchases insurance to mitigate these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The College 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.

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Payments made for claims from July 1, 2017 through June 30, 2018, were \$62,484.

Note 11 - 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 \$1,073,021 and accrued sick leave totaled \$1,350,102 at June 30, 2018.

An estimated amount, based on a three-year average payout, is accrued as a current liability. The remaining amount of 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, 2018, there was no compensatory time liability.

Note 12 - Leases Payable

Operating Leases

The College also has leases for office equipment and buildings with various vendors. These leases are classified as operating leases.

As of June 30, 2018, the minimum lease payments under operating leases consist of the following:

| Fiscal year | Equipment Leases | Property Leases |
|-------------------------------------|-------------------------|------------------------|
| 2019 | \$ 33,307 | \$ 149,372 |
| 2020 | 30,688 | 3,589 |
| 2021 | 30,688 | - |
| 2022 | 24,192 | - |
| 2023 | 3,491 | - |
| 2024-2028 | - | - |
| Total minimum lease payments | \$ 122,366 | \$ 152,961 |

Note 13 - 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 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. The interest rate charged is approximately 2.12571%.

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 2.11868%.

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 as follows in Note 14.

Note 14 - Annual Debt Service Requirements

Future debt service requirements at June 30, 2018 are as follows:

| Certificates of Participation | | | |
|--------------------------------------|---------------------|---------------------|---------------------|
| Fiscal year | Principal | Interest | Total |
| 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 | 245,000 | 85,300 | 330,300 |
| 2024-2028 | 745,000 | 278,050 | 1,023,050 |
| 2029-2033 | 380,000 | 152,750 | 532,750 |
| 2034-2037 | 375,000 | 47,750 | 422,750 |
| Total | \$ 2,645,000 | \$ 1,009,950 | \$ 3,654,950 |

Note 15 - Schedule of Long Term Liabilities

| | Balance outstanding 6/30/17 | | | Balance outstanding 6/30/18 | | Current portion |
|-------------------------------|------------------------------------|---------------------|---------------------|------------------------------------|---------------------|------------------------|
| | | Additions | Reductions | | | |
| Certificates of Participation | \$ 2,825,000 | \$ - | \$ 180,000 | \$ 2,645,000 | \$ 215,000 | |
| Compensation absences | 2,284,579 | 1,369,381 | 1,230,837 | 2,423,123 | 261,549 | |
| Pension liability | 8,608,896 | 1,619,047 | 3,458,848 | 6,769,095 | 44,778 | |
| OPEB liability | 20,819,375 | 2,210,394 | 3,764,452 | 19,265,317 | 1,891,147 | |
| Total | \$ 34,537,850 | \$ 5,198,821 | \$ 8,634,137 | \$ 31,102,535 | \$ 2,412,474 | |

Note 16 - Pension Liability

Pension liabilities reported as of June 30, 2018 consist of the following:

| Pension Liability by Plan | | |
|----------------------------------|-----------|------------------|
| PERS 1 | \$ | 2,085,747 |
| PERS 2/3 | | 1,944,203 |
| TRS 1 | | 246,608 |
| TRS 2/3 | | 47,808 |
| SBRP | | 2,444,729 |
| Total | \$ | 6,769,095 |

Note 17 - 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 fiscal year 2018, the payroll for the College’s retirement plans was as follows:

| Covered Payroll by Plan | | |
|--------------------------------|-----------|-------------------|
| PERS | \$ | 5,459,009 |
| TRS | | 414,318 |
| SBRP | | 16,103,570 |
| Total Covered Payroll | \$ | 21,976,897 |

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.

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 following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for Walla Walla Community College, for fiscal year 2018:

| Aggregate Pension Amounts - All Plans | | |
|----------------------------------------------------|----|-----------|
| Pension Liabilities | \$ | 6,769,095 |
| Deferred outflows of resources related to pensions | \$ | 1,026,706 |
| Deferred inflows of resources related to pensions | \$ | 1,843,139 |
| Pension Expense | \$ | 211,375 |

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 three 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, 2018, 2017, and 2016 are as follows.

| Contribution Rates at June 30 | | | | | | |
|--------------------------------------|----------------|---------|----------------|---------|----------------|---------|
| | FY 2016 | | FY 2017 | | FY 2018 | |
| PERS | Employee | College | Employee | College | Employee | College |
| Plan 1 | 6.00% | 11.18% | 6.00% | 11.18% | 6.00% | 12.70% |
| Plan 2 | 6.12% | 11.18% | 6.12% | 11.18% | 7.38% | 12.70% |
| Plan 3 | 5 - 15% | 11.18% | 5 - 15% | 11.18% | 5 - 15% | 12.70% |
| TRS | | | | | | |
| Plan 1 | 6.00% | 13.13% | 6.00% | 13.13% | 6.00% | 15.20% |
| Plan 2 | 5.95% | 13.13% | 5.95% | 13.13% | 7.06% | 15.20% |
| Plan 3 | 5-15% | 13.13% | 5-15% | 13.13% | 5-15% | 15.20% |

| Required Contributions | | | | | | |
|-------------------------------|----------------|----------|----------------|-----------|----------------|----------|
| | FY 2016 | | FY 2017 | | FY 2018 | |
| PERS | Employee | College | Employee | College | Employee | College |
| Plan 1 | \$ 3,468 | \$ 6,463 | \$ 1,233 | \$ 2,293 | \$ 1,586 | \$ 3,357 |
| Plan 2 | 256,416 | 468,390 | 248,632 | 454,149 | 286,177 | 492,514 |
| Plan 3 | 95,025 | 143,302 | 106,290 | 160,943 | 107,324 | 197,048 |
| TRS | | | | | | |
| Plan 1 | \$ 4,470 | \$ 9,442 | \$ 4,987 | \$ 10,912 | \$ - | \$ - |
| Plan 2 | 6,772 | 14,854 | 3,718 | 8,205 | 4,985 | 10,734 |
| Plan 3 | 17,310 | 34,385 | 17,587 | 32,844 | 23,059 | 51,551 |

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, 2017, the annual money-weighted rate of return on the pension investments, net of pension plan investment expenses, are as follows:

| Pension Plan | Rate of Return |
|---------------------|-----------------------|
| PERS Plan 1 | 13.84% |
| PERS Plan 2/3 | 14.11% |
| TRS Plan 1 | 14.45% |
| TRS Plan 2/3 | 14.10% |

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, 2017, 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% | 4.90% |
| Real Estate | 15% | 5.80% |
| Global Equity | 37% | 6.30% |
| Private Equity | 23% | 9.30% |
| Total | 100% | |

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

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

| | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | Total |
|------------------------------------------------------------|--------------------|-------------------|--------------------|------------------|-------------------|
| Actuarially determined pension expense | \$ 130,192 | \$ 270,339 | \$ 15,855 | \$ 17,189 | \$ 433,575 |
| Amortization of change in proportionate share of liability | (145,749) | 931 | (81,492) | 4,110 | (222,200) |
| Total Pension Expense | \$ (15,557) | \$ 271,270 | \$ (65,637) | \$ 21,299 | \$ 211,375 |

Changes in Proportionate Shares of Pension Liabilities. The changes to the College's proportionate share of pension liabilities from 2016 to 2017 for each retirement plan are listed below:

| | 2016 | 2017 | Change |
|----------|-------------|-------------|---------------|
| PERS 1 | 0.046740% | 0.043956% | -0.002784% |
| PERS 2/3 | 0.058573% | 0.055956% | -0.002617% |
| TRS 1 | 0.010622% | 0.008157% | -0.002465% |
| TRS 2/3 | 0.007771% | 0.005180% | -0.002591% |

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 for each of the plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report (CAFR). The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov. These assumptions reflect the results of OSA's 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

- Inflation: 3.0% total economic inflation; 3.75% salary inflation
- Salary Increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.50%

Mortality rates were based on the RP-2000 report’s “Combined Healthy Table” and “Combined Disabled Table.” The Society of Actuaries published the document. OSA 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, each member is assumed to receive additional mortality improvements in each future year throughout the member’s lifetime.

Changes in methods and assumptions since the last valuation include:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 and TRS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

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

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

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

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

| Pension Plan | 1% Decrease 6.50% | Current Rate 7.50% | 1% Increase 8.50% |
|---------------------|------------------------------|-------------------------------|------------------------------|
| PERS 1 | \$ 2,540,838 | \$ 2,085,746 | \$ 1,691,540 |
| PERS 2/3 | \$ 5,237,888 | \$ 1,944,204 | \$ (754,482) |
| TRS 1 | \$ 306,652 | \$ 246,608 | \$ 194,636 |
| TRS 2/3 | \$ 162,375 | \$ 47,808 | \$ (45,241) |

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2018:

| | PERS 1 | |
|-----------------------------------------------------------------------------|--------------------------|-------------------------|
| | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | - | - |
| Difference between expected and actual earnings of pension plan investments | - | 77,834 |
| Changes of assumptions | - | - |
| Changes in College's proportionate share of pension liabilities | - | - |
| Contributions subsequent to the measurement date | 278,308 | - |
| Totals | \$ 278,308 | \$ 77,834 |

| | PERS 2/3 | |
|-----------------------------------------------------------------------------|--------------------------|-------------------------|
| | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | 196,994 | 63,941 |
| Difference between expected and actual earnings of pension plan investments | - | 518,278 |
| Changes of assumptions | 20,651 | - |
| Changes in College's proportionate share of pension liabilities | 29,745 | 122,223 |
| Contributions subsequent to the measurement date | 407,309 | - |
| Totals | \$ 654,699 | \$ 704,442 |

| | TRS 1 | |
|-----------------------------------------------------------------------------|--------------------------|-------------------------|
| | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | - | - |
| Difference between expected and actual earnings of pension plan investments | - | 10,448 |
| Changes of assumptions | - | - |
| Changes in College's proportionate share of pension liabilities | - | - |
| Contributions subsequent to the measurement date | 31,793 | - |
| Totals | \$ 31,793 | \$ 10,448 |

| | TRS 2/3 | |
|-----------------------------------------------------------------------------|-------------------|------------------|
| | Deferred Outflows | Deferred Inflows |
| Difference between expected and actual experience | 11,922 | 2,439 |
| Difference between expected and actual earnings of pension plan investments | - | 17,302 |
| Changes of assumptions | 563 | - |
| Changes in College's proportionate share of pension liabilities | 15,681 | 25,483 |
| Contributions subsequent to the measurement date | 33,738 | - |
| Totals | \$ 61,905 | \$ 45,224 |

The \$751,148 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, 2019.

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

| Year ended | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 |
|-----------------|--------------------|---------------------|--------------------|--------------------|
| June 30: | | | | |
| 2019 | (52,611) | (210,823) | (7,674) | (2,669) |
| 2020 | 16,610 | 35,093 | 2,873 | 5,337 |
| 2021 | (3,857) | (62,701) | (255) | (1,325) |
| 2022 | (37,977) | (223,742) | (5,391) | (8,911) |
| 2023 | | 2,227 | | (1,977) |
| Thereafter | | 2,895 | | (7,514) |
| Total | \$ (77,835) | \$ (457,051) | \$ (10,447) | \$ (17,059) |

C. College Participation in Plan Administered by the State Board for Community and Technical Colleges

State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plans

Plan Description. The State Board Retirement Plan is a privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. Walla Walla Community College participates in this plan as authorized by chapter 28B.10 RCW and reports its proportionate share of the total pension liability. 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, 2018 were each \$1,367,047.

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

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

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

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

The SRP pension benefits are unfunded. For the year ended June 30, 2018, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of \$1,300,000. The College's share of this amount was \$36,458. In 2012, legislation (RCW 28B.10.423) was passed requiring Colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During fiscal year 2018, the College paid into this fund at a rate of 0.5% of covered salaries, totaling 80,534.73. This amount was not used as a part of GASB 73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2018, the Community and Technical College system accounted for \$16,351,270 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll forward the total pension liability to the June 30, 2018 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Most actuarial assumptions used in the June 30, 2016 valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed

income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate increase from 3.58 percent to 3.87 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate. The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018, measurement date.

Pension Expense. For the year ended June 30, 2018, the components that make up pension expense for the College are as follows:

| | |
|-------------------------------------------------------------------|------------------|
| Proportionate Share (%) | 2.80% |
| Service Cost | \$ 107,327 |
| Interest Cost | 98,633 |
| Amortization of Difference Between Expected and Actual Experience | (129,959) |
| Amortization of Changes of Assumptions | (34,411) |
| Changes of Benefit Terms | - |
| Administrative Expenses | - |
| Other Changes in Fiduciary Net Position | - |
| Proportionate Share of Collective Pension Expense | \$ 41,590 |
| Amortization of the Change in Proportionate Share of TPL | (2,350) |
| Total Pension Expense | \$ 39,240 |

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2018 was 2.80%. The College's proportion of the total 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. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

| | |
|--------------------------------------------------------|--------------------|
| Proportionate Share (%) 2017 | 2.82% |
| Proportionate Share (%) 2018 | 2.80% |
| Total Pension Liability - Ending 2017 | \$ 2,680,255 |
| Total Pension Liability - Beginning 2018 | 2,665,636 |
| Total Pension Liability - Change in Proportion | \$ (14,619) |
| Total Deferred Inflow/Outflows - 2017 | \$ 766,883 |
| Total Deferred Inflow/Outflows - 2018 | 762,700 |
| Total Deferred Inflows/Outflows - Change in Proportion | \$ (4,183) |
| Total Change in Proportion | \$ (18,802) |

Plan Membership. Membership in the State Board Supplemental Retirement Plan consisted of the following as of June 30, 2016, the most recent actuarial valuation date:

| Plan | Number of Participating Members | | | Total Members |
|-------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------|----------------------|
| | Inactive Members or Beneficiaries Currently Receiving Benefits | Inactive Members Entitled to But Not Yet Receiving Benefits | Active Members | |
| Walla Walla Community College -SBRP | 15 | 1 | 172 | 188 |

Change in Total Pension Liability. The following table presents the change in total pension liability of the State Board Supplemental Retirement Plan at June 30, 2018, the latest measurement date for the plan:

| Schedule of Changes in Total Pension Liability | |
|-------------------------------------------------------|---------------------|
| | Amount |
| Service Cost | \$ 107,327 |
| Interest | 98,633 |
| Changes of Benefit Terms | - |
| Differences Between Expected and Actual Experience | (291,720) |
| Changes in Assumptions | (98,689) |
| Benefit Payments | (36,458) |
| Change in Proportionate Share of TPL | (14,619) |
| Other | - |
| Net Change in Total Pension Liability | (235,526) |
| Total Pension Liability - Beginning | 2,680,255 |
| Total Pension Liability - Ending | \$ 2,444,729 |

Sensitivity of the Total Pension Liability to Changes in the Discount Rate. The following table presents the total pension liability, calculated using the discount rate of 3.87 percent, as well as what the employers' total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

| 1% Decrease (2.87%) | Current Discount Rate (3.87%) | 1% Increase (4.87%) |
|--------------------------------|------------------------------------------|--------------------------------|
| \$ 2,788,415 | \$ 2,444,729 | \$ 2,158,871 |

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the State Board Supplemental Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference Between Expected and Actual Experience | \$ - | \$ 778,826 |
| Changes of Assumptions | - | 209,914 |
| Changes in College's proportionate share of pension liability | - | 16,451 |
| Transactions Subsequent to the Measurement Date | - | - |
| Total | \$ - | \$ 1,005,191 |

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:

| State Board Supplemental Retirement Plan | |
|-------------------------------------------------|--------------------|
| 2019 | (166,719) |
| 2020 | (166,719) |
| 2021 | (166,719) |
| 2022 | (166,719) |
| 2023 | (166,719) |
| Thereafter | (171,594) |
| | <u>(1,005,189)</u> |

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

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

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

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

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

Teachers' Retirement System Plan 3

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

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

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

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

Washington State Deferred Compensation Program

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

Note 18 - Other Post-Employment Benefits

The College implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting. In addition to pension benefits as described in Note 17, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other Postemployment benefit (OPEB) plan.

Plan Description. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB OPEB plan is administered by the state and is funded on a pay-as-you-go basis. In the state CAFR the plan is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. It has no assets. The PEBB OPEB plan does not issue a publicly available financial report.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units. Additionally, there are 76 of the state’s K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments not included in the state's financial reporting who participate in the PEBB plan. The plan is also available to the retirees of the remaining 227 K-12 schools, charter schools, and ESDs, Membership in the PEBB plan for the state consisted of the following:

| Summary of Plan Participants As of June 30, 2017 | |
|--------------------------------------------------------------------------------------------------------------------------------|---------|
| Active Employees | 123,379 |
| Retirees Receiving Benefits* | 46,180 |
| Retirees Not Receiving Benefits** | 6,000 |
| Total Active Employees and Retirees | 175,559 |
| *Enrollment data for June, 2017 from Report 1: PEBB Total Member Enrollment for June 2017 Coverage report. PEBB Retirees only. | |
| **This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. | |

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees’ access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, Higher Education, Judicial, and LEOFF 2. However, not all employers who participate in these plans offer PEBB to retirees.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state’s non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference

between the age-based claims costs and the premium. In calendar year 2016, the average weighted implicit subsidy was valued at \$304 per member per month, and in calendar year 2017, the average weighted implicit subsidy is projected to be \$328 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state’s Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year’s explicit subsidy for inclusion in the Governor’s budget. The final amount is approved by the state Legislature. In calendar year 2016, the explicit subsidy was up to \$150 per member per month, and it remained up to \$150 per member per month in calendar years 2017 and 2018. This will increase in calendar year 2019 to up to \$168 per member per month.

Contribution Information. Administrative costs as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

For calendar year 2017, the estimated monthly cost for PEBB benefits for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

| Required Premium* | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Medical | \$ 1,024 |
| Dental | 79 |
| Life | 4 |
| Long-term Disability | 2 |
| Total | 1,109 |
| Employer contribution | 959 |
| Employee contribution | 151 |
| Total | \$ 1,110 |
| *Per 2017 PEBB Financial Projection Model 8.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2017 which includes projected claims cost at the time of this reporting. | |

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

Total OPEB Liability

As of June 30, 2018, the state reported a total OPEB liability of \$5.83 billion. The College’s proportionate share of the total OPEB liability is \$19,265,317. This liability was determined based on a measurement date of June 30, 2017.

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Inflation Rate | 3% |
| Projected Salary Changes | 3.75% Plus Service-Based Salary Increases |
| Health Care Trend Rates* | Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 7%, reaching an ultimate rate of approximately 5% in 2080 |
| Post-Retirement Participation Percen | 65% |
| Percentage with Spouse Coverage | 45% |

*For additional detail on the health care trend rates, please see Office of the State Actuary's 2017 OPEB Actuarial Valuation Report.

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The Legislature determines the value of cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap are assumed.

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

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2015 Economic Experience Study.

Actuarial Methodology. The total OPEB liability was determined using the following methodologies:

| | |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial Valuation Date | 1/1/2017 |
| Actuarial Measurement Date | 6/30/2017 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members. |
| Asset Valuation Method | N/A - No Assets |

In order to calculate the beginning total OPEB liability balance under GASB 75, the January 1, 2017 actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017 valuation forward to June 30, 2017. Both the forward and backward projections reflect the plan's assumed service cost, assumed interest, and expected benefit payments.

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.85 percent for the June 30, 2016 measurement date and 3.58 percent for the June 30, 2017 measurement date.

Additional detail on assumptions and methods can be found on OSA's website:
<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

Changes in Total OPEB Liability

As of June 30, 2018, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

| Walla Walla Community Cllege | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Proportionate Share (%) | 0.3306883667% |
| Service Cost | \$ 1,306,071 |
| Interest Cost | 611,772 |
| Differences Between Expected and Actual Experience | - |
| Changes in Assumptions* | (2,984,233) |
| Changes of Benefit Terms | - |
| Benefit Payments | (311,769) |
| Changes in Proportionate Share | (495,146) |
| Other | - |
| Net Change in Total OPEB Liability | (1,873,305) |
| Total OPEB Liability - Beginning | 21,138,622 |
| Total OPEB Liability - Ending | \$ 19,265,317 |
| *The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members. | |

Changes in assumptions resulted from an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate resulting in an overall decrease in total OPEB liability for the measurement date of June 30, 2017.

Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the College, calculated using the discount rate of 3.58 percent as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

| Discount Rate Sensitivity | | |
|----------------------------------|----------------------|--------------------|
| Current | | |
| 1% Decrease | Discount Rate | 1% Increase |
| \$ 23,506,065 | \$ 19,265,317 | \$ 15,983,659 |

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the College, calculated using the health care trend rates of 7.00 percent decreasing to 5.00 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.0 percent decreasing to 6.00 percent) than the current rate:

| Health Care Cost Trend Rate Sensitivity | | |
|------------------------------------------------|----------------------|--------------------|
| Current | | |
| 1% Decrease | Discount Rate | 1% Increase |
| \$ 15,563,725 | \$ 19,265,317 | \$ 24,233,184 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ending June 30, 2018, the College will recognize OPEB expense of \$1,532,077. OPEB expense consists of the following elements:

| Walla Walla Community College | |
|--------------------------------------------------------------------|----------------------|
| Proportionate Share (%) | 0.3306883667% |
| Service Cost | \$ 1,306,071 |
| Interest Cost | 611,772 |
| Amortization of Differences Between Expected and Actual Experience | - |
| Amortization of Changes in Assumptions | (331,581) |
| Changes of Benefit Terms | - |
| Amortization of Changes in Proportion | (54,185) |
| Administrative Expenses | - |
| Total OPEB Expense | \$ 1,532,077 |

As of June 30, 2018, the deferred inflows and deferred outflows of resources for the College are as follows:

| Walla Walla Community College | | | |
|---------------------------------------------------|-------------------------|--------------------------|----------------|
| Proportionate Share (%) | 0.3306883667% | | |
| Deferred Inflows/Outflows of Resources | Deferred Inflows | Deferred Outflows | |
| Difference between expected and actual experience | \$ - | \$ - | - |
| Changes in assumptions | 2,652,652 | | - |
| Transactions subsequent to the measurement date | | | 304,886 |
| Changes in proportion | 433,483 | | - |
| Total Deferred Inflows/Outflows | \$ 3,086,135 | \$ | 304,886 |

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

| | |
|--------------------------------|----------------------|
| Proportionate Share (%) | 0.3306883667% |
| 2019 | \$ 385,766 |
| 2020 | 385,766 |
| 2021 | 385,766 |
| 2022 | 385,766 |
| 2023 | 385,766 |
| Thereafter | 1,157,305 |

The change in the College's proportionate share of OPEB liability and deferred inflows and deferred outflows of resources based on measurement date are representing in the following table:

| | |
|------------------------------------------------------|----------------------|
| Proportionate Share (%) 2016 | 0.3386201230% |
| Proportionate Share (%) 2017 | 0.3306883667% |
| Total OPEB Liability - Ending 2016 | \$ 21,138,622 |
| Total OPEB Liability - Beginning 2017 | 20,643,476 |
| Total OPEB Liability Change in Proportion | (495,146) |
| Total Deferred Inflows/Outflows - 2016 | 319,247 |
| Total Deferred Inflows/Outflows - 2017 | 311,769 |
| Total Deferred Inflows/Outflows Change in Proportion | (7,478) |
| Total Change in Proportion | \$ (487,668) |

Note 19 - Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2018.

| Expenses by Functional Classification | |
|----------------------------------------------|----------------------|
| Instruction | \$ 18,186,330 |
| Academic Support Services | 5,884,178 |
| Student Services | 4,926,862 |
| Institutional Support | 7,067,478 |
| Operations and Maintenance of Plant | 3,775,262 |
| Auxiliary enterprises | 3,376,457 |
| Student Financial Aid | 6,433,516 |
| Depreciation | 2,805,590 |
| Total operating expenses | \$ 52,455,673 |

Note 20 - Commitments and Contingencies

The College is in the early design stages of two capital projects that will be funded entirely with fees that students voted to assess starting Fall Quarter 2016. Fee revenues will cover the debt service costs on a total loan amount not to exceed \$8 million for both projects. A new Recreation Center is planned for the Walla Walla Campus and the renovation of a couple classrooms will create a dedicated student activity space for the Clarkston Campus. If the State Legislature authorizes the two Certificates of Participation (COP) as planned, construction would begin during the summer of 2019. As of June 30, 2018 around \$1.82 million in fees had accumulated.

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.

Note 21 - Subsequent Events

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

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 Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30 | | | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------|-------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--|
| Fiscal Year | College's proportion of the net pension liability | College's proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability | |
| 2014 | 0.047047% | \$ 2,370,015 | \$ 5,057,376 | 46.86% | 61.19% | |
| 2015 | 0.047908% | \$ 2,506,034 | \$ 5,386,887 | 46.52% | 59.10% | |
| 2016 | 0.046740% | \$ 2,510,158 | \$ 5,522,193 | 45.46% | 57.03% | |
| 2017 | 0.043956% | \$ 2,085,746 | \$ 5,510,818 | 37.85% | 61.24% | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| 2021 | | | | | | |
| 2022 | | | | | | |
| 2023 | | | | | | |

*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 Public Employees’ Retirement System (PERS) Plan 2/3 Measurement Date of June 30 | | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|----------------------------------------------------------|-------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--|
| Fiscal Year | College’s proportionate share of the net pension liability | College proportionate share of the net pension liability | College covered payroll | College’s proportionate share of the net pension liability as a percentage of its covered payroll | Plan’s fiduciary net position as a percentage of the total pension liability | |
| 2014 | 0.057918% | \$ 1,170,732 | \$ 4,955,365 | 23.63% | 93.29% | |
| 2015 | 0.059767% | \$ 2,135,509 | \$ 5,303,083 | 40.27% | 89.20% | |
| 2016 | 0.058573% | \$ 2,949,105 | \$ 5,468,697 | 53.93% | 85.82% | |
| 2017 | 0.055956% | \$ 1,944,204 | \$ 5,484,177 | 35.45% | 90.97% | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| 2021 | | | | | | |
| 2022 | | | | | | |
| 2023 | | | | | | |

*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 Teacher's Retirement System (TRS) Plan 1 Measurement Date of June 30 | | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------|-------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--|
| Fiscal Year | College's proportion of the net pension liability | College's proportionate share of the net pension liability | College covered payroll | College's proportionate share of the net pension liability as a percentage of its covered payroll | Plan's fiduciary net position as a percentage of the total pension liability | |
| 2014 | 0.009257% | \$ 273,031 | \$ 338,142 | 80.74% | 68.77% | |
| 2015 | 0.009708% | \$ 307,563 | \$ 387,476 | 79.38% | 65.70% | |
| 2016 | 0.010622% | \$ 362,660 | \$ 459,740 | 78.88% | 62.07% | |
| 2017 | 0.008157% | \$ 246,608 | \$ 366,150 | 67.35% | 65.58% | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| 2021 | | | | | | |
| 2022 | | | | | | |
| 2023 | | | | | | |

*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 Teachers’ Retirement System (TRS) Plan 2/3 Measurement Date of June 30 | | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------|-------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--|
| Fiscal Year | College’s proportion of the net pension liability | College’s proportionate share of the net pension liability | College covered payroll | College’s proportionate share of the net pension liability as a percentage of its covered payroll | Plan’s fiduciary net position as a percentage of the total pension liability | |
| 2014 | 0.006200% | \$ 20,025 | \$ 266,847 | 7.50% | 96.81% | |
| 2015 | 0.006759% | \$ 57,033 | \$ 315,420 | 18.08% | 92.48% | |
| 2016 | 0.007771% | \$ 106,719 | \$ 385,341 | 27.69% | 88.72% | |
| 2017 | 0.005180% | \$ 47,808 | \$ 284,032 | 16.83% | 93.14% | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| 2021 | | | | | | |
| 2022 | | | | | | |
| 2023 | | | | | | |

*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 | \$ 275,682 | \$ 275,682 | \$ - | \$ 5,453,619 | 5.06% | |
| 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 | \$ 403,689 | \$ 403,689 | \$ - | \$ 5,427,571 | 7.44% | |
| 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 | \$ 31,442 | \$ 31,442 | \$ - | \$ 443,419 | 7.09% | | |
| 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 | \$ 33,610 | \$ 33,610 | \$ - | \$ 439,273 | 7.65% | | |
| 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 | | | |
|------------------------------------------------------------------------------|-----------------|----|--------------|
| Walla Walla Community College | | | |
| Fiscal Year Ended June 30, 2018 | | | |
| <i>(expressed in thousands)</i> | | | |
| | 2017 | | 2018 |
| Total Pension Liability | | | |
| Service Cost | \$ 153 | \$ | 107 |
| Interest | 99 | | 99 |
| Changes of benefit terms | - | | - |
| Differences between expected and actual experience | (714) | | (292) |
| Changes of assumptions | (169) | | (99) |
| Benefit Payments | (25) | | (36) |
| Change in proportionate share of TPL | | | (14) |
| Other | - | | - |
| Net Change in Total Pension Liability | (657) | | (235) |
| Total Pension Liability - Beginning | 3,337 | | 2,680 |
| Total Pension Liability - Ending | \$ 2,680 | \$ | 2,445 |
| College's Proportion of the Pension Liability | 2.81984% | | 2.80446% |
| Covered-employee payroll | \$ 15,894 | \$ | 16,104 |
| Total Pension Liability as a percentage of covered-employee payr | 16.86388% | | 15.18331% |

Notes: This schedule will be built prospectively until it contains 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.

Other Postemployment Benefits Information

| Schedule of Changes in Total OPEB Liability and Related Ratios | |
|-------------------------------------------------------------------------|-----------------------|
| Fiscal Year Ended June 30 | |
| Total OPEB Liability | 2018 |
| Service cost | \$ 1,306,071 |
| Interest cost | 611,772 |
| Difference between expected and actual experience | - |
| Changes in assumptions | (2,984,233) |
| Changes in benefit terms | - |
| Benefit payments | (311,769) |
| Changes in proportionate share | (495,146) |
| Other | - |
| Net Changes in Total OPEB Liability | \$ (1,873,305) |
| Total OPEB Liability - Beginning | \$ 21,138,622 |
| Total OPEB Liability - Ending | \$ 19,265,317 |
| College's proportion of the Total OPEB Liability (%) | 0.330688% |
| Covered-employee payroll | \$ 22,019,108 |
| Total OPEB Liability as a percentage of covered-employee payroll | 87.493630% |

This schedule is to be built prospectively until it contains ten years of data.

Notes to Required Supplementary Information

The Public Employee's Benefits Board (PEBB) OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.