WENATCHEE VALLEY COLLEGE

2014 Annual Financial Report

Wenatchee Valley College
2014 Financial Report

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Trustees and Administrative Officers

Wenatchee Valley College Board of Trustees

Trustee	Residence	Term
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June Darling (Vice Chair)	Cashmere	2010-2015
Phyllis Gleasman	Chelan	2011-2016
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Jim Richardson, PhD, President
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Suzie Benson, Vice President of Administrative Services

ACADEMIC DEANS 2013-2014

Anita Janis, Dean of Workforce Education
Richard Underbakke, Dean of Liberal Arts and Sciences

Trustees and Officer list effective as of December 31, 2014

Washington State Auditor's Office

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Financial Statements Audit Report

Wenatchee Valley College

For the period July 1, 2013 through June 30, 2014

Published October 24, 2016

Report No. 1017695

Washington State Auditor's Office

October 24, 2016

Board of Trustees Wenatchee
Valley College Wenatchee,
Washington

Report on Financial Statements

Please find attached our report on the Wenatchee Valley College's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

The College's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.

Background

It is the responsibility of College management to design, implement and maintain internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in internal controls over financial reporting that affected the College's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, requires auditor's to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls that, when taken together, represent a material weakness:

- College staff responsible for compiling the statements did not receive adequate training to effectively prepare the statements under generally accepted accounting principles (GAAP). Specifically, the College did not have procedures to record capital assets and related depreciation in accordance with GAAP or the State's Administrative and Accounting Manual (SAAM). In addition, although capital assets and accumulated depreciation balances comprised 81% of total reported assets, the College did not undertake a thorough analysis of these balances to ensure that they both accurately reflected a complete inventory of the college's assets, and were properly valued and appropriately depreciated.

- College staff responsible for financial statement preparation lacked the technical knowledge of reporting requirements prescribed by Governmental Accounting Standards Board (GASB). In addition, the College did not perform a review of the financial statements to ensure financial statements were accurate in all material respects and met reporting requirements.

Cause of Condition

This is the first year that the College has prepared financial statements. College staff responsible for financial statements did not have experience preparing formal financial statements in accordance with Generally Accepted Accounting Principles.

College staff did not appropriately use their capital assets management system for the period extending between fiscal year 2007 until fiscal year 2016, which is designated by the State Board of Community and Technical Colleges, thereby increasing the burden on current accounting staff to determine proper capital assets balances.

Effect of Condition

We identified the following errors during our audit of the College's financial statements:

- The College did not properly record or maintain accurate accounting records for capital assets and related depreciation from 2007 through 2014. Further, the College did not conduct a physical inventory to determine the entire population of capital assets required to be reported. As a result, the College did not include eight buildings with approximate value of $772,000 on its original financial statements. Further, we were not able to substantiate reported capital assets net of related depreciation balance of approximately $41 million and the associated depreciation expense balance of approximately $855,000.

- The College did not present the Wenatchee Valley College Foundation as a component unit as required by GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units*. The total value of the Foundation's omitted assets approximates $8.6 million.

The College misclassified long-term investments as current cash and equivalents; as result current cash and equivalents were overstated by $4.1 million and long term investments were understated by the same amount.

- We were unable to reconcile the Statement of Cash Flows to other financial statements due to incomplete capital asset records.

- We also identified other errors within the basic financial statements, the Management's Discussion and Analysis, and the Notes to the Financial Statements that were not individually significant; however, these errors impair the reliability of the financial report.

Inaccurate accounting records and financial reports limit access to financial information used by College officials, the public, state and federal agencies and other interested parties, and might impact the College's ability to maintain accreditation.

Recommendation

We recommend the College establish and follow procedures to ensure:

- Personnel responsible for financial transactions are provided the necessary resources, time, training and oversight to facilitate accurate accounting for balances and preparation of accurate and supported financial statements.
- Establish an effective review process of the financial statements by a person knowledgeable of GAAP reporting requirements to ensure accurate preparation and reporting of the College's financial statements.

College's Response

Wenatchee Valley College recognizes the importance of a strong internal control environment and takes very seriously the identification of a weakness in our controls. We appreciate the opportunity to respond to this finding. Corrective actions were begun as soon as the weakness was identified, prior to the conclusion of the financial statements audit.

Inventory procedures: *Responsibility for recording equipment, land, buildings and other improvements in the College's fixed asset system has historically resided with the Facilities Department due to the other uses for the data maintained in the system (such as room locations, square footage, etc.) that is critical to ongoing Facilities operations but would not impact financial reporting. Entries to record capital assets other than equipment are infrequent. The inventory for equipment was moved to an alternate software system prior to the audit period, and responsible employees did not have adequate understanding of the impact of their records on accounting. This condition has been corrected, and a physical inventory of all recorded assets is in process.*

Monthly reconciliations between accounting records and changes to the asset inventory are again being performed. Inventory policy and procedure were reviewed and updated, and will be revisited annually prior to the preparation of the financial statements.

The College made adjustments to the financial statements to account for eight small homes owned by the College originally missing from the inventory, and the associated depreciation.

Training: *Additional training is planned for key personnel on internal controls and inventory procedures. Facilities office staff will take advantage of training related to the inventory and facilities operations software. Business office staff will take advantage of training on GASB standards for financial statements provided by the State Board for Community and Technical Colleges and the community college business officers group (Business, Accounting and Reporting Council).*

GASB compliance: *The College revised the financial statements to include the WVC Foundation prior to the conclusion of the audit. Fiscal office staff monitors communications from the State Board and other sources concerning GASB standards. All future financial statements will be reviewed for conformity to prescribed accounting standards and formats by college executives or their designees.*

Representatives of the State Auditor's Office were generous with information and advice throughout the audit. WVC accounting and management personnel are grateful for the ongoing assistance as we implement and evaluate corrective actions.

Auditor's Remarks

We appreciate the College's commitment to resolve this finding and thank the College for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.88.160 – Fiscal management – Powers and duties of officers and agencies, states in part:

> This section sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch. The regulations issued by the governor pursuant to this chapter shall provide for a comprehensive, orderly basis for fiscal management and control, including efficient accounting and reporting therefor, for the executive branch of the state government and may include, in addition, such requirements as will generally promote more efficient public management in the state.
>
> > (1) Governor; director of financial management. The governor, through the director of financial management, shall devise and supervise a modern and complete accounting system for each agency to the end that all revenues, expenditures, receipts, disbursements, resources, and obligations of the state shall be properly and

systematically accounted for. The accounting system shall include the development of accurate, timely records and reports of all financial affairs of the state. The system shall also provide for central accounts in the office of financial management at the level of detail deemed necessary by the director to perform central financial management. The director of financial management shall adopt and periodically update an accounting procedures manual. Any agency maintaining its own accounting and reporting system shall comply with the updated accounting procedures manual and the rules of the director adopted under this chapter. An agency may receive a waiver from complying with this requirement if the waiver is approved by the director. Waivers expire at the end of the fiscal biennium for which they are granted. The director shall forward notice of waivers granted to the appropriate legislative fiscal committees. The director of financial management may require such financial, statistical, and other reports as the director deems necessary from all agencies covering any period.

(4) In addition, the director of financial management, as agent of the governor, shall:

(a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

(i) For those agencies that the director determines internal audit is required, the agency head or authorized designee shall be assigned the responsibility and authority for establishing and maintaining internal audits following professional audit standards including generally accepted government auditing standards or standards adopted by the institute of internal auditors, or both.

(ii) For those agencies that the director determines internal audit is not required, the agency head or authorized designee may establish and maintain internal audits following professional audit standards including generally accepted government auditing standards or standards adopted by the institute of internal auditors, or both, but at a minimum must comply with policies as established by the director to assess the effectiveness of the agency's systems of internal controls and risk management processes;

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards, Section 265, as follows:

.7 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The Office of Financial Management’s *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a *Who is responsible for internal control?*

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c *Control Activities*

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e *Monitoring*

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency’s internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of

> control weaknesses before they materially affect the achievement of the agency's objectives. An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units,* states in part:

> 40a. Certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:
>
> 1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
>
> 2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
>
> 3. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Wenatchee Valley College
July 1, 2013 through June 30, 2014

Board of Trustees
Wenatchee Valley College
Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Wenatchee Valley College, Chelan County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the College's basic financial statements, and we have issued our report thereon dated September 28, 2016. We were not able to substantiate capital assets net of depreciation and the associated depreciation expense balances as reported on the College's financial statements for the year ending June 30, 2014. In addition, due to incomplete capital asset records, we were not able to reconcile the Statement of Cash Flows to other financial statements. Accordingly, our report was modified to reflect a qualified opinion on the fair presentation of the business-type activities for this departure from accounting principles generally accepted in the United States of America. Our report includes a disclaimer of opinion on the aggregate discretely presented component units because we were not engaged to audit those financial statements for the year ended June 30, 2014.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

COLLEGE'S RESPONSE TO FINDINGS

The College's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 28, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Wenatchee Valley College
July 1, 2013 through June 30, 2014

Board of Trustees
Wenatchee Valley College
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of the Wenatchee Valley College, Chelan County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, however, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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

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

Basis for Qualified Opinion on Business-Type Activities

The College did not properly record or maintain accurate accounting records for capital assets and related depreciation from 2007 through 2014. Furthermore, the College did not conduct a physical inventory to determine the entire population of capital assets required to be reported. As a result, we were not able to substantiate capital assets net of depreciation balance of approximately $41 million and the associated depreciation expense balance of approximately $855,000 as reported on the College's financial statements for business-type activities for the year ending June 30, 2014. In addition, due to incomplete capital asset records, we were unable to reconcile the Statement of Cash Flows to the other financial statements for the business-type activities. Correct accounting and reporting of these balances is required by accounting principles generally accepted in the United States of America.

Qualified Opinion on Business-Type Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the College, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit

The financial statements of the Wenatchee Valley College Foundation (WVCF) component unit have not been audited, and we were not engaged to audit the WVCF financial statements as part of our audit of the College's basic financial statements. WVCF's financial activities are included in the College's basic financial statements as a discretely presented component unit and represent 100 percent of the assets, net position, and revenues, respectively, of the College's discretely presented component unit.

Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the Wenatchee Valley College, Washington. Accordingly, we do not express an opinion on these financial statements.

Matters of Emphasis

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of

America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 28, 2016

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Wenatchee Valley College (the College) for the fiscal year ended June 30, 2014 (FY 2014). The 2014 report constitutes the College's inaugural audited financial statements. As a result, comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2013 (FY 2013) where available.

This overview provides 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 statement and accompanying notes.

Reporting Entity

Wenatchee Valley College is one of 30 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 6,776 students in person and online. The College confers associates degrees, certificates and high school diplomas. The College was established in 1939. Its primary purpose is to provide opportunities for diverse learners to achieve their educational and professional goals, thereby enriching the social, cultural, and economic environment of our region and the global community.

The College's main campus is located in Wenatchee, Washington. Wenatchee and East Wenatchee (across the Columbia River from Wenatchee) together form a community of about 46,000 residents. The College also offers classes and support services on a satellite campus in Omak, Washington, 92 miles to the north. Omak and neighboring Okanogan together form a community of about 7,300 residents. The College service district covers all of Chelan, Douglas and Okanogan counties, a geographic area of 10,158 square miles with a population of 154,600. The College is governed by a five member Board of Trustees appointed by the governor 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 it's discretely presented component unit, the Wenatchee Valley College Foundation. The Wenatchee Valley College at Omak Foundation is not included because its contributions to the College and immaterial to the College financial position. 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, 2014. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about the operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive assessment of the College's financial health as a whole.

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

Statement of Net Position

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

Condensed Statement of Net Position As of June 30th	**FY 2014**
Assets	
Current Assets	5,554,486
Long-term Investments	4,407,642
Capital Assets, net	41,827,081
Total Assets	$ 51,789,209
Liabilities	
Current Liabilities	5,756,936
Other Liabilities, non-current	7,248,660
Total Liabilities	$ 13,005,596
Net Position	$ 38,783,613

Current assets consist primarily of cash, investments, various accounts receivables and inventories. There is an increase of current assets in FY 2014 over 2013, primarily attributable to an increase in investment in bonds.

Net capital assets decreased from FY 2013 to 2014 due to current depreciation in the amount of $855,356. The increase in capital assets before depreciation includes the final payments for the Music and Art Center, which opened for classes in FY 2013. Other capital projects include energy saving infrastructure improvements and acquisition of instructional program equipment.

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

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

College's non-current liabilities continue to decrease as the College pays down the principal owed on the COP for the student residence hall and MAC.

Net position represents the value of the College's assets after liabilities are deducted. The College is required by accounting standards to report its net position in four categories:

Net Investment in Capital Assets – The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted:

Nonexpendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. Often donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation and are not included here.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties who have placed time or purpose restrictions on the use of the asset. The expendable balance for the College is funds held for student loans.

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. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

Condensed Statement of Net Position As of June 30th	**FY 2014**
Net Investment in Capital Assets	$ 37,027,081
Restricted	
Nonexpendable	375,757
Expendable	1,166
Expendable - Student Loans	(22,930)
Unrestricted	1,402,539
Total Net Position	$ 38,783,613

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position represents the College's changes in total net position during FY 2014. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, and 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 payments received from another government agency without directly giving equal value to that agency 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. As expected, when operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses the College shows an operating loss.

A condensed statement of revenues, expenses and changes and in net position is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th		**FY 2014**
Operating Revenues	$	13,365,622
Non-Operating Revenues	$	20,771,441
Operating Expenses	$	34,416,521
Non-Operating Expenses	$	220,220
Excess pr deficiency (before contributions, transfers, etc.)	$	(499,678)
Capital appropriations	$	838,160
Special and extraordinary items	$	-
Change in Net Position	$	338,482
Net Position, Beginning of the Fiscal Year	$	38,445,131
Ending Net Position	$	38,783,613

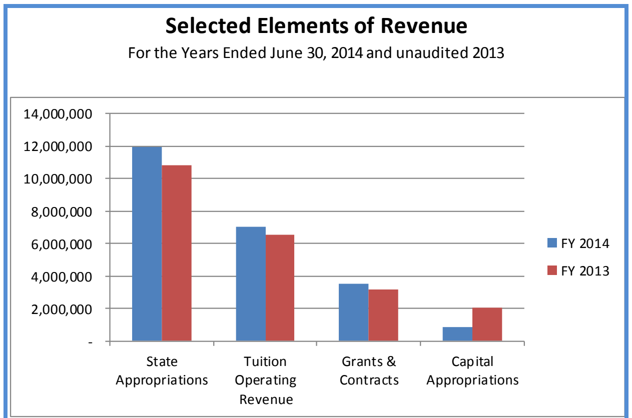
Revenues

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times through FY 2013. The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates funds to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by over 19%. In FY 2014, the legislature increased allocations with a fraction of the previous cuts.

Over the same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Since enrollments decreased in FY 2014, the College had a decrease in revenue is primarily attributable to the decline in enrollment. Pell Grant revenues generally follow enrollment trends. As the College's enrollment decreased during 2014, so did the Pell Grant revenue, tuition revenue and student fees.

Grants and contracts revenue was up in 2014 as it was the first year of the federal Title III grant. There were minor fluctuations in various other grant amounts.

The capital appropriations include the final amounts for the Music and Art Center, a major project funded by state capital appropriations, local donated funds and a COP.



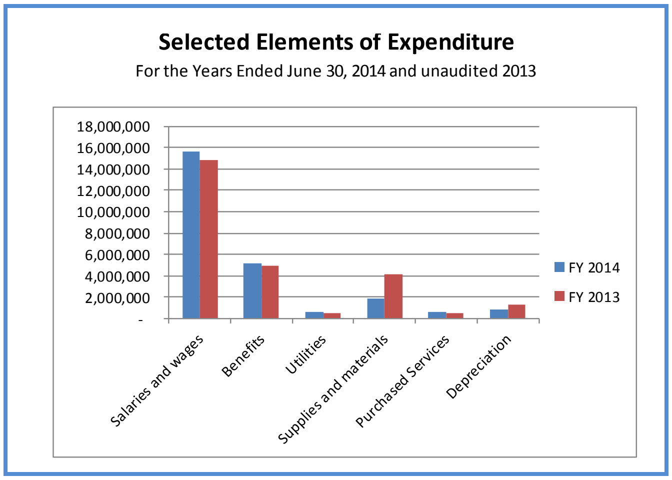
Note: For the purposes of this chart, tuition and fees may include amounts students paid with Pell Grent proceeds.

Expenses

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

More recently, in FY 2014, salary and benefit costs increased as a result of the restoration of the 3% salary reduction implemented in FY 2013 and as a result of classified staff increments as defined by the collective bargaining agreement.

Utility expenses are up slightly due to utility rate increases, but the increase was mitigated by targeted efforts to reduce consumption. Supplies and materials expenses are lower in FY 2014 for a number of reasons. Certain capital projects costs do not meet accounting criteria for capitalization as part of the cost of a building and are instead recognized as supplies and materials or purchased services costs. In 2013 the College had many such costs associated with energy systems repairs and upgrades, expansion of the electronic locks system, and the commissioning of the Music and Art Center. Other costs fluctuated as well. Depreciation expense is primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service. In FY 2013, the Music and Art Center was put into service.



Statement of Cash Flows

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

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

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

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

The fourth section shows cash received and spent on investing activities, including the purchase and sale of investment instruments, interest earnings and realized gains or losses from investments. The College currently invests in bonds and the Local Government Investment Pool (LGIP).

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

The College's cash and cash equivalents decreased in 2014 by $4,931,587. Primary contributing factors include a transfer of $4,138,602 from short-term to long-term investments and spending on locally financed capital projects including $535,971 on facilities upgrades for energy efficiency.

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

As of June 30, 2014, the College had invested $37,443,545 in capital assets, net of accumulated depreciation. This represents a decrease from last year, as shown in the table below – attributable to annual depreciation in excess of $1.2 million offset by investments in equipment, infrastructure, and library resources.

Asset Type	June 30, 2014	June 30, 2013 (Unaudited)	Change
Land	1,224,245	1,106,652	117,593
Constructino in Progress	384,921	-	384,921
Buildings, net	37,358,790	34,649,901	2,708,889
Other Improvements and Infrastructure, net	-	172,280	(172,280)
Equipment, net	2,823,955	3,472,364	(648,409)
Library Resources, net	35,170	22,943	12,227
Total Capital Assets, Net	41,827,081	39,424,140	2,402,941

There is a considerable increase in net capital assets which can be attributed to annual depreciation and a review and update of the capital asset inventory. (See Note 6.)

At June 30, 2014, The College had $4,800,000 in outstanding debt, made up entirely of the Certificates of Participation (COP) for the student residence hall and Music and Art Center capital construction projects. The College has no capital leases. Additional information of notes payable, long term debt and debt service schedules can be found in notes 11, 12 and 13 of the Notes to the Financial Statements.

Economic Factors that will affect the Future

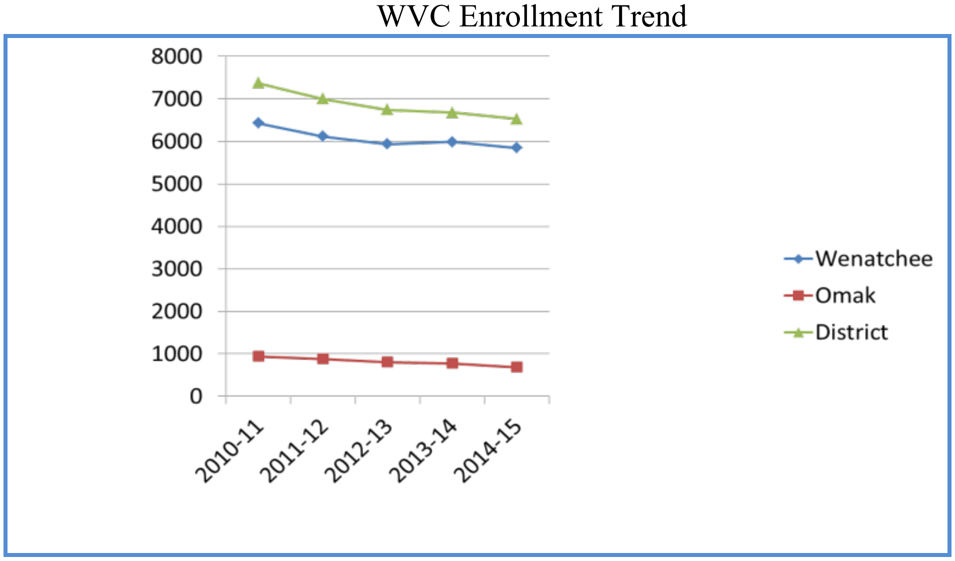
Following a trend that began in FY 2009, the College's operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013-15 biennial budget the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that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

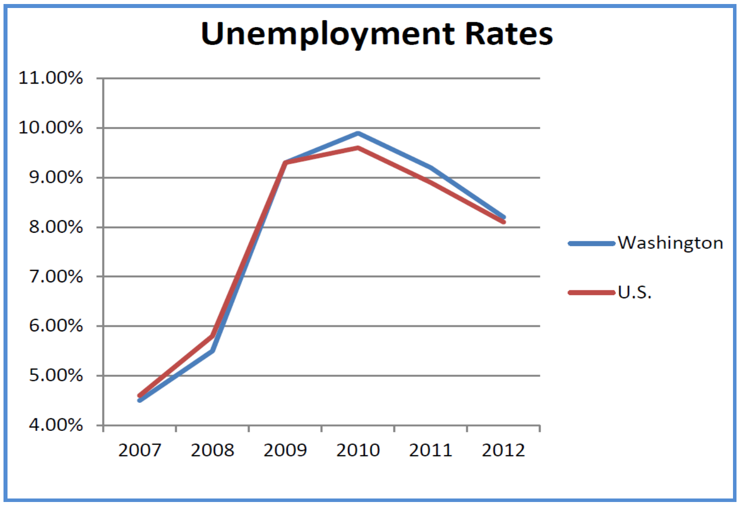
Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its most recent forecast (February 2014), the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential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

Closer to home, Washington continues to add jobs, including showing growth in the manufacturing sector. Housing construction, home prices and car sales also increased and exports are at an all-time high. Both Washington state employment and personal income are expected to continue to grow in 2014 and through 2019, the end of the period covered by the forecast. Community college enrollment often falls as employment rises.

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. The economic recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. The College enrolled 224 full-time equivalent students above its state funded enrollment target during FY 2014. However, enrollment was down about 1% from FY 2013. If this trend continues, and tuition rates are not raised, it will result in a significant reduction in tuition revenue.

WVC Enrollment Trend





In FY 2015, the State Board for Community and Technical Colleges adopted a change in the formula to allocate state appropriations to individual college districts. Enrollment is a key element in the new formula, as is student persistence and completion.

College Statement of Net Position

Wenatchee Community College
Statement of Net Position
June 30, 2014

Assets		
Current assets		
1	Cash and cash equivalents	2,830,548
2	Short-term investments	-
3	Accounts Receivable	2,401,690
4	Student Loans Receivable	2,882
5	Interest Receivable	-
6	Inventories	319,366
7	Prepaid Expenses	-
	Total current assets	5,554,486
Non-Current Assets		
8	Long-term investments	4,407,642
9	Student Loans Receivable	-
10	Capital assets, net of depreciation	41,827,081
	Total non-current assets	46,234,723
	Total assets	**51,789,209**
Deferred Outflows of Resources		-
	Total Deferred Outflows of Resources	-
Liabilities		
Current Liabilities		
11	Accounts Payable	938,167
12	Accrued Liabilities	2,412,553
13	Compensated absences	3,103
14	Deposits Payable	5,930
15	Unearned Revenue	2,197,183
16	Leases and Certificates of Participation Payable	200,000
	Total current liabilities	5,756,936
Noncurrent Liabilities		
17	Compensated Absences	2,648,660
18	Long-term liabilities	4,600,000
	Total non-current liabilities	7,248,660
	Total liabilities	**13,005,596**
Deferred Inflows of Resources		-
	Total Deferred Inflows of Resources	
Net Position		
19	Net Investment in Capital Assets	37,027,081
	Restricted for:	
20	Nonexpendable	375,757
21	Expendable	1,166
22	Student Loans	-
23	Unrestricted	1,379,608
	Total Net Position	**38,783,613**
	Total Liabilities and Net Position	**51,789,209**

(See accompanying note to the financial statements.)

WENATCHEE VALLEY COLLEGE FOUNDATION, INC.

Statements of Financial Position
As of June 30, 2014
With Comparative Totals as of June 30, 2013

	Current Funds	Program Funds	Endowment Funds	Total of All Funds 2014	Total of All Funds 2013
ASSETS					
Cash	106,791	193,282	30,595	330,668	319,270
Pledges and other receivables - net:					
Pledges and other receivables	9,558	43,866		53,424	213,267
Pledges from board members and trustees	-	2,777		2,777	5,275
Total pledges and other receivables - net	9,558	46,643		56,201	218,542
Investments at fair value	824,634	708,626	6,633,593	8,166,853	6,839,737
Other	998	3,400	-	4,398	15,081
Equipment	-	-	-	-	7,469
Real estate	-	-	58,781	58,781	58,781
Accumulated Depreciation	-	-	-	-	(2,536)
Total Assets	941,981	951,951	6,722,969	8,616,901	7,456,344
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued liabilities	3,159	2,178	-	5,337	1,799
Accounts payable and accrued liabilities - related party	-	709	-	709	56,270
Scholarhsip and awards payable - related party	6,000	12,574	156,171	174,745	191,697
Total Liabilities	9,159	15,461	156,171	180,791	249,766
NET ASSETS					
Net Assets					
Unrestricted	932,822	43,751	-	976,573	616,517
Temporarily restricted	-	892,739	2,734,022	3,626,761	2,008,628
Permanently restricted	-	-	3,832,776	3,832,776	4,581,433
Total net assets	932,822	936,490	6,566,798	8,436,110	7,206,578
Total Liabilities and Net Assets	941,981	951,951	6,722,969	8,616,901	7,456,344

College Statement Revenues, Expenses and Changes in Net Position

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

Operating Revenues			
01	Student tuition and fees, net		11,477,103
02	Auxiliary enterprise sales		1,628,436
03	State and local grants and contracts		-
04	Federal grants and contracts		-
05	Other operating revenues		260,083
06	Interest on loans to students		-
		Total operating revenue	13,365,622
Operating Expenses			
07	Operating Expenses		5,323,976
08	Salaries and wages		15,668,228
09	Benefits		5,216,227
10	Scholarships and fellowships		4,302,241
11	Supplies and materials		1,817,444
12	Depreciation		855,356
13	Purchased services		654,668
14	Utilities		578,380
		Total operating expenses	34,416,521
		Operating income (loss)	(21,050,898)
Non-Operating Revenues			
15	State appropriations		11,920,089
16	Federal Pell / Other grant revenue		8,850,866
17	Investment income, gains and losses		486
		Net non-operating revenues	**20,771,441**
Non-Operating Expenses			
18	Interest on indebtedness		220,220
		Net non-operating expenses	**220,220**
	Income or (loss) before other revenues, expenses, gains, or losses		(499,678)
19	Capital appropriations		838,160
		Increase (Decrease) in net position	338,482
Net Position			
	Net position, beginning of year		38,445,130
	Net position, end of year		38,783,613

(See accompanying note to the financial statements.)

WENATCHEE VALLEY COLLEGE FOUNDATION, INC.

Statements of Activities

For the year ended June 30, 2014

With Comparative Totals for the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	**2014 Total**	2013 Total
PUBLIC SUPPORT AND REVENUE					
Public Support					
Gifts, contributions, and other grants - unrestricted	-	95,300	-	**95,300**	71,872
Gifts, contributions, and other grants - restricted	440,576	121,924	63,699	**626,199**	284,634
Scholarships	2,000	23,395	650	**26,045**	7,483
In-kind contributions - related party	160,571	-	-	**160,571**	158,159
In-kind contributions	3,134	19,311	-	**22,445**	98,520
Revenue					
Interest and dividends	12,981	10,077	102,580	**125,638**	137,567
Unrealized gain on investments	67,740	79,579	814,451	**961,770**	715,755
Realized gain on investments	18,667	14,371	145,129	**178,167**	18,500
Loss on sale of donated assets	(7,435)	-	-	**(7,435)**	-
Loss on disposal of assets	(4,933)	-	-	**(4,933)**	-
Management fees	103,580	-	-	**103,580**	90,779
Rental income - related party	3,600	-	-	**3,600**	3,600
Program income, events net of direct costs, and other income	21,729	125,523	3,425	**150,677**	67,028
Net assets released from restrictions:					
Satisfaction of program restrictions	749,938	(749,938)	-	**-**	-
Satisfaction of donor restrictions and reclassifications	-	1,878,591	(1,878,591)	**-**	-
Total Public Support and Revenue	1,572,148	1,618,133	(748,657)	**2,441,624**	1,653,897
EXPENSES					
Management and general	116,475	-	-	**116,475**	165,401
Programs	605,551	-	-	**605,551**	372,734
Scholarship - related party	149,691	-	-	**149,691**	142,801
Fundraising	9,573	-	-	**9,573**	61,166
Gifts, grants and awards - related party	330,802	-	-	**330,802**	1,233,882
Total Expenses	1,212,092	-	-	**1,212,092**	1,975,984
Change in Net Assets	360,056	1,618,133	(748,657)	**1,229,532**	(322,087)
Net Assets - beginning of year	616,517	2,008,628	4,581,433	**7,206,578**	7,528,665
Net Assets - End of Year	976,573	3,626,761	3,832,776	**8,436,110**	7,206,578

College Statement of Cash Flows

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

Cash flow from operating activities		
01	Student tuition and fees	11,975,534
02	Grants and contracts	(188,775)
03	Payments to vendors	(7,361,679)
04	Payments for utilities	(677,918)
05	Payments to employees	(15,567,054)
06	Payments for benefits	(5,167,551)
07	Auxiliary enterprise sales	916,579
08	Payments for scholarships and fellowships	(4,302,241)
09	Loans issued to students and employees	(838)
10	Collection of loans to students and employees	0
11	Other receipts (payments)	881,657
	Net cash used by operating activities	(19,492,288)
Cash flow from noncapital financing activities		
12	State appropriations	11,920,089
13	Pell grants	0
14	Other State and Federal Grants	8,850,866
15	Amounts for other than capital purposes (restricted cash)	1,166
	Net cash provided by noncapital financing activities	20,772,121
Cash flow from capital and related financing activities		
16	Proceeds of capital debt	0
17	Capital appropriations	(131,882)
18	Purchases of capital assets	(1,520,683)
19	Certificate of participations proceeds	0
20	Principal paid on capital debt	(200,000)
21	Interest paid	(220,220)
	Net cash used by capital and related financing activities	(2,072,785)
Cash flow from investing activities		
22	Purchase of investments	(4,138,602)
23	Proceeds from sales and maturities of investments	0
24	Income of investments	0
	Net cash provided by investing activities	(4,138,602)
Decrease in cash and cash equivalents		(4,931,587)
Cash and cash equivalents at the beginning of the year		7,762,136
Cash and cash equivalents at the end of the year		2,830,548

Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(21,050,898)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	855,356
Changes in assets and liabilities	
Receivables , net	(354,792)
Inventories	92,594
Other assets	0
Accounts payable	(360,568)
Accrued liabilities	737,742
Deferred revenue	618,165
Compensated absences	14,951
Deposits payable	(44,000)
Loans to students and employees	(838)
Net cash used by operating activities	(19,492,288)

(See accompanying note to the financial statements.)

WENATCHEE VALLEY COLLEGE FOUNDATION, INC.

Statements of Cash Flow
For the year ended June 30, 2014
With Comparative Totals for the year ended June 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from donors, supporters, and programs	**593,503**	635,112
Cash payments for suppliers, programs, and employees	**(935,847)**	(1,801,994)
Cash received from sale of donated assets	**436,689**	-
Cash payments for scholarships and awards	**(166,643)**	(226,806)
Interest and dividends received	**125,638**	137,567
Other Receipts	**145,237**	170,964
Net Cash provided (used) by operating activities	**198,577**	(1,085,157)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (disbursements) receipts from investment account	**(187,179)**	257,715
Net cash (used) provided by investing activities	**(187,179)**	257,715
Net increase (decrease) in cash	**11,398**	(827,442)
Cash - beginning of year	**319,270**	1,146,712
Cash - end of year	**330,668**	319,270

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	2014	2013
Change in net assets	**1,229,532**	(322,087)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized investment gain	**(1,139,937)**	(734,255)
Loss on disposal of assets	**4,933**	-
Depreciation	**-**	422
Loss on sale of donated assets	**7,435**	-
Decrease (increase) in assets -		
Pledges and other receivables - net	**162,341**	21,927
Other	**3,248**	(10,056)
(Decrease) increase in liabilities -		
Accounts payable and accrued liabilities	**(52,023)**	42,897
Scholarships and awards payable	**(16,952)**	(84,005)
Net cash provided (used) by operating activities	**198,577**	**(1,085,157)**

Notes to the Financial Statements

June 30, 2014
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies
Financial Reporting Entity
Wenatchee Valley College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community education services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

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

The Wenatchee Valley College Foundation (the Foundation) and Wenatchee Valley College at Omak Foundation (Omak Foundation) are separate but affiliated non-profit entities, incorporated under Washington law and recognized as tax exempt 501(c)(3) charities. The Foundations' charitable purpose is to assist the college in achieving its goals through cultivating friends and garnering financial support. Because the majority of both the Foundation and the Omak Foundation's income and resources are restricted by donors and may be used only for the benefit of the College or its students, they are considered component units based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2014, WVC receipted revenue from the Foundation of $441,963 for restricted and unrestricted purposes. The College did not have any direct receipts from the Omak Foundation. The Omak Foundation does not have a material impact on WVC's financial position.

A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 509-682-6415. Financial statements from the Omak Foundation may be obtained from Jennifer Short in the WVC Omak office, 509-682-7835.

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

Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the College's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements
In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for financial statements for periods beginning after December 15, 2012. The colleges did not make any changes as a result of this pronouncement.

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

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

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

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

Cash, Cash Equivalents and Investments
Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. Endowment investments are classified as noncurrent assets. The College records all cash, cash equivalents, and investments at fair value.

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

Accounts Receivable

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

Inventories

Inventories, consisting primarily of merchandise for resale in the college bookstore and course-related supplies, are valued at cost using the first-in, first-out (FIFO) method.

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the College, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, 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 unity cost of $5,000 or more are capitalized.
In accordance with GASB Statement 42, the College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2014, no assets had been written down.

Endowments held by the College

At June 30, 2014 and 2013, the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is $520 and $646 respectively, which is reported as restricted, expendable on the Statements of Net Position. State law allows for spending of net appreciation on investments of donor-restricted endowments. Accordingly, the income distribution policy distributes the fiscal year earnings based on each endowment’s share of the balance.

Unearned Revenues
Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer and fall quarters tuition and fees as unearned revenue.

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

Net Position
The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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

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

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

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

has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2014 are $8,925,634.

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

Operating Expenses
Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as non-operating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

2. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $2,830,548 as represented in the table below.

Table 1: Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	26,993
Bank Demand and Time Deposits	2,254,820
Local Government Investment Pool	56,162
Short-term Investments	492,573
Total Cash and Cash Equivalents	**2,830,548**

Investments consist of time certificates of deposit and bond funds. Time certificates of deposit have repurchase agreements with the respective financial institutions.

Table 2: Investment Maturities	Fair Value	One Year or Less	1-5 Years	6-10 Years
Time Certificates of Deposit	269,446	269,446		-
U.S. Government Treasury				-
U.S. Agency Oblications				-
Bonds	4,407,642	442,118	3,965,524	
Other				-
Total Cash and Cash Equivalents	4,677,088	711,564	3,965,524	-

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 Bank of America and Washington Federal 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).

Interest Rate Risk—Investments

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

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2014, the College operating fund investments held by US Bank in the banks' name as agent for the College, and endowment assets, held by Washington Trust Bank for the account of the College, are exposed to custodial credit risk as follows:

Table 3: Investments Exposed to Custodial Risk	Fair Value
Bank of America	1,479,430
Washington Federal Bank	310,621
US Bank Bond Custody	4,470,642
Washington Trust Bank Endowment	269,446
Total	**6,530,139**

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2014 were $779.

3. Accounts Receivable

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

Table 4: Accounts Receivable	June 30, 2014
Student Tuition and Fees	205,237
Due from the Federal Government	164,021
Due from Other State Agencies	428,454
Auxiliary Enterprises	7,715
Interest Receivable	673
Unbilled Tuition	1,083,735
Other	528,018
Subtotal	2,417,854
Less Allowance for Uncollectible Accounts	(16,164)
Accounts Receivable, net	2,401,690

4. Loans Receivable

Loans receivable as of June 30, 2014 consisted exclusively of student loans, as follows:

Table 5: Loans Receivable	Amount
Student Loans Receivable	12,925
Other Loans Receivable	-
Subtotal	12,925
Less Allowance for Uncollectible Accounts	(10,043)
Loans Receivable, net	2,882

5. Inventories

Inventories, stated at cost using first-in, first out (FIFO) valuation method, consisted of the following as of June 30, 2014.

Table 6: Inventories	June 30, 2014
Consumable Inventories	17,395
Merchandise Inventories	301,971
Total Inventories	319,366

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $855,356.

Table 7: Capital Assetts	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	1,106,652	117,593		1,224,245
Construction in progress		384,921		384,921
Total nondepreciable capital assets	1,106,652	502,514	-	1,609,166
Depreciable capital assets				
Buildings	51,132,838	2,880,768		54,013,606
Other improvements and infrastructure	463,012	160,211		623,223
Equipment	7,309,188	(668,752)		6,640,436
Library resources	800,087	16,328		816,415
Subtotal depreciable capital assets	59,705,125	2,388,555	-	62,093,680
Less accumulated depreciation				
Buildings	16,482,937	171,878		16,654,815
Other improvements and infrastructure	285,732	337,491		623,223
Equipment	3,474,595	341,886		3,816,481
Library resources	777,144	4,101		781,245
	21,020,408	855,356	-	21,875,764
Total depreciable capital assets	38,684,717	1,533,199	-	40,217,916

7. Accounts Payable and Accrued Liabilities

At June 30, 2014, accrued liabilities are the following:

Table 8: Accounts Payable and Accrued Liabilities	June 30, 2014
Amounts owed to employees	1,140,103
Accounts payable	938,167
Amounts held for others and retainage	1,272,450
Total	3,350,720

8. Unearned Revenue

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

Table 9: Unearned Revenue	June 30, 2014
Summer quarter tuition and fees	559,645
Fall quarter tuition and fees	1,637,537
Total	2,197,183

9. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The College finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2013 through June 30, 2014, were $29,543. Cash reserves for unemployment compensation for all employees at June 30, 2014, were $334,641.

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

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

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $514,969, and accrued sick leave totaled $2,133,691 at June 30, 2014.

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

11. Leases Payable

The College may finance some capital asset purchases through the Washington State Treasurer's leasing program, and has done so in the past. These are classified as capital leases. The College has no capital leases at this time. The College has leases for office document processors. These leases are classified as operating leases. As of June 30, 2014, the minimum lease payments under capital leases and operating leases consist of the following:

Table 10: Leases Payable Fiscal Year	Capital Leases	Operating Leases
2015	none	64,438
2016		64,438
2017		64,438
Total minimum lease payments		193314
Less amount representing interest		0
Net present value		193314

12. Notes Payable

In February, 2009 the College obtained financing in order to build student housing through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $2,905,000. The interest rate charged is 5.12%.

In November, 2011 the College obtained financing in order to build the Music and Art Center through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $2,585,000. The interest rate charged is 5.12%.

Student fees related to the student housing COP are accounted for in a dedicated fund which is used to pay principal and interest.

The College's debt service requirements for these note agreements for the next five years and thereafter follow.

13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2014 are as follows:

Annual Debt Service Requirements						
Fiscal	Certificates of Participation			Capital Leases		
Year	Principal	Interest	Total	Principal	Interest	Total
2015	210,000	213,645	423,645			
2016	215,000	206,533	421,533			
2017	220,000	198,458	418,458			
2018	235,000	189,195	424,195			
2019-2023	1,320,000	778,350	2,098,350			
2024-2028	1,685,000	413,364	2,098,364			
2029-2033	925,000	63,750	988,750			
Total	4,810,000	2,063,295	6,873,295	-	-	-

14. Schedule of Long Term Debt

Long-Term Debt	Balance Outstanding June 30, 2013	Additions	Reductions	Balance Outstanding June 30, 2014	Current Portion
Certificates of participation	5,010,000		200,000	4,810,000	210,000
Capital leases					
Net pension obligation					
Total	5,010,000	-	200,000	4,810,000	210,000

15. Deferred Inflows

Not applicable.

16. Pension Plans

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

For FY 2013-14, the payroll for the College's employees was $4,064,168 for PERS, $53,872 for TRS, and $10,052,786 for SBRP. Total covered payroll was $14,170,825.

PERS and TRS

<u>Plan Descriptions</u>. 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 five or ten years of eligible service, depending on the employee's age and service credit. Benefits include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The College has 1 faculty member with pre-existing eligibility who continues to participate in TRS.

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

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

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

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

Contribution Rates at June 30

	FY 2011		FY2012		FY 2013	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	5.31%	6.00%	7.08%	6.00%	7.21%
Plan 2	3.90%	5.31%	4.64%	7.08%	4.64%	7.21%
Plan 3	5-15%	5.31%	5-15%	7.08%	5-15%	7.21%
TERS						
Plan 1	6.00%	6.14%	6.00%	8.04%	6.00%	8.05%
Plan 3	5-15%	6.14%	5-15%	8.04%	5-15%	8.05%

State Board Retirement Plan

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

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

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

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

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

Contributions: Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee contributions for the year ended June 30, 2014 were $861,529 and employer (College) contributions were $865,305.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $25,308.36. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $50,264. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 of the fund balance.

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

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $6,822,496 with an annual required contribution (ARC) of $666,561. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expenses for active employees, which is reduced by the current contributions of approximately $125,416. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $541,145. This amount is not included in the College's financial statements.

The College paid $2,523,622 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

17. Operating Expenses by Program

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

Expenses by Functional Classification	
Instruction	13,367,003
Academic Support Services	2,337,251
Student Services	2,556,472
Institutional Support	3,137,845
Operations and Maintenance of Plant	5,102,212
Scholarsips and Other Student Finanacial Aid	5,485,641
Auxiliary Enterprises	1,477,690
Student Financial Aid	-
Public Services	-
Research	97,051
Depreciation	855,356
Total Operating Expenses	**34,416,521**

18. Commitments and Contingencies

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

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

The College has commitments of approximately $455,500 in capital improvement projects that include remodel and renovations of existing buildings.

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We acknowledge the work of the WVC Fiscal Services staff in the preparation of this report. We also acknowledge the SBCTC staff for their guidance.