Office of the Washington State Auditor

Pat McCarthy

Financial Statements Audit Report

Wenatchee Valley College

For the period July 1, 2014 through June 30, 2015

Published February 15, 2018

Report No. 1020770

Office of the Washington State Auditor
Pat McCarthy

February 15, 2018

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,

Pat McCarthy

State Auditor

Olympia, WA

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Wenatchee Valley College
Chelan County
July 1, 2014 through June 30, 2015

2015-001 The College's internal controls over accounting and financial statement preparation were not adequate to ensure accurate reporting.

Background

College management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in internal controls over financial reporting that hindered the College's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, requires auditors 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 preparing the financial statements did not sufficiently understand reporting requirements to effectively prepare the statements under generally accepted accounting principles (GAAP). To mitigate this, the College hired a certified public accountant (CPA) firm to compile the financial statements; however, the general ledger provided to the CPA firm contained errors that consequently led to errors on the financial statements.

- The College did not design and implement monitoring controls over the Financial Services department sufficient to ensure journal entries, adjustments and allowances prepared by the department were properly calculated, supported and posted. In addition, College staff were aware of errors on the financial statements submitted for audit but did not take appropriate steps to correct these errors.

- The College did not thoroughly analyze capital assets and related depreciation to ensure they accurately reflect a complete inventory of the College's assets and are properly valued and appropriately depreciated.

Cause of Condition

The Financial Services Department experienced turnover and was understaffed during the audit period, hindering its ability to dedicate necessary time to research reporting requirements and establish appropriate segregation of duties. In addition, College staff responsible for financial statements did not have experience preparing formal financial statements under GAAP.

College staff did not appropriately use their capital assets management system designated by the State Board for Community and Technical Colleges from fiscal year 2007 to fiscal year 2016, increasing the burden on current accounting staff to determine proper capital assets balances. Although the College improved its use of the capital management system, it did not have enough time to ensure it reported all and only existing capital assets.

Effect of Condition

We identified the following errors during our audit of the College's financial statements. Related to capital asset and depreciation balances, the College:

- Reported 152 capitalized equipment assets it no longer possessed, resulting in a $1,528,701 overstatement of capital assets and accumulated depreciation

- Did not report 26 equipment assets that meet the capitalization threshold established by the State Administrative and Accounting Manual (SAAM), resulting in a $479,185 understatement of assets and a $95,346 understatement of associated depreciation

- Reported six buildings in its capital asset balance that do not meet the capitalization threshold established by the SAAM. In addition, the College reported a building destroyed during the fiscal year. As a result, the College overstated these capital assets by $408,050.

- Included $2,656,974 in calculation errors in its accumulated depreciation calculation for buildings, resulting in a $336,816 overstatement of accumulated depreciation and understatement of capital assets

In addition, the College:

- Overstated the compensated absences liability by $2,525,530 because it incorrectly posted an adjustment to correct errors identified in the prior period

- Overstated accrued liabilities by $1,190,564 because it did not clear out liabilities for unemployment compensation in prior years

- Could not provide detailed reports supporting a $1,974,826 accounts receivable balance. College staff stated that $789,902 of this balance did not exist and was caused by errors in prior years.

- Overstated student tuition and fees revenues as well as scholarships and fellowships expenses by $1,149,296 because it did not include non-monetary tuition waivers when computing the allowance for scholarships and discounts

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

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.

Recommendations

We recommend the College:

- Provide necessary resources, time, training and oversight to staff responsible for financial statement accounting and reporting

- Research and correct all known errors promptly

- Establish a detailed secondary review process of the financial statements to ensure accurate preparation and reporting under GAAP

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 statement audit.

<u>Provision of necessary resources, time, training and oversight</u>

The College continues to provide additional training on internal controls, inventory procedures, and new software programs. Two additional staff members have been hired and added to the quarterly Business, Accounting and Reporting Council: a fiscal analyst and a budget and internal controls manager. Work duties have been reassigned to meet the demands of internal controls and to provide greater oversight to accounting staff. These improvements will provide for the timely correction of errors and secondary reviews of accounting activity.

<u>Capital Assets and related depreciation</u>

In FY1617 the College brought current the land, building, and equipment records recorded in the Facilities and Equipment (FAE) module within the Financial Management System and completed a campus wide inventory for the first time since 2007. This inventory identified discrepancies between recorded inventory and related depreciation and actual. Considerable improvements were made in FY1415 and continue into FY1516. In October, 2017 the College converted all capital assets and related depreciation from FAE to the Direct Line program. At the time of conversion all records were reviewed by college staff and confirmed by SBCTC and Direct Line for completeness. Monthly reconciliations between accounting records and changes to Direct Line continue to be performed and policy and procedures continue to be revisited annually.

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 financial statement audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.88.160 – Fiscal management – Powers and duties of officers and agencies, sets forth the major fiscal duties and responsibilities of officers and agencies.

The Office of Financial Management's State Administrative and Accounting Manual (SAAM), Section 20.15.30 sets forth annual requirements for agencies related to statewide reporting.

The Office of Financial Management's State Administrative and Accounting Manual (SAAM), Section 20.15.40 describes internal control components and principles.

WENATCHEE VALLEY COLLEGE

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Wenatchee Valley College
July 1, 2014 through June 30, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Wenatchee Valley College. The State Auditor's Office has reviewed the status as presented by the College.

<table>
<tr><td>Audit Period:
2014</td><td>Report Ref. No.:
1017695</td><td colspan="2">Finding Ref. No.:
2014-001</td></tr>
<tr><td colspan="4">Finding Caption:
The College's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.</td></tr>
<tr><td colspan="4">Background:
College staff responsible for compiling the statements did not have experience and technical knowledge to effectively prepare the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Specifically, the College did not have procedures to record capital assets and related deprecation in accordance with GAAP and State's Administrative and Accounting Manual (SAAM). Although capital assets and accumulated depreciation balances comprised 81 percent 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.

In addition, College staff responsible for financial statement preparation lacked the technical knowledge of reporting requirements prescribed by Governmental Accounting Standards Board (GASB). 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. Also, 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.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)</td></tr>
<tr><td>☐ Fully Corrected</td><td>☒ Partially Corrected</td><td>☐ Not Corrected</td><td>☐ Finding is considered no longer valid</td></tr>
</table>

Corrective Action Taken:
Capital Assets and Depreciation processes have been updated and procedures developed and applied. The FY15 financial statements include a thorough analysis on the updated value and depreciation balances for accuracy and compliance to SAAM and OFM directives. The Wenatchee Valley College Foundation financial statements were included in the FY14 financial statements prior to publishing. The College has engaged the services of CliftonLarsonAllen LLP to produce FY15 financial statements.

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, 2014 through June 30, 2015

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 and the aggregate discretely presented component units of the Wenatchee Valley College, Chelan County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 18, 2018. As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the College implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

Our report includes a reference to other auditors who audited the financial statements of the Wenatchee Valley College Foundation, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Wenatchee Valley College Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the Wenatchee Valley College Foundation.

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, 2015, 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 2015-001 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.

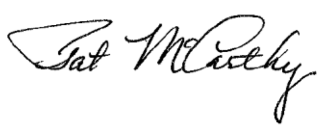
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Pat McCarthy

State Auditor

Olympia, WA

January 18, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Wenatchee Valley College
July 1, 2014 through June 30, 2015

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 and the aggregate discretely presented component units of the Wenatchee Valley College, Chelan County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 17.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Wenatchee Valley College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wenatchee Valley College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Wenatchee Valley College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Wenatchee Valley College, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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, 2015, 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 and required supplementary information listed on page 17 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 January 18, 2018 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.

Pat McCarthy

State Auditor

Olympia, WA

January 18, 2018

FINANCIAL SECTION

Wenatchee Valley College
July 1, 2014 through June 30, 2015

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

Wenatchee Valley College

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, 2015 (FY 2015). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

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 approximately 6,600 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1939 and 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 of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit the Wenatchee Valley College Foundation. The Wenatchee Valley College at Omak Foundation is not included because its contributions to the College are 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, 2015. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

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

During 2015, the College adopted GASB Statement No. 68, as amended by GASB Statement No. 71. These statements require the College to record its proportionate share of net pension liabilities, deferred outflows and inflows by restating its 2014 net position, pension liabilities and deferral of resources as a change in accounting principle. For the purposes of this analysis, the restatement of the 2014 net position was made to conform to 2015 presentation. The change in accounting principle resulted in a reduction to unrestricted net position in the amount of $3,087,970. In addition, the College had a prior period adjustment to correct the balances in their capital assets and accounts receivable by $1,201,484 and ($789,901) respectively. The effect of these adjustments was to increase net position by a net amount of $411,583. The overall net decrease resulted in the restatement of net position to a balance of $36,107,226 for the year ending June 30, 2014.

For the year ended June 30, 2015, there was an overall financial position decrease from prior year by approximately $1.8 million. This is includes the prior period adjustment decrease of $2.7 million which was offset by a net increase of $0.9 million as a result of current year operations.

Statement of Net Position

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

Condensed Statement of Net Position As of June 30th		**FY 2015**		**FY 2014**
Assets				
Current Assets		**4,414,046**		5,554,486
Long-term Investments		2,154,840		4,407,642
Capital Assets, net (as restated)		43,324,495		41,827,081
Total Assets	**$**	**49,893,381**	**$**	**51,789,209**
Deferred Outflows	**$**	**468,041**	**$**	**-**
Liabilities				
Current Liabilities		3,870,936		5,756,936
Other Liabilities, non-current		8,416,993		7,248,660
Total Liabilities	**$**	**12,287,929**	**$**	**13,005,596**
Deferred Inflows	**$**	**1,095,215**	**$**	**-**
Net Position, as restated	**$**	**36,978,278**	**$**	**38,783,613**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease of current assets is due mainly to a decrease in accounts receivable.

The decrease in long-term investments is a result of sales and maturities of certain investments.

Net capital assets increased by $295,929 from FY 2014 to FY 2015. After taking into consideration current depreciation expense of $1,340,726, the majority of the increase is due to purchasing additional buildings.

Deferred outflows of resources totaling $468,041 are primarily related to the net pension contribution paid during the current year but after the measurement date of the actuarially determined pension liability, in accordance with Governmental Accounting Standards Board Statement No. 68.

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

The net decrease in current liabilities from FY 2014 to FY 2015 is due to a decrease in accounts payable, accrued liabilities and unearned revenue.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, the long-term portion of Certificates of Participation debt and the net pension liability.

The College's non-current liabilities increased due to the implementation of GASB Statement No. 68, reflecting the College's proportionate share of the net pension liability. This was offset by a decrease in compensated absences.

Deferred inflows of resources related to the College's net pension liability totaled $1,095,215. Deferred inflows or resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

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

> ***Net Investment in Capital Assets* –** The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.
>
> ***Restricted:***
>
> > ***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.
> >
> > ***Expendable* –** resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are the expendable portion of endowments and amounts restricted for student aid.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

As stated earlier in this section, the College's net position was adjusted by $3,087,970 to reflect the implementation of GASB Statement No. 68 to report the net pension liability and the offsetting adjustment to net position. Also as stated earlier, the College's net position was adjusted for a net error in the recording of capital assets and accounts receivable in the amount of $411,583.

Condensed Statement of Net Position As of June 30	**FY 2015**		**FY 2014**	
Net investment in capital assets	$	38,724,495	$	37,027,081
Restricted				
Nonexpendable		376,992		375,758
Expendable		501,013		1,166
Unrestricted		(2,624,222)		1,379,608
Net Position	**$**	**36,978,278**	**$**	**38,783,613**

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2015. 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, gains and losses of the College.

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

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

A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2015 and 2014 is presented below. Please note some amounts in the June 30, 2014 column have been reclassified in order to be comparative to current year presentation.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30	**FY 2015**	**FY 2014**
Operating Revenues	$ 18,517,736	$ 17,042,171
Operating Expenses	35,027,475	37,103,254
Net Operating Loss	**(16,509,739)**	**(20,061,083)**
Non-Operating Revenues and Expenses	15,726,452	19,561,406
Loss Before Other	**(783,287)**	**(499,677)**
Capital Appropriations and Contributions	1,654,339	838,160
Increase (Decrease) in Net Position	**871,052**	**338,483**
Net Position, Beginning of the Year	**38,783,613**	**38,445,130**
Cummulative effect of change in accounting principle and correction of error	**(2,676,387)**	**-**
Net Position, End of the Year	**$ 36,978,278**	**$ 38,783,613**

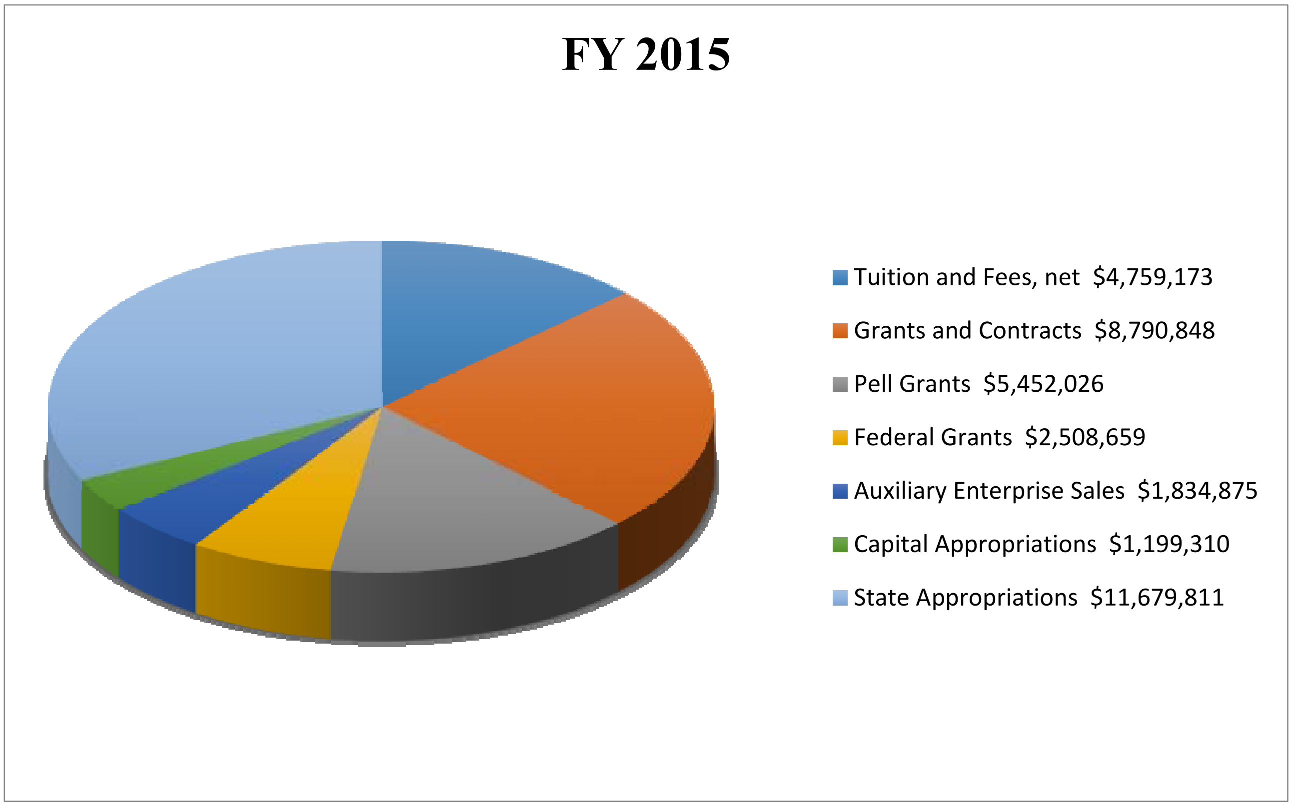
<u>Revenues</u>

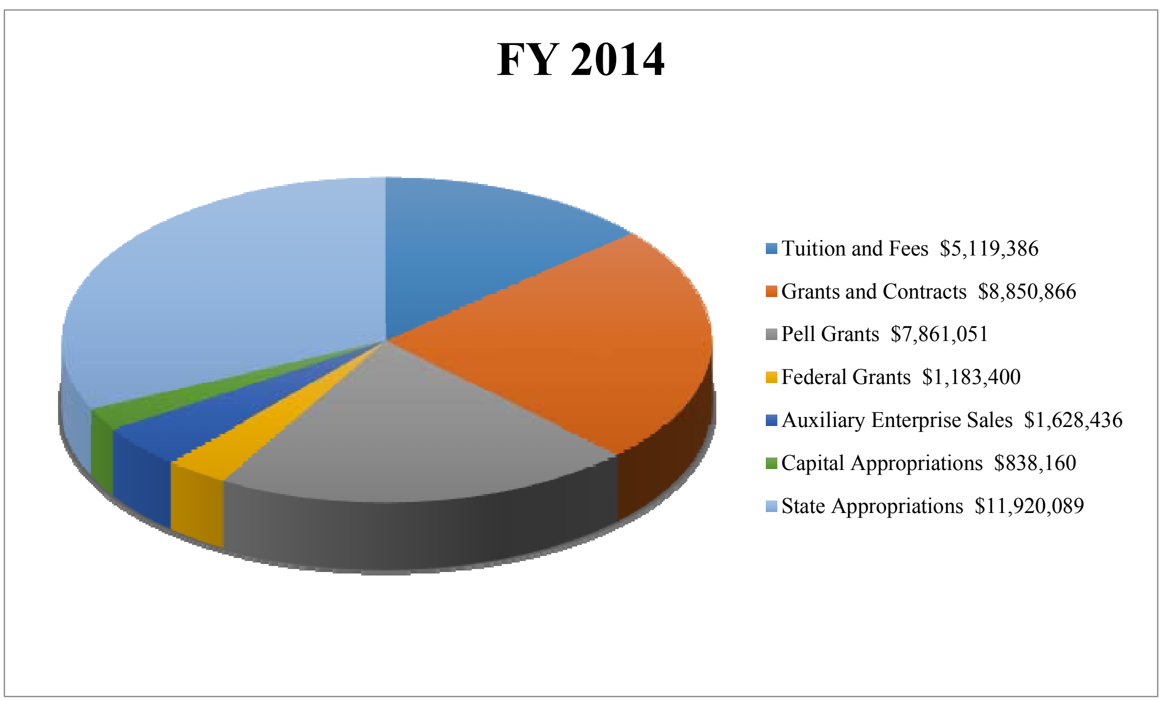
Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased again in FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 have been reduced by almost 24%. In FY14, the Legislature reinstated a fraction of the previous cuts.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. Since enrollments decreased slightly in FY 2015, the College's decrease in tuition and fee revenue is primarily attributable this change in enrollment figures. Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY2015, so did the College's Pell Grant revenue. For FY2015, the College attempted to hold other fees as stable as possible, resulting in only small changes in these revenues. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2015, grant and contract revenues for federal and state increased by $1,221,863 when compared with FY 2014. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international students who are not supported by state dollars.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.


FY 2015
Tuition and Fees, net $4,759,173
Grants and Contracts $8,790,848
Pell Grants $5,452,026
Federal Grants $2,508,659
Auxiliary Enterprise Sales $1,834,875
Capital Appropriations $1,199,310
State Appropriations $11,679,811

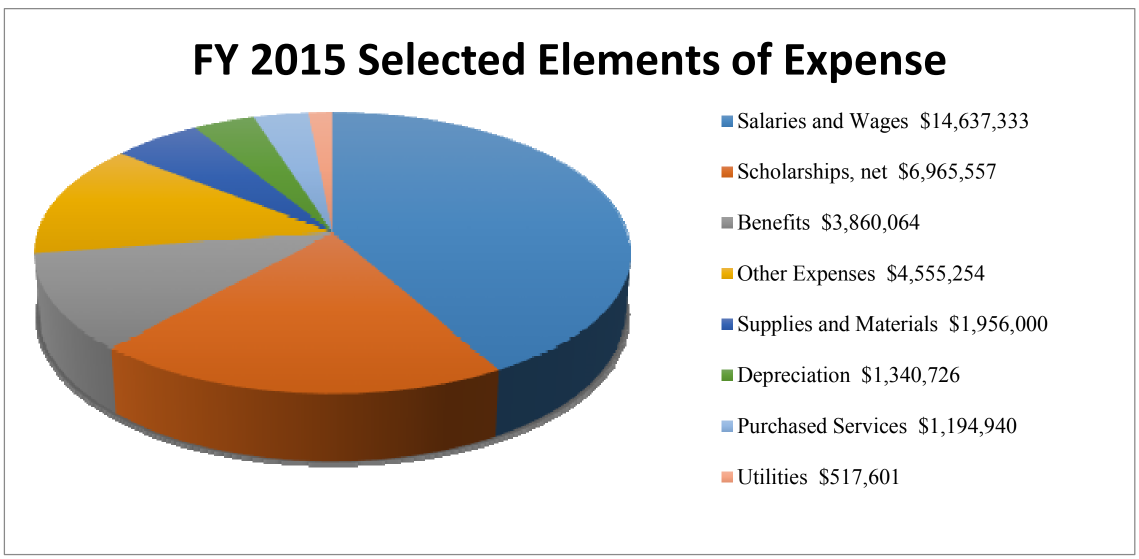

FY 2014
Tuition and Fees $5,119,386
Grants and Contracts $8,850,866
Pell Grants $7,861,051
Federal Grants $1,183,400
Auxiliary Enterprise Sales $1,628,436
Capital Appropriations $838,160
State Appropriations $11,920,089

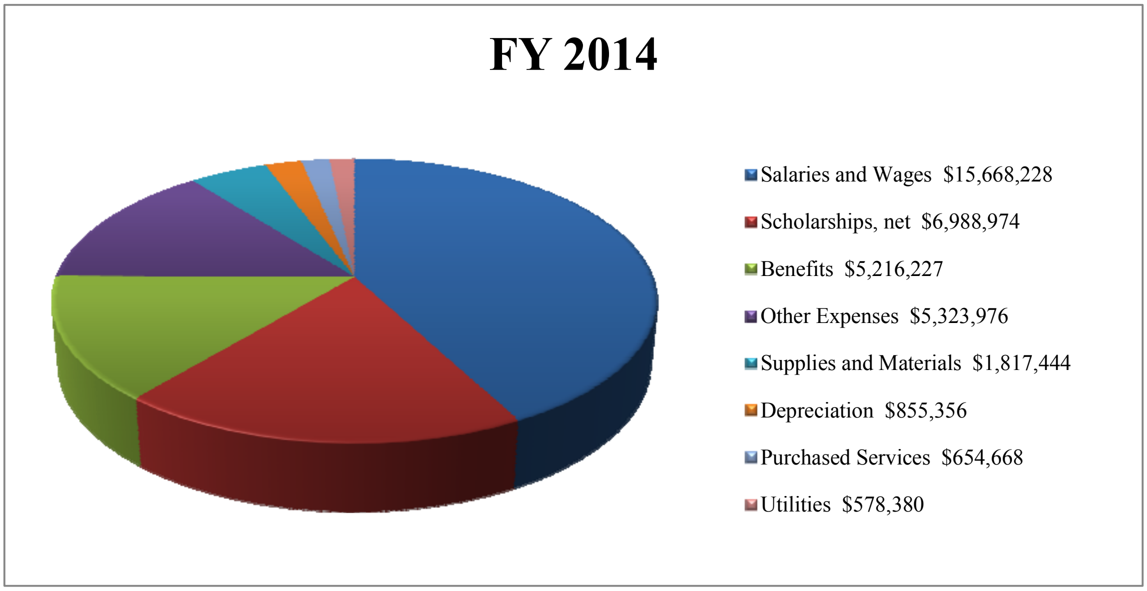
Expenses
Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions. Operating expenses were higher due to the increase in salaries and an increase in the scholarship account from prior year.

More recently, in FY 2015, salary and benefit costs decreased as result of the decline in enrollment and reductions in staffing.

The College has reduced utility expenses in FY 2015 as a result of targeted efforts to reduce use, in spite of rate increases from utility providers. Supplies and materials and purchased services are slightly higher in FY 2015, primarily as a result of a reduced increased spending related to capital projects. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also 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.

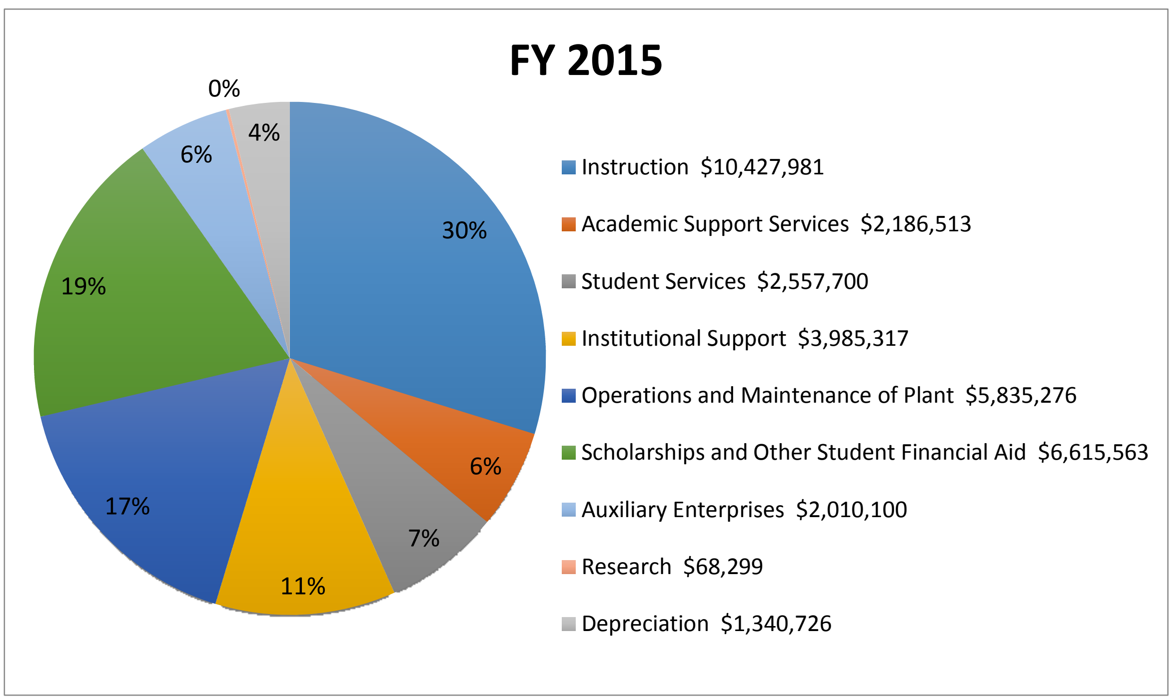
Comparison of Selected Operating Expenses by Function
The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2015 and FY 2014.





Operating Expenses by Function

The chart below shows the percentage of each functional area of operating expenses for FY 2015.



Capital Assets

At June 30, 2015, the College had invested $43,324,495 in capital assets, net of accumulated depreciation. This represents an increase of $295,929 from last year, as shown in the table below. Note the June 30, 2014 amounts are shown as restated due to the correction of errors in recording assets in the prior years.

Asset Type	June 30, 2015	June 30, 2014 As restated	Change
Land	$1,328,277	$919,248	$409,029
Construction in Progress	$134,829	$384,921	-$250,092
Buildings, net	$40,694,312	$40,298,505	$395,807
Other Improvements and Infrastructure, net	$274,062	$276,832	-$2,770
Equipment, net	$876,575	$1,113,890	-$237,315
Library Resources, net	$16,440	$35,170	-$18,730
Total Capital Assets, Net	**$43,324,495**	**$43,028,566**	**$295,929**

The increase in net capital assets can be attributed to the purchase of buildings offset by current year depreciation. Additional information on capital assets can be found in Note 6 of the Notes to the Financial Statements.

Long-term Debt

At June 30, 2015, the College had $4,600,000 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 13, 14, and 15 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

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

Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill this loss. In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model will be based on performance in several key indicators from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations, therefore this new allocation model may be the only significant change that could affect the College's state allocation funding.

Wenatchee Valley College

Statement of Net Position

June 30, 2015

Assets	
Current assets	
Cash and cash equivalents	$ 2,718,022
Restricted cash	4,928
Short-term investments	279,832
Accounts Receivable	1,088,925
Student Loans Receivable	4,414
Inventories	317,925
Total current assets	4,414,046
Non-Current Assets	
Long-term investments	2,154,840
Capital assets, net of depreciation	43,324,495
Total non-current assets	45,479,335
Total Assets	**49,893,381**
Deferred Outflows of Resources - Related to Pensions	468,041
Total Deferred Outflows of Resources	468,041
Liabilities	
Current Liabilities	
Accounts Payable	87,064
Accrued Liabilities	1,963,983
Deposits Payable	4,928
Unearned Revenue	1,599,961
Leases and Certificates of Participation Payable	215,000
Total current liabilities	3,870,936
Noncurrent Liabilities	
Settlement Payable	137,501
Compensated Absences	1,300,740
Net Pension Liability	2,593,752
Long-term liabilities	4,385,000
Total non-current liabilities	8,416,993
Total Liabilities	**12,287,929**
Deferred Inflow of Resources - Related to Pensions	1,095,215
Total Deferred Inflows of Resources	1,095,215
Net Position	
Net Investment in Capital Assets	38,724,495
Restricted for:	
Nonexpendable	376,992
Expendable	501,013
Unrestricted	(2,624,222)
Total Net Position	**$ 36,978,278**

The footnote disclosures are an integral part of the financial statements.

Wenatchee Valley College

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2015

Operating Revenues		
Student tuition and fees, net		$ 4,759,173
Auxiliary enterprise sales		1,834,875
State and local grants and contracts		8,790,848
Federal grants and contracts		2,508,659
Other operating revenues		624,181
	Total operating revenue	18,517,736
Operating Expenses		
Operating Expenses		4,555,254
Salaries and wages		14,637,333
Benefits		3,860,064
Scholarships and fellowships		6,965,557
Supplies and materials		1,956,000
Depreciation		1,340,726
Purchased services		1,194,940
Utilities		517,601
	Total operating expenses	35,027,475
	Operating income (loss)	(16,509,739)
Non-Operating Revenues (Expenses)		
State appropriations		11,679,811
Federal Pell grant revenue		5,452,026
Investment income, gains and losses		39,872
Building fee remittance		(864,391)
Innovation fund remittance		(229,720)
Settlement payment		(137,501)
Interest on indebtedness		(213,645)
	Net Non-Operating Revenues (Expenses)	**15,726,452**
Income or (loss) before capital revenues		(783,287)
Capital Revenues		
Capital appropriations		1,199,310
Capital grants and gifts		455,029
	Total capital revenues	1,654,339
	Increase (Decrease) in net position	871,052
Net Position		
Net position, beginning of year		38,783,613
Net position change due to GASB 68		(3,087,970)
Net position change - due to error in capital assets and accounts receivable		411,583
Adjusted net position, beginning of year		36,107,226
Net position, end of year		$ 36,978,278

The footnote disclosures are an integral part of the financial statements.

WENATCHEE VALLEY COLLEGE FOUNDATION, INC.

Statement of Financial Position
As of June 30, 2015

	Current Funds	Program Funds	Endowment Funds	(Audited) 2015
ASSETS				
Current Assets				
Cash	$ 101,094.00	$ 322,238.00	$ 110,904.00	$ 534,236.00
Other current asset	-	5,600	-	5,600
Pledges and other recievables - net:				
Pledges and other receivables	9,572	2,294	-	11,866
Pledges from board members and trustees	-	1,301	-	1,301
Total pledges and other receivables - net	9,572	3,595	-	13,167
Total Current Assets	110,666	331,433	110,904	553,003
Non-Current Assets				
Investments at fair value	767,713	714,977	6,670,753	8,153,443
Property	-	-	58,781	58,781
Total Assets	$ 878,379.00	$ 1,046,410.00	$ 6,840,438.00	$ 8,765,227.00
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable and accrued liabilities	$ 4,839.00	$ 10,375.00	$ -	$ 15,214.00
Accounts payable and accrued liabilities - related party	30,941	25,580	17,400	73,921
Scholarships and awards payable - related party	14,000	31,405	235,021	280,426
Total Current Liabilities	49,780	67,360	252,421	369,561
Net Assets				
Unrestricted	828,599	-	-	828,599
Temporarily restricted	-	979,050	1,978,516	2,957,566
Permanently restricted	-	-	4,609,501	4,609,501
Total Net Assets	828,599	979,050	6,588,017	8,395,666
Total Liabilities and net Assets	$ 878,379.00	$ 1,046,410.00	$ 6,840,438.00	$ 8,765,227.00

WENATCHEE VALLEY COLLEGE FOUNDATION, INC.

Statement of Activities
For The Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	(Audited) 2015 Total
PUBLIC SUPPORT AND REVENUE				
Public Support				
Gifts, contributions, and other grants - unrestricted	$ -	$ 13,085.00	$ -	$ 13,085.00
Gifts, contributions, and other grants - restricted	26,898	39,165	100,933	166,996
Scholarships	500	85,973	12,100	98,573
In-kind contributions - related party	160,291	3,500	-	163,791
In-kind contributions	1,693	64,343	-	66,036
Revenue				
Interest and dividents	11,929	10,031	93,712	115,672
Unrealized (loss) gain on investments	(5,399)	(5,113)	(47,103)	(57,615)
Realized gain on investments	23,724	21,637	201,699	247,060
Loss on sale of donated assets	(289)	(2,600)	-	(2,889)
Loss on disposal of assets	-	-	-	-
Managements fees	109,730	-	-	109,730
Rental income - related party	3,600	-	-	3,600
Program income, events net of direct costs, and other income	59,026	142,555	8,311	209,892
Net assets releasted from restgrictions:				
Satisfaction of program restrictions	634,698	(634,698)	-	-
Satisfaction of donor restrictions and reclassifications	-	(407,073)	407,073	-
Total Public Support and Revenue	1,026,401	(669,195)	776,725	1,133,931
EXPENSES				
Management and general	100,687	-	-	100,687
Programs	633,068	-	-	633,068
Scholarships - related party	195,219	-	-	195,219
Fundraising	12,730	-	-	12,730
Gifts, grants and awards - related party	232,671	-	-	232,671
Total Expenses	1,174,375	-	-	1,174,375
Change in Net Assets	(147,974)	(669,195)	776,725	(40,444)
Net assets - Beginning of Year	976,573	3,626,761	3,832,776	8,436,110
Net Assets - End of Year	$ 828,599.00	$ 2,957,566.00	$ 4,609,501.00	$ 8,395,666.00

Wenatchee Valley College
Statement of Cash Flows
June 30, 2015

Cash flow from operating activities	
Student tuition and fees	$ 4,262,320
Grants and contracts	11,582,362
Payments to vendors	(8,995,605)
Payments for utilities	(517,601)
Payments to employees	(15,994,972)
Payments for benefits	(3,729,314)
Auxiliary enterprise sales	1,841,117
Payments for scholarships and fellowships	(6,965,557)
Other receipts (payments)	755,045
Net cash used by operating activities	(17,762,205)
Cash flow from noncapital financing activities	
State appropriations	11,679,811
Pell grants	5,452,026
Building fee remittance	(864,391)
Innovation fund remittance	(229,720)
Net cash provided by noncapital financing activities	16,037,726
Cash flow from capital and related financing activities	
Capital appropriations	1,199,310
Purchases of capital assets	(1,181,626)
Principal paid on capital debt	(200,000)
Interest paid	(213,645)
Net cash used by capital and related financing activities	(395,961)
Cash flow from investing activities	
Purchase of investments	(540)
Proceeds from sales and maturities of investments	1,973,510
Income of investments	39,872
Net cash provided by investing activities	2,012,842
Increase (decrease) in cash and cash equivalents	(107,598)
Cash and cash equivalents at the beginning of the year	2,830,548
Cash and cash equivalents at the end of the year	$ 2,722,950

Wenatchee Valley College
Statement of Cash Flows
June 30, 2015

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	$ (16,509,739)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	1,340,726
Changes in assets and liabilities	
Receivables , net	522,864
Student loans receivable	(1,532)
Inventories	1,441
Accounts payable	(851,104)
Accrued liabilities	(448,570)
Unearned revenue	(597,222)
Compensated absences	(1,351,023)
Pension liability adjustment expense	132,956
Deposits payable	(1,002)
Net cash used by operating activities	$ (17,762,205)

NONCASH CAPITAL ACTIVITIES:

The College received donated land and building with a value of $455,029 during the fiscal year. The receipt of this donation has been included in capital revenues.

The footnote disclosures are an integral art of the financial statements

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

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2015, the Foundation distributed approximately $344,648 to the College for restricted and unrestricted purposes. 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 College Omak office, 509-682-7835.

Basis of Presentation

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

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as GASB Statement No. 50, Pension Disclosures. GASB 68 is effective for fiscal years beginning after June 15, 2014. The College has implemented this pronouncement during the 2015 fiscal year. Implementation of this pronouncement has required a restatement of the prior year net position to reflect the net pension liability and the impact to net position.

The Governmental Accounting Standards Board (GASB) issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, effective for the year ended June 30, 2015. This statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The effect of Statement No. 71 to the College is to require the deferral (Deferred Outflows) of pension contributions made subsequent to the measurement date and is addressed in Note 7 to the financial statements.

Cumulative effect of change in net position

The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 68. The college also recorded a change due to errors in capital assets amounts and accounts receivable amounts made in prior years totaling $1,201,484 and ($789,901) respectively. The net position has been restated as follows:

Net Position as previously reported at June 30, 2014	$38,783,613
Prior period adjustment:	
Net Pension Liability	(3,417,408)
Deferred Outflows	329,438
Total from change in accounting principle	(3,087,970)
Correction of error in capital assets and accounts receivable (net)	411,482
Net Position, as restated, July 1, 2014	$36,107,225

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 in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. 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 U.S. Agency securities.

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

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2015, no assets had been written down.

Restricted Net Position
At June 30, 2015, the amount held for permanent endowment that is nonexpendable is $376,992 and the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is $1,505, which is reported as restricted, expendable on the Statement 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. In addition, $499,508 was reported as restricted, expendable for amounts restricted to be paid for student aid.

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 quarter tuition and fees as unearned revenues.

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

Net Pension Liability
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reports at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net position liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted 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 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. These are grants that primarily support the operational/educational activities of the colleges. 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.

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

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

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

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, 2015 are $6,298,652.

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

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

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, 2015, the carrying amount of the College's cash and equivalents was $2,722,950 as represented in the table below.

Cash and Cash Equivalents		June 30, 2015
Petty Cash and Change Funds	$	64,597
Bank Demand and Time Deposits	$	2,550,293
Local Government Investment Pool	$	108,060
Total Cash and Cash Equivalents	**$**	**2,722,950**
Unrestricted Cash	**$**	**2,718,022**
Cash Restricted for Deposits Payable	**$**	**4,928**

Investments consist of time certificates of deposit and U.S. Agency securities. Time certificates of deposit have repurchase agreements with the respective financial institutions.

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years	10 or More Years
Time Certificate of Deposits	$ 279,832	$ 279,832			
U.S. Government Treasury					
U.S. Agency Obligations	$ 2,154,840		$ 2,154,840		
Bonds					
Other					
Total Investments	**$ 2,434,672**	**$ 279,832**	**$ 2,154,840**	**$ -**	**$ -**

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with the 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, 2015, $2,154,840 of the College's operating fund investments, held by US Bank in the bank's name as agent for the College, and $279,832 of endowment assets, held by Washington Trust Bank for the account of the College, are exposed to custodial credit risk as follows.

Investments Exposed to Custodial Risk	Fair Value	
Washington Trust Bank Endowment	$	279,832
US Bank	$	2,154,840
Total Investments Exposed to Custodial Risk	**$**	**2,434,672**

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, 2015 were $599.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2015, accounts receivable were as follows.

Accounts Receivable	Amount	
Student Tuition and Fees	$	175,554
Due from Other State Agencies	$	408,283
Auxiliary Enterprises	$	155,169
Unbilled Tuition	$	99,436
Other	$	266,647
Subtotal	$	1,105,089
Less Allowance for Uncollectible Accounts	$	(16,164)
Accounts Receivable, net	**$**	**1,088,925**

4. Loans Receivable

Loans receivable as of June 30, 2015 consisted primarily of student loans, as follows.

Loans Receivable	Amount	
Student Loans Receivable	$	37,388
Other Loans Receivable	$	-
Subtotal	$	37,388
Less Allowance for Uncollectible Accounts	$	(32,974)
Loans Receivable, net	**$**	**4,414**

5. Inventories

Inventories, stated at cost using the first-in-first-out method, consisted of the following as of June 30, 2015.

Inventories	Amount
Consumable Inventories	$ 16,422
Merchandise Inventories	$ 301,503
Inventories	**$ 317,925**

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2015 is presented as follows. The current year depreciation expense was $1,340,726.

Capital Assets	Beginning Balance (As Restated)	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 919,248	$ 409,029		$ 1,328,277
Construction in progress	384,921	134,829	(384,921)	134,829
Total nondepreciable capital assets	1,304,169	543,858	(384,921)	1,463,106
Depreciable capital assets				
Buildings	54,065,179	1,477,718		55,542,897
Other improvements and infrastructure	623,223			623,223
Equipment	4,975,803			4,975,803
Library resources	816,415			816,415
Subtotal depreciable capital assets	60,480,620	1,477,718	0	61,958,338
Less accumulated depreciation				
Buildings	13,766,674	1,081,911		14,848,585
Other improvements and infrastructure	346,391	2,770		349,161
Equipment	3,861,913	237,315		4,099,228
Library resources	781,245	18,730		799,975
Total accumulated depreciation	18,756,223	1,340,726	0	20,096,949
Total depreciable capital assets	41,724,397	136,992	0	41,861,389
Capital assets, net of accumulated depreciation	**$ 43,028,566**	**$ 680,850**	**$ (384,921)**	**$ 43,324,495**

7. Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

The following represent the components of the College’s deferred outflows and inflows of resources as reflected on the Statement of Net Position:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual earnings of pension plan investments		$ 1,095,215
Changes in College's proportionate share of pension liabilities	$ 131,120	
Contributions to pension plans after measurement date	$ 336,921	
	$ 468,041	**$ 1,095,215**

The $336,921 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2016.

Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows: (use amortization schedules)

Year ended June 30:	2016	$ 236,430
	2017	$ 236,430
	2018	$ 236,430
	2019	$ 254,976
	2020	$ (170)
	Total	$ 964,095

8. Accounts Payable and Accrued Liabilities

At June 30, 2015, accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount	
Amounts Owed to Employees	$	1,131,281
Accounts Payable	$	87,064
Amounts Held for Others and Retainage	$	832,702
Total	**$**	**2,051,047**

9. Unearned Revenue

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

Unearned Revenue	Amount	
Summer and Fall Quarter Tuition & Fees	$	1,409,080
Housing and Other Deposits		190,881
Total Unearned Revenue	$	1,599,961

10. 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, 2014 through June 30, 2015, were $37,852. Cash reserves for unemployment compensation for all employees at June 30, 2015, were $377,826.

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.

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $529,880, and accrued sick leave totaled $770,860 at June 30, 2015.

Accrued annual and sick leave are categorized as non-current liabilities.

12. Leases Payable

The College may finance capital asset purchases through the Washington State Treasurer's leasing program. 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, 2015, the minimum lease payments under capital leases and operating leases consist of the following.

Leases Payable		
Fiscal year	**Capital Leases**	**Operating Leases**
2016	None	64,438
2017		64,438
Total minimum lease payments	0	128,876

13. 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 are as follows in Note 14.

14. Annual Debt Service Requirements

Future debt service requirements at June 30, 2015 are as follows:

Annual Debt Service Requirements

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2016	$ 215,000	$ 206,533	$ 421,533
2017	220,000	198,457	418,457
2018	235,000	189,195	424,195
2019	245,000	179,095	424,095
2020	250,000	168,332	418,332
2021-25	1,450,000	645,314	2,095,314
2026-2030	1,620,000	248,023	1,868,023
2031-2032	365,000	14,700	379,700
Total	**4,600,000**	**1,849,649**	**6,449,649**

15. Schedule of Long Term Debt

	Balance outstanding 6/30/14	Additions	Reductions	Balance outstanding 6/30/15	Current portion
Certificates of Participation	**$ 4,800,000**		**$ 200,000**	**$ 4,600,000**	**$ 215,000**
Compensated absences	2,651,763	498,617	1,849,640	1,300,740	
Net pension obligation	3,417,408		823,656	2,593,752	
Settlement Payable	-	137,501		137,501	
Total	**$ 10,869,171**	**$ 636,118**	**$ 2,873,296**	**$ 8,631,993**	**$ 215,000**

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 FY2015, the payroll for the College's employees was $3,602,718 for PERS, $177,517 for TRS, and $10,170,960 for SBRP. Total covered payroll was $13,951,194.

Wenatchee Valley College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Wenatchee Valley College, for fiscal year 2015:

Aggregate Pension Amounts - All Plans

Pension liabilities	$ (2,593,752)
Deferred outflows of resources related to pensions	$ 468,041
Deferred inflows of resources related to pensions	$ (1,095,215)
Pension expense/expenditures	$ 132,956

PERS and TRS

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

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

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

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2015, 2014, and 2013 are as follows.

Contribution Rates at June 30

	FY 2013		FY 2014		FY 2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.21%	6.00%	9.21%	6.00%	9.21%
Plan 2	4.64%	7.21%	4.92%	9.21%	4.92%	9.21%
Plan 3	5 - 15%	7.21%	5 - 15%	9.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.05%	6.00%	10.39%	6.00%	10.39%
Plan 2	4.69%	8.05%	4.69%	10.39%	4.96%	10.39%
Plan 3	5-15%	8.05%	5-15%	10.39%	5-15%	10.39%

Required Contributions

Required Contributions

	FY2013		FY2014		FY2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$3,182	$3,824	$3,330	$5,112	$3,360	$5,158
Plan 2	$117,460	$182,519	$145,427	$272,232	$147,438	$275,997
Plan 3	$26,784	$38,623	$26,253	$48,358	$27,500	$50,656
TRS						
Plan 1	$4,929	$6,613	$5,003	$8,664	$6,363	$11,018
Plan 3	$390	$628	$0		$3,574	$7,426

Investments
The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB adopted investment policies for the various asset classes in which the WSIB invests.

For the year ended June 30, 2014, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	16.98%
PERS Plan 2/3	17.06%
TRS Plan 1	16.97%
TRS Plan 2/3	17.07%

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	**100%**	

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	$ 88,667	$130,902	$ 6,505	$ 312	$226,386
Amortization of change in proportionate liability	$213,571	$ 37,092	$ (7,453)	$ 282	$243,492
Total Pension Expense	**$302,238**	**$167,994**	**$ (948)**	**$ 594**	**$469,878**
Deferred Outflows (FY 2015 contributions)	$146,846	$176,189	$ 10,113	$ 3,773	$336,921
Total Adjustment to Benefit Expense	**$155,391**	**$(8,195)**	**$(11,061)**	**$(3,179)**	**$132,956**

Changes in Proportionate Shares of Pension Liabilities
The changes to the College's proportionate share of pension liabilities from 2013 to 2014 for each retirement plan are listed below:

	2013	**2014**
PERS 1	0.028811%	0.032466%
PER 2/3	0.036449%	0.040358%
TRS 1	0.005026%	0.004815%
TRS 2/3	0.001120%	0.000144%

The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating state agencies, actuarially determined.

Actuarial Assumptions
The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.00%
- Salary Increases 3.75%
- Investment rate of return 7.50%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis: meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

The Actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

Sensitivity of the net pension liability to changes in the discount rate
The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	$2,015,902	$1,635,490	$1,308,944
PERS Plan 2/3	$3,402,797	$ 815,781	($1,160,218)
TRS Plan 1	$ 182,756	$ 142,016	$ 107,047
TRS Plan 2/3	$ 4,043	$ 465	$ 2,194

State Board Retirement Plan

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

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

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2015 were each $885,348.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2015, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $583,625. 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 $121,573. As of June 30, 2015, the Community and Technical College system accounted for $7,729,471 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 $9,996,981, with an annual required contribution (ARC) of $976,837. The ARC represents the amortization of the liability for FY 2015 plus the current expense for active employees, which is reduced by the current contributions of approximately ($122,811). The College's net OPEB obligation at June 30, 2015 was approximately $1,447,410. This amount is not included in the College's financial statements.

The College paid $2,150,153 for healthcare expenses in 2015, which included its pay-as-you-go portion of the OPEB liability.

18. 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, 2015.

Expenses by Functional Classification		
Instruction	$	10,427,981
Academic Support Services		2,186,513
Student Services		2,557,700
Institutional Support		3,985,317
Operations and Maintenance of Plant		5,835,276
Scholarships and Other Student Financial Aid		6,615,563
Auxiliary enterprises		2,010,100
Research		68,299
Depreciation		1,340,726
Total operating expenses	**$**	**35,027,475**

19. Commitments and Contingencies

There is a class action lawsuit, Moore v. HCA, filed against the State of Washington on behalf of former part-time and non-permanent 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. As of the end of fiscal year 2014, the parties have reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits. On March 29th 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $32 million of which $19 million is funded by the legislature and the remaining $13 million will be allocated among 34 colleges in the system. Wenatchee Valley College's share of this lawsuit is $137,501 and has been included in the financial statements as a settlement payable.

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

The College has commitments of $134,829 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

20. Subsequent Events

On March 29, 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $32 million of which $19 million is funded by the legislature and the remaining $13 million will be allocated among 34 colleges in the system. Wenatchee Valley College's share of this lawsuit is $137,501. See Note 19 for additional information.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Wenatchee Valley College's Proportionate Share of the Net Pension Liability

Schedule of Wenatchee Valley College's Share of the Net Pension Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.032466%
College proportionate share of the net pension liability	$	1,635,490
College covered-employee payroll	$	55,507
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		2946.46%
Plan's fiduciary net position as a percentage of the total pension liability		61.19%

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Wenatchee Valley College’s Proportionate Share of the Net Pension Liability

Schedule of Wenatchee Valley College's Share of the Net Pension Public Employees’ Retirement System (PERS) Plan 2/3 Measurement Date of June 30		
		2014
College’s proportion of the net pension liability		0.040358%
College proportionate share of the net pension liability	$	815,781
College covered-employee payroll	$	3,480,882
College’s proportionate share of the net pension liability as a percentage of its covered-employee payroll		23.44%
Plan’s fiduciary net position as a percentage of the total pension liability		93.29%

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Wenatchee Valley College’s Proportionate Share of the Net Pension Liability

Schedule of Wenatchee Valley College's Share of the Net Pension Teachers’ Retirement System (TRS) Plan 1 Measurement Date of June 30		
		2014
College’s proportion of the net pension liability		0.004815%
College proportionate share of the net pension liability	$	142,016
College covered-employee payroll	$	83,390
College’s proportionate share of the net pension liability as a percentage of its covered-employee payroll		170.30%
Plan’s fiduciary net position as a percentage of the total pension liability		68.77%

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Wenatchee Valley College's Proportionate Share of the Net Pension Liability

Schedule of Wenatchee Valley College's Share of the Net Pension Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.000144%
College proportionate share of the net pension liability	$	465
College covered-employee payroll	$	-
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		0.00%
Plan's fiduciary net position as a percentage of the total pension liability		96.81%

*These schedules are to be built prospectively until they contain 10 years of data.

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 5,112	$ 5,110	$ 2	$ 55,507	9.21%
2015	$ 5,158	$ 5,158	$ -	$ 56,000	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions

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

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 320,589	$ 318,546	$ 2,043	$ 3,480,882	9.15%
2015	$ 326,653	$ 323,255	$ 3,398	$ 3,546,718	9.11%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 8,664	$ 8,664	$ -	$ 83,390	10.39%
2015	$ 11,018	$ 7,298	$ 3,720	$ 106,043	6.88%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 2/3
Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ -	$ -	$ -	$ -	0.00%
2015	$ 7,426	$ 7,923	$ (497)	$ 71,475	11.08%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

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