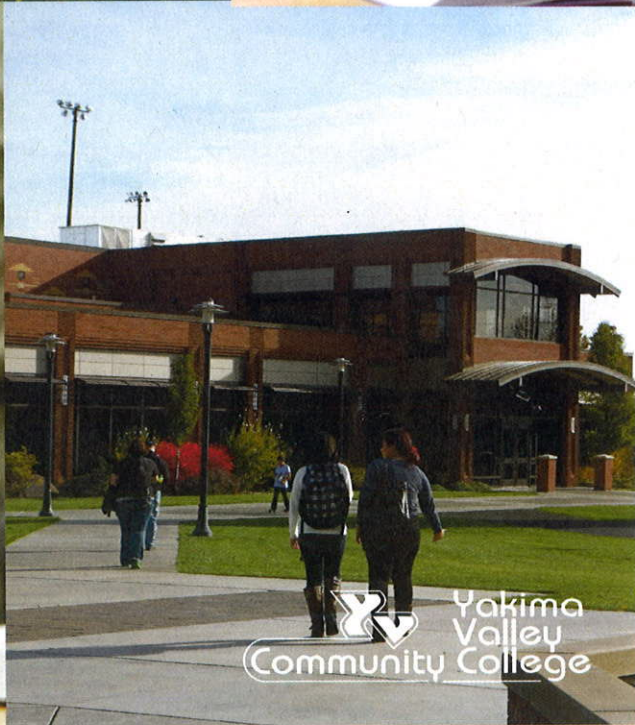
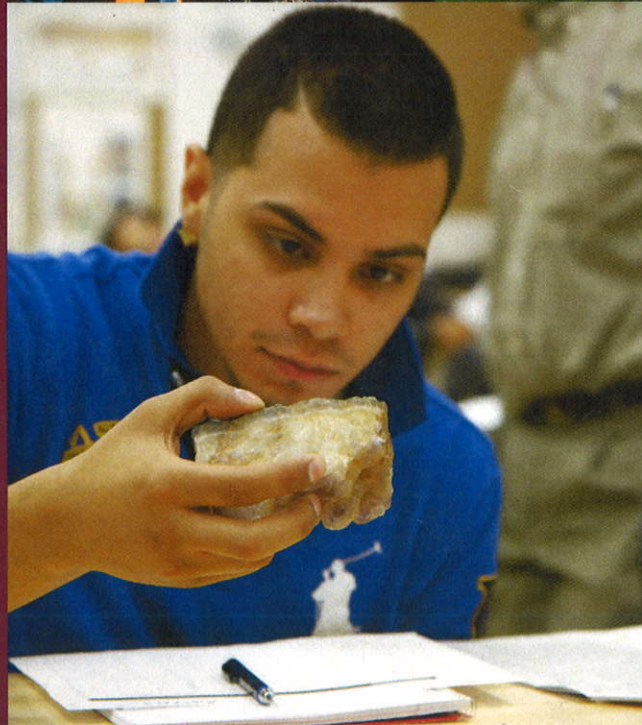


Yakima Valley Community College

2013-2014 Financial Report



Yakima Valley Community College 2014 Financial Report

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For information about the financial data included in this report, contact:

Vice President of Administrative Services
Yakima Valley Community College
16th Ave and Nob Hill Blvd
Yakima, WA 98902
509-574-4668

For information about enrollment, degrees awarded, or academic programs, contact:

Institutional Research
Yakima Valley Community College
16th Ave and Nob Hill Blvd
Yakima, WA 98902
509-574-4655

or

Visit the home page at <http://www.yvcc.edu>

Trustees and Executive Officers

BOARD OF TRUSTEES

Ms. Patricia Whitefoot, Chair

Mr. Paul McDonald

Ms. Rosalinda Mendoza

Mr. Robert Ozuna

Ms. Lisa Parker

Dr. Linda Kaminski YVCC President, Executive Secretary to the Board of Trustees

Ms. Teresa Holland, YVCC VP of Administrative Services, Treasurer to the Board of Trustees

EXECUTIVE OFFICERS

Dr. Linda Kaminski, President

Mr. Tomas Ybarra, Vice President for Instruction and Student Services

Ms. Teresa Holland, Vice President of Administrative Services

Trustees and Officer list effective as of June 30, 2014



**Washington State Auditor's Office
Troy Kelley**

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

January 15, 2016

Board of Trustees
Yakima Valley Community College
Yakima, 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 Yakima Valley Community College, Yakima County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statement of the Foundation of Yakima Valley Community College, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Foundation of Yakima Valley Community College, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the

Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Yakima Valley Community College, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

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

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior-year comparative information for the Foundation of Yakima Valley Community College. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial

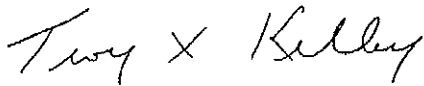
statements for the year ended June 30, 2013, from which such partial information was derived. Other auditors have previously audited the Foundation's 2013 financial statements and they expressed an unmodified opinion in their audit report dated November 7, 2013.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

Management's Discussion and Analysis

Yakima Valley Community College

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

This overview provides 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

Yakima Valley Community College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 8,805 students. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. The College was established in 1928 and its primary purpose is to enrich and enhance individuals and communities by delivering accessible, student-centered education. YVCC addresses the needs of its diverse communities by providing learning opportunities in basic literacy; academic, professional, and technical education; and lifelong learning.

The College's main campus is located in Yakima, Washington, a community of about 95,000 residents. The College also has operations in Ellensburg, Toppenish, Sunnyside and Grandview. The College is governed by a five-member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

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

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported under the accrual basis of accounting where all of the current year's

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

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, 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 2014
Assets	
Current Assets	21,914,021
Capital Assets, net	79,037,894
Other Assets, non-current	24,829,721
Total Assets	\$ 125,781,635
Liabilities	
Current Liabilities	4,038,788
Other Liabilities, non-current	1,764,276
Total Liabilities	\$ 5,803,064
Deferred Inflows/Outflows	\$ -
Net Position	119,978,571

Assets

Current assets consist primarily of cash, short term investments, various accounts receivables and inventories. The College invests conservatively in those securities and deposits authorized by statute (RCW 36.29, 39.58, 39.59, 43.84.080 and 43.250).

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

At June 30, 2014 the College had invested \$79,037,894 in capital assets, net of accumulated depreciation.

Asset Type	June 30, 2014
Land	7,299,476
Construction in Progress	8,071,832
Buildings, net	59,702,480
Other Improvements and Infrastructure, net	1,590,064
Equipment, net	2,374,041
Library Resources, net	-
Total Capital Assets, Net	79,037,894

Non-current assets consist of the long-term portion of certain investments.

Liabilities

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.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees.

Net Position

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

Invested in Capital Assets (Net of Related Debt) – 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 expendable funds for the College are donated properties given to the College by the Estate of Margarita Hackett.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or

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

Condensed Net Position As of June 30th	FY 2014
Invested in Capital Assets, net of related debt	\$79,007,894
Restricted	
Nonexpendable	\$24,458
Expendable	\$52,572
Student Loans	\$344,564
Unrestricted	\$40,549,083
Total Net Position	\$119,978,571

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2014. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenues, expenses, gains and losses of the College.

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

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

A Condensed Statement of Revenues, Expenses and Changes in Net Position is presented on the next page. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Revenues, Expenses and Changes in Net Position	
As of June 30th	FY 2014
Operating Revenues	24,993,005
Operating Expenses	51,492,901
Net Operating Loss	(26,499,896)
Non-Operating Revenues	28,579,883
Non-Operating Expenses	2,600
Gain (Loss) Before Other	\$ 2,077,387
Capital Appropriations	8,003,353
Increase (Decrease) in Net Position	10,080,740
Net Position, Beginning of the Year	\$ 109,897,831
Net Position, End of the Year	\$ 119,978,571

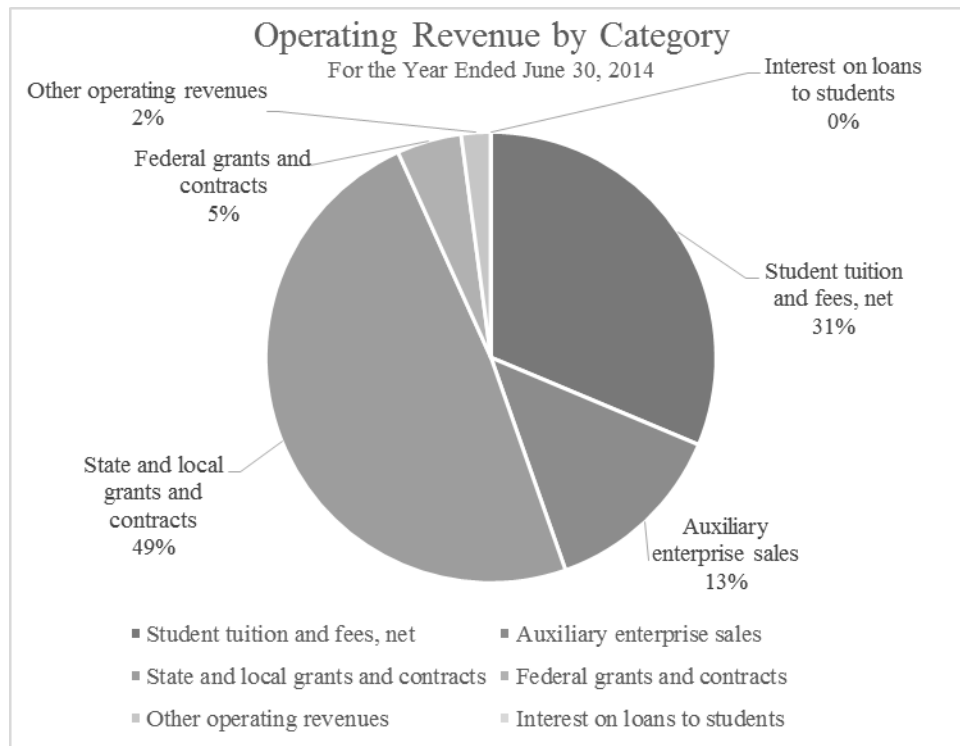
Revenues

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times up through FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY 2014, the Legislature reinstated a small portion 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 in FY 2014, the College's increase in tuition and fee revenue is primarily attributable to the increased tuition. Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2014, so did the College's Pell grant revenue. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2014, grant and contract revenues increased by \$4,987 when compared with FY 2013. 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 expenses in the current period and are instead recognized as a depreciation expense over the expected useful lifetime of the asset. The following chart and table show Operating Revenue by Category.



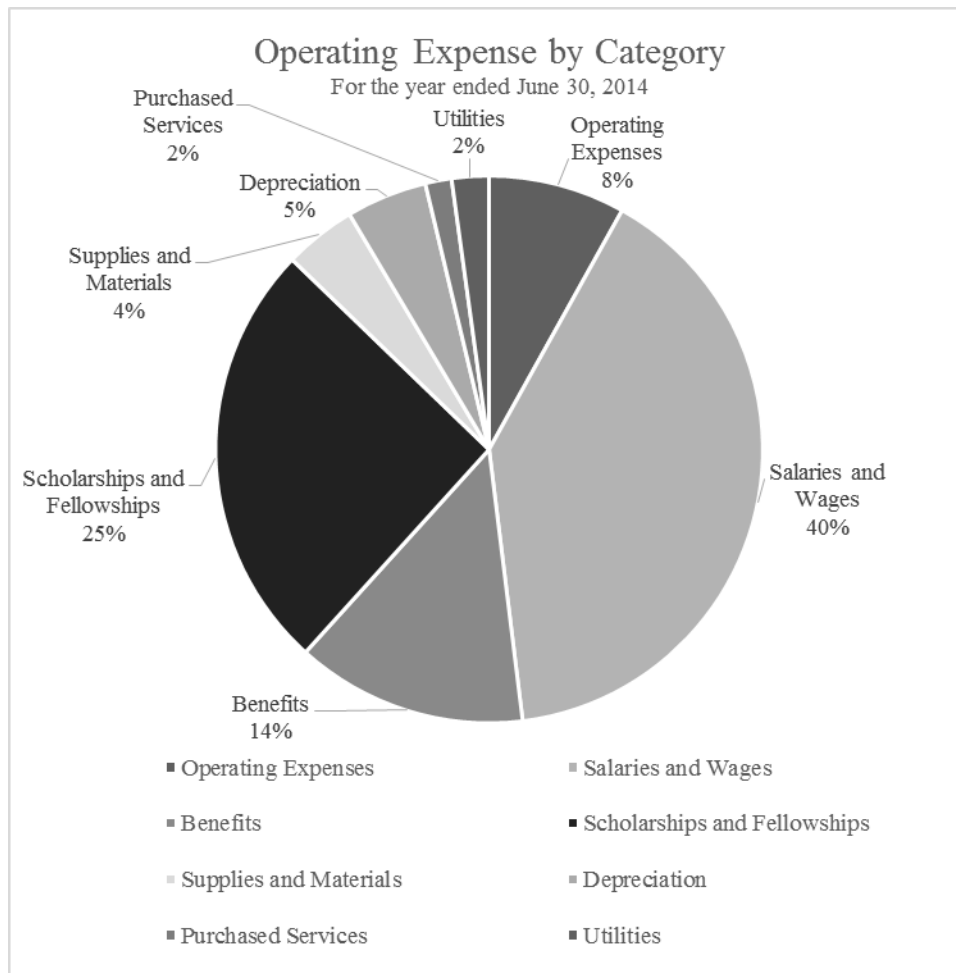
Operating Revenue by Category		
For the year ended, June 30, 2014		
Student tuition and fees, net	7,828,030	31%
Auxiliary enterprise sales	3,325,244	13%
State and local grants and contracts	12,145,637	49%
Federal grants and contracts	1,163,666	5%
Other operating revenues	529,272	2%
Interest on loans to students	1,158	0%
Total	24,993,005	100%

Expenses

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

More recently, in FY 2014, salary and benefit costs increased as result of adding positions, negotiated increases for classified staff, and having to compete in the job market in order to replace retiring exempt employees and/or faculty.

Utility costs have also increased as a result of rate increases for electricity, natural gas, sewer and water, and waste disposal. Supplies and materials and purchased services are lower in FY 2014, primarily as a result of a reduced 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. The following chart and table show Operating Expense by Category.



Operating Expense by Category		
For the year ended, June 30, 2014		
Operating Expenses	4,160,715	8%
Salaries and Wages	20,577,362	40%
Benefits	7,039,965	14%
Scholarships and Fellowships	13,126,779	25%
Supplies and Materials	2,197,263	4%
Depreciation	2,458,102	5%
Purchased Services	801,190	2%
Utilities	1,131,526	2%
Total	51,492,901	100%

Statement of Cash Flows

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

Cash Flow from Operating Activities

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

Cash Flow from Noncapital Financing Activities

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

Cash Flow from Capital and Related Financing Activities

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

Cash Flow from Investing Activities

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

Changes in Cash and Cash Equivalents

Next the statement shows how the current year's change in cash combined with the prior year's cash balance results in the ending cash and cash equivalents balance shown on the College's Statement of Net Position.

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Finally, the statement includes a detailed reconciliation of operating activity only, between the operating loss shown as a subtotal on the Statement of Revenues, Expenses and Changes in Net Position and the net cash used by operating activities shown on the Statement of Cash Flows.

A Condensed Statement of Cash Flows is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Cash Flows	
As of June 30th	FY 2014
Operating Activities	(22,806,175)
Noncapital Financing Activities	28,748,567
Capital Financing Activities	(3,355,829)
Investing Activities	(1,587,092)
Net Change in Cash	\$ 999,472
Cash, Beginning of Year	16,046,645
Cash, End of Year	\$ 17,046,117

The College's cash and cash equivalents at June 30th increased in 2014 by \$999,472. Primary contributing factors include increases in tuition rates accompanied by an ongoing interest in efficiency, strategic spending and an overall conservative orientation related to institutional finances.

Capital Assets and Long-Term Debt Activities

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

At June 30, 2014, the College had invested \$79,037,894, in capital assets, net of accumulated depreciation. This represents an increase of \$5,098,174 from last year, as shown in the table below.

Asset Type	June 30, 2014	June 30, 2013 (unaudited)	Change
Land	7,299,476	6,868,037	431,439
Construction in Progress	8,071,832	1,215,418	6,856,414
Buildings, net	59,702,480	62,054,755	(2,352,275)
Other Improvements and Infrastructure, net	1,590,064	1,751,839	(161,775)
Equipment, net	2,374,041	2,049,671	324,370
Library Resources, net	-	-	-
Total Capital Assets, Net	79,037,894	73,939,720	5,098,174

The increase in net capital assets can be attributed to the construction in progress on Palmer Martin Hall. In FY 2014, the College applied the retroactive infrastructure reporting requirements of Government Accounting Standards Board Statement Number 34 for the first time. FY 2013 amounts have not been restated to recognize these changes.

At June 30, 2014, the College had \$30,000 in outstanding debt. The College has a Certificate of Participation (COP) for the Hopf Union Building Remodel started in FY 1999.

	June 30, 2014
Certificates of Participation	\$30,000
Capital Leases	
Total	\$30,000

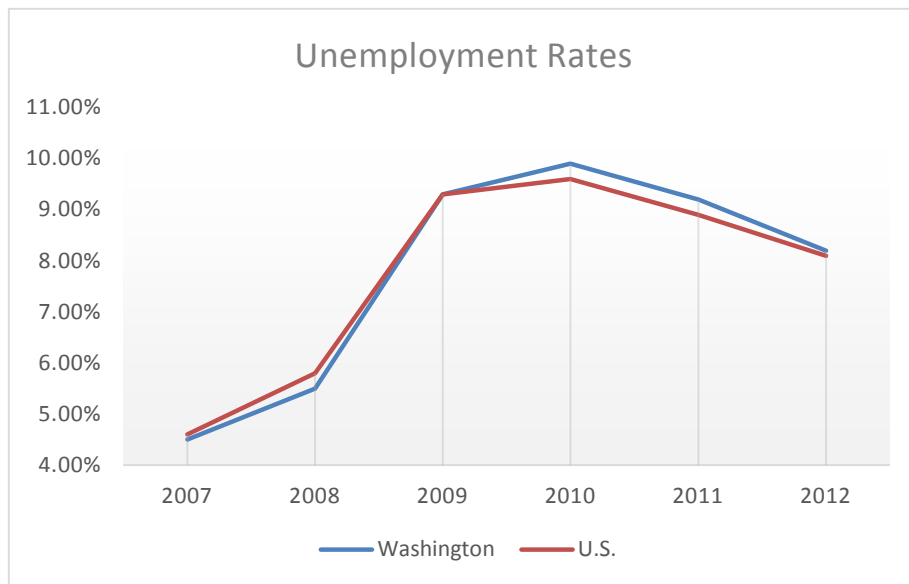
Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature 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 and baccalaureate students. 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.

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

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

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. Enrollment is down slightly from its most recent peak, which, if this trend continues, will potentially result in a reduction in tuition revenue.



Yakima Valley Community College
Statement of Net Position
June 30,2014

Assets		
Current assets		
Cash and cash equivalents		17,046,117
Short-term investments		2,511,000
Accounts Receivable		1,549,061
Inventories		438,524
Prepaid Expenses		<u>369,318</u>
	Total current assets	<u>21,914,021</u>
Non-Current Assets		
Long-term investments		24,829,721
Capital assets, net of depreciation		<u>79,037,894</u>
	Total non-current assets	<u>103,867,615</u>
	Total assets	<u>125,781,635</u>
Deferred Outflows of Resources		-
	Total Deferred Outflows of Resources	<u>-</u>
Liabilities		
Current Liabilities		
Accounts Payable		417,914
Accrued Liabilities		2,450,395
Compensated absences		2,729
Deposits Payable		91,469
Unearned Revenue		1,046,281
Leases and Certificates of Participation Payable		<u>30,000</u>
	Total current liabilities	<u>4,038,788</u>
Noncurrent Liabilities		
Compensated Absences		1,764,276
Long-term liabilities		-
	Total noncurrent liabilities	<u>1,764,276</u>
	Total liabilities	<u>5,803,064</u>
Deferred Inflows of Resources		-
	Total Deferred Inflows of Resources	<u>-</u>
Net Position		
Net Investment in Capital Assets		79,007,894
Restricted for:		
Nonexpendable		24,458
Expendable		52,572
Student Loans		344,564
Unrestricted		<u>40,549,083</u>
	Total Net Position	<u>119,978,571</u>
	Total Liabilities and Net Position	125,781,635

The footnote disclosures are an integral of the financial statements.

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

Operating Revenues		
Student tuition and fees, net		7,828,030
Auxiliary enterprise sales		3,325,244
State and local grants and contracts		12,145,637
Federal grants and contracts		1,163,666
Other operating revenues		529,272
Interest on loans to students		<u>1,158</u>
	Total operating revenue	<u>24,993,005</u>
Operating Expenses		
Operating Expenses		4,160,715
Salaries and wages		20,577,362
Benefits		7,039,965
Scholarships and fellowships		13,126,779
Supplies and materials		2,197,263
Depreciation		2,458,102
Purchased services		801,190
Utilities		<u>1,131,526</u>
	Total operating expenses	<u>51,492,901</u>
	Operating income (loss)	<u>(26,499,896)</u>
Non-Operating Revenues		
State appropriations		17,655,600
Federal Pell grant revenue		10,860,514
Investment income, gains and losses		<u>63,769</u>
	Net non-operating revenues	<u>28,579,883</u>
Non-Operating Expenses		
Interest on indebtedness		<u>2,600</u>
	Net non-operating expenses	<u>2,600</u>
		Income or (loss) before other revenues, expenses, gains, or losses
		2,077,387
		Capital appropriations
		8,003,353
	Increase (Decrease) in net position	<u>10,080,740</u>
Net Position		
	Net position, beginning of year	<u>109,897,831</u>
	Net position, end of year	<u>119,978,571</u>

The footnote disclosures are an integral of the financial statements.

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

Cash flow from operating activities	
Student tuition and fees	7,761,799
Grants and contracts	13,003,159
Payments to vendors	(5,702,174)
Payments for utilities	(1,095,218)
Payments to employees	(20,523,166)
Payments for benefits	(7,025,431)
Auxiliary enterprise sales	3,312,940
Payments for scholarships and fellowships	(13,126,779)
Loans issued to students and employees	1,158
Other receipts (payments)	587,538
Net cash used by operating activities	<u>(22,806,175)</u>
Cash flow from noncapital financing activities	
State appropriations	17,888,053
Pell grants	10,860,514
Amounts for other than capital purposes	0
Net cash provided by noncapital financing activities	<u>28,748,567</u>
Cash flow from capital and related financing activities	
Proceeds of capital debt	0
Capital appropriations	5,354,891
Purchases of capital assets	(8,678,119)
Certificate of participations proceeds	0
Principal paid on capital debt	(30,000)
Interest paid	(2,600)
Net cash used by capital and related financing activities	<u>(3,355,829)</u>
Cash flow from investing activities	
Purchase of investments	(1,650,861)
Proceeds from sales and maturities of investments	0
Income of investments	63,769
Net cash provided by investing activities	<u>(1,587,092)</u>
Increase in cash and cash equivalents	999,472
Cash and cash equivalents at the beginning of the year	<u>16,046,645</u>
Cash and cash equivalents at the end of the year	<u>17,046,117</u>
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	<u>(26,499,896)</u>
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,458,102
Changes in assets and liabilities	
Receivables , net	(319,645)
Inventories	(93,890)
Other assets	81,700
Accounts payable	(102,708)
Accrued liabilities	1,762,162
Deferred revenue	(97,318)
Compensated absences	(3,532)
Deposits payable	8,852
Net cash used by operating activities	<u>(22,806,175)</u>

The footnote disclosures are an integral of the financial statements.

Foundation of Yakima Valley Community College
Statement of Financial Position
June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ -	\$ 364,239	\$ -	\$ 364,239
Marketable securities	(347,939)	3,007,973	6,213,270	8,873,304
Certificates of deposit	-	451,727	-	451,727
Total assets	<u>\$ (347,939)</u>	<u>\$ 3,823,939</u>	<u>\$ 6,213,270</u>	<u>\$ 9,689,270</u>
Liabilities and Net Assets				
<i>Liabilities</i>				
Scholarships Payable	\$ 415,100	\$ -	\$ -	\$ 415,100
Due to related organizations	-	15,952	-	15,952
Total liabilities	<u>415,100</u>	<u>15,952</u>	<u>-</u>	<u>431,052</u>
Total net assets	<u>(763,039)</u>	<u>3,807,987</u>	<u>6,213,270</u>	<u>9,258,218</u>
Total liabilities and net assets	<u>\$ (347,939)</u>	<u>\$ 3,823,939</u>	<u>\$ 6,213,270</u>	<u>\$ 9,689,270</u>

Foundation of Yakima Valley Community College
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>Revenues, Gains, and</i>				
<i>Other Support:</i>				
Contributions	\$ -	\$ 223,617	\$ 106,385	\$ 330,002
Administrative fees	57,297	-	-	57,297
Interest income	-	146,693	-	146,693
Dividend income	-	200,284	-	200,284
Realized/unrealized gain on investments	164,358	732,305	-	896,663
Net assets released from restrictions	344,317	(344,317)	-	-
Total operating revenue	565,972	958,582	106,385	1,630,939
<i>Expense</i>				
Scholarships and awards	409,664	-	-	409,664
Commissions and other investment fees	62,970	-	-	62,970
Administrative fees	57,297	-	-	57,297
Salaries and wages	37,617	-	-	37,617
Professional services	22,975	-	-	22,975
Insurance	1,690	-	-	1,690
Supplies	372	-	-	372
Licenses and permits	75	-	-	75
Miscellaneous	158	-	-	158
Total expenses	592,818	-	-	592,818
<i>Changes in Net Assets</i>	(26,846)	958,582	106,385	1,038,121
<i>Net Assets, Beginning of the Year</i>	(736,193)	2,849,405	6,106,885	8,220,097
<i>Net Assets, End of the Year</i>	<u>\$ (763,039)</u>	<u>\$ 3,807,987</u>	<u>\$ 6,213,270</u>	<u>\$ 9,258,218</u>

Foundation of Yakima Valley Community College
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>		
<i>Cash Flows From Operating Activities:</i>		
Changes in net assets	\$ 1,038,121	\$ 452,724
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Realized/unrealized (gain) loss on investments	(896,663)	56,236
Contributions restricted for endowments	(106,385)	(436,156)
Investment income restricted for endowments	(346,977)	(279,726)
Increase (decrease) in liabilities:		
Scholarships payable	185,625	(45,125)
Net cash used by operating activities	<u>(126,279)</u>	<u>(252,047)</u>
<i>Cash Flows From Investing Activities:</i>		
Purchase of marketable securities	(7,602,677)	\$ (4,162,960)
Proceeds from sale of marketable securities	7,172,202	3,346,136
Net change in certificates of deposit	101,341	462,654
Change in restricted cash	(195)	(110,606)
Change in amount due to related organizations	2,246	941
Net cash used by investing activities	<u>(327,083)</u>	<u>(463,835)</u>
<i>Cash Flows From Financing Activities:</i>		
Proceeds from contributions restricted for long-term investments	106,385	436,156
Investment income restricted for endowments	346,977	279,726
Net cash provided by financing activities	<u>453,362</u>	<u>715,882</u>
<i>Net Change in Unrestricted Cash and Cash Equivalents</i>	-	-
<i>Unrestricted Cash and Cash Equivalents, Beginning of the Year</i>	-	-
<i>Unrestricted Cash and Cash Equivalents, End of the Year</i>	<u>\$ -</u>	<u>\$ -</u>

Notes to the Financial Statements

June 30, 2014

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Yakima Valley Community College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers applied baccalaureate degrees, 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 Foundation of Yakima Valley Community College (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1977 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to encourage, promote, and support educational programs and scholarly pursuits at or in connection with Yakima Valley Community College (the College). Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the College or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2014, the Foundation distributed revenue to the College for scholarships and faculty staff development in the amount of \$199,467. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 509-574-4645.

Basis of Presentation

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

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

New Accounting Pronouncements

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The College has no significant arrangements allowing external parties to operate college capital assets.

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

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

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which improves recognition, measurement and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. GASB 70 is effective for fiscal years beginning after June 15, 2013. The College did not make any changes as a result of this pronouncement.

Basis of Accounting

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

Nonexchange 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 amortized cost, which approximates 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 to the amount of operating cash being held by the fund. The internal investment pool is comprised of cash, cash equivalents and U.S. Government 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 (FIFO) inventory valuation method.

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the College, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements

and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized.

Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the state of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources and 2 to 10 years for most equipment and 11 to 40 years for heavy duty equipment, aircraft, locomotives and vessels.

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

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer quarter tuition and fees and housing deposits.

Tax Exemption

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

Net Position

The College's net position is classified as follows.

Net Investment in Capital Assets. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted for Nonexpendable. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.

Restricted for Loans. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.

Restricted for Expendable. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.

Unrestricted. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2014, are \$6,013,992.

State Appropriations

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

Operating Expenses

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

2. Cash and Investments

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

As of June 30, 2014, the carrying amount of the College's cash and equivalents was \$17,046,117 as represented in the table below.

Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	\$12,594
Bank Demand and Time Deposits	\$14,262,219
Investments with Original Maturity of 90 days or less	\$1,000,000
Local Government Investment Pool	\$1,771,304
Total Cash and Cash Equivalents	\$17,046,117

Investments consist of U.S Agency Securities.

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years
U.S. Government Agency Securities	\$ 27,292,688	\$ 2,515,499	\$ 24,777,189
Total Investments	\$ 27,292,688	\$ 2,515,499	\$ 24,777,189

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 US Bank. All cash and cash 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. Investments where evidenced by specific identifiable securities, are insured or registered or are held by the College's custodian bank in the College's name. At June 30, 2014, \$ 27,292,688, of the College's operating fund investments, are exposed to custodial credit risk.

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The College did not incur any investment expenses for the fiscal year ended June 30, 2014.

Endowments

As of June 30, 2014, the net appreciation on investments of donor-restricted endowments available to spend is \$52,572, which is reported as restricted, expendable on the Statement of Net Position.

3. Accounts Receivable

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

Accounts Receivable	Amount
Student Tuition and Fees	\$ 359,335
Due from the Federal Government	\$ 219,054
Due from Other State Agencies	\$ 409,259
Auxiliary Enterprises	\$ 93,881
Other	\$ 475,822
Subtotal	\$ 1,557,351
Less Allowance for Uncollectible Accounts	\$ (8,290)
Accounts Receivable, net	\$ 1,549,061

4. Inventories

Inventories, stated at cost FIFO, consisted of the following as of June 30, 2014.

Inventories	Amount
Merchandise Inventories	\$ 438,524
Inventories	\$ 438,524

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014, is presented as follows. The current year depreciation expense was \$2,458,102.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	\$ 6,868,037	\$ 526,856	\$ (95,417)	\$ 7,299,476
Construction in progress	1,215,418	6,979,443	(123,029)	\$ 8,071,832
Total nondepreciable capital assets	8,083,455	7,506,299	(218,445)	15,371,308
Depreciable capital assets				
Buildings	83,766,524	1,511,271	(2,484,608)	82,793,188
Other improvements and infrastructure	3,455,495	0	(37,571)	3,417,924
Equipment	6,669,114	1,240,253	(566,323)	7,343,045
Library resources	2,573,162	120,973	(71,400)	2,622,735
Subtotal depreciable capital assets	96,464,295	2,872,497	(3,159,901)	96,176,891
Less accumulated depreciation				
Buildings	(21,711,769)	864,919	(2,243,858)	(23,090,708)
Other improvements and infrastructure	(1,703,656)	24,809	(149,013)	(1,827,860)
Equipment	(4,619,443)	297,139	(646,699)	(4,969,003)
Library resources	(2,573,163)	37,350	(86,922)	(2,622,735)
Total accumulated depreciation	(30,608,031)	1,224,217	(3,126,492)	(32,510,306)
Total depreciable capital assets	65,856,265	4,096,714	(6,286,393)	63,666,586
Capital assets, net of depreciation	\$ 73,939,720	\$ 11,603,013	\$ (6,504,838)	\$ 79,037,894

6. Accounts Payable and Accrued Liabilities

At June 30, 2014, accounts payable accrued liabilities are the following.

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	\$ 597,645
Accounts Payable	\$ 1,882,641
Amounts Held for Others and Retainage	\$ 482,221
Total	\$ 2,962,507

7. Unearned Revenue

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

Unearned Revenue	Amount
Summer Quarter Tuition & Fees	\$ 1,030,119
Other Deposits	16,162
Total Unearned Revenue	\$ 1,046,281

8. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The College finances these costs by assessing all funds, a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2013 through June 30, 2014, were \$19,368.78. Cash reserves for unemployment compensation for all employees at June 30, 2014, were \$183,675.

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.

9. 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 \$745,929, and accrued sick leave totaled \$1,018,347 at June 30, 2014.

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

10. Notes Payable

In December 2000, the College obtained financing in order to renovate and remodel the Hopf Student Union Building through a certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$385,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in FY 2001. The interest rate charged was 5%. In December of 2009 the Washington Office of State Treasurer (OST) refinanced the COP in the amount of \$185,000. The interest rate now charged is 2.497%.

Student fees related to the COP is accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget.

The College's debt service requirements for this note agreement are for one more year then it will be paid in full.

11. Annual Debt Service Requirements

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

Annual Debt Service Requirements			
Certificates of Participation			
Fiscal year	Principal	Interest	Total
2015	\$ 30,000	\$ 1,200	\$ 31,200
2016	\$ -	\$ -	\$ -

12. Schedule of Long Term Debt

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificates of Participation	\$ 65,000	\$ -	\$ 35,000	\$ 30,000	\$ 30,000
Total	\$ 65,000	\$ -	\$ 35,000	\$ 30,000	\$ 30,000

13. Pension Plans

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

For FY 2013-14, the payroll for the College's employees was \$6,050,986 for PERS, \$621,442 for TRS, and \$11,771,876 for SBRP. Total covered payroll was \$18,444,286.

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 3 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, 2014, 2013, and 2012 are as follows.

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

Required Contributions						
	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan 1	\$ 30,694.49	\$ 36,817.85	\$ 28,144.42	\$ 33,819.86	\$ 25,394.20	\$ 38,966.70
Plan 2	\$ 198,665.88	\$ 308,211.55	\$ 191,416.21	\$ 297,437.84	\$ 217,105.32	\$ 406,279.60
Plan 3	\$ 70,514.28	\$ 68,015.19	\$ 74,037.12	\$ 75,652.64	\$ 86,211.40	\$ 109,834.58
TERS						
Plan 0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan 1	\$ 5,796.81	\$ 7,635.42	\$ 760.80	\$ 1,020.11	\$ 951.00	\$ 1,547.93
Plan 2	\$ 4,165.25	\$ 7,177.29	\$ 3,813.81	\$ 6,546.08	\$ 4,313.71	\$ 9,036.09
Plan 3	\$ 12,284.01	\$ 14,006.68	\$ 13,893.54	\$ 15,415.70	\$ 14,703.70	\$ 21,092.39

State Board Retirement Plan

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

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

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2014, were each \$1,016,405 for the employer and \$1,016,405 for the employee.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits paid by the SBCTC on behalf of the College were \$0. 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 \$58,886. As of June 30, 2014, the Community and Technical College system accounted for \$5,008,355 of the fund balance.

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is \$10,938,002, with an annual required contribution (ARC) of \$1,068,649. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately \$201,070. The College's net OPEB obligation (NOO) at June 30, 2014, was approximately \$867,578. This amount is not included in the College's financial statements.

The College paid \$3,789,118, for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

14. Operating Expenses by Program

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

Expenses by Functional Classification	
Instruction	\$ 15,940,184
Academic Support Services	3,473,475
Student Services	3,889,282
Institutional Support	3,933,857
Operations and Maintenance of Plant	5,035,651
Scholarships and Other Student Financial Aid	13,126,779
Auxiliary enterprises	3,635,570
Depreciation	2,458,102
Total operating expenses	\$ 51,492,901

15. Commitments and Contingencies

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

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

The College has commitments of \$15,266,566, for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

16. Subsequent Events

The College does not have any subsequent events as of June 30, 2014, to report.