PENINSULA COLLEGE

Clallam and Eastern Jefferson County, Washington

2017 Financial Report

Fiscal Year Ended June 30, 2017

Education Opportunity Enrichment

2017

Financial Report

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Board of Trustees and Administrative Officers

Trustees and Officer list effective as of June 30, 2017

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

January 25, 2018

Board of Trustees
Peninsula College
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Peninsula College, Clallam County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Peninsula College, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2017, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Peninsula 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. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or 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 in the table of contents 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.

Supplementary and Other Information

Our audit was conducted for the sole purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The list of Trustees and Administrative Officers is presented for purposes of additional analysis and is not a required part of the basic financial statements of the College. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated January 25, 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.

Sincerely,

Pat McCarthy

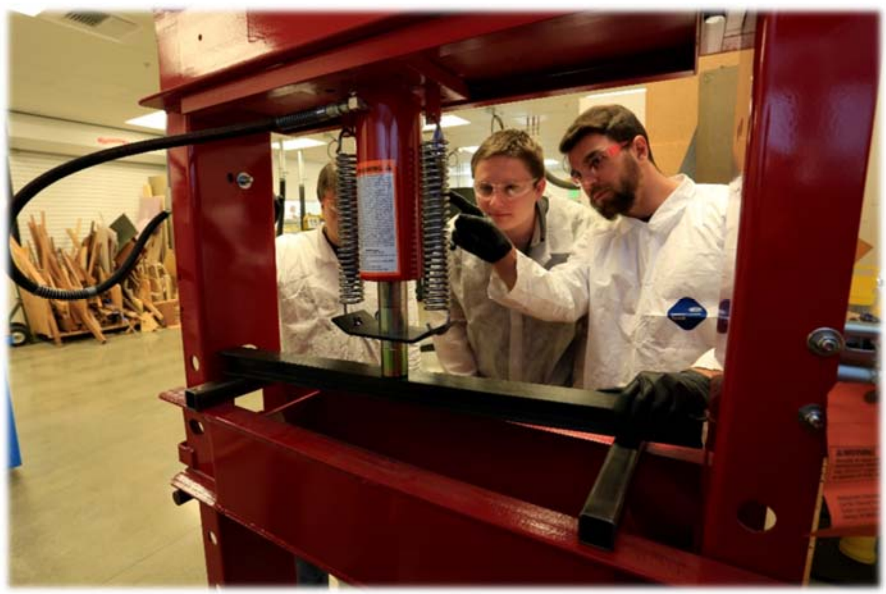
State Auditor

Olympia, WA

Management's Discussion and Analysis

Peninsula College
The following discussion and analysis provides an overview of the financial position and activities of Peninsula College (the College) for the fiscal year ended June 30, 2017 (FY 2017). This overview provides readers with an 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.

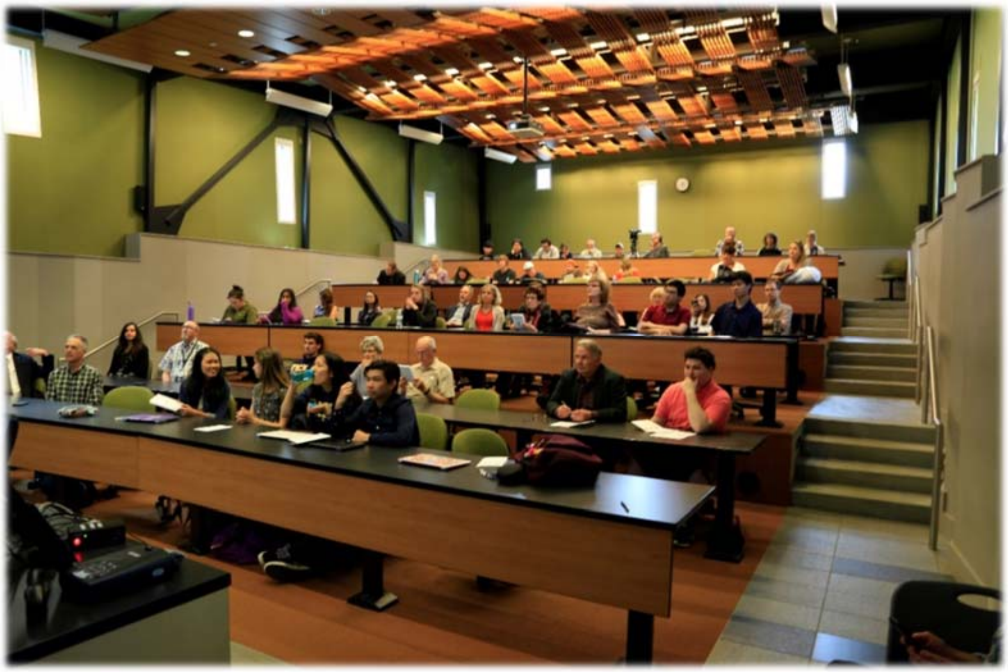
Reporting Entity
Peninsula College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic education for adults and community service educational programs. Established in 1961, Peninsula College's mission is to provide education opportunities in the areas of academic transfer, professional/technical, adult basic education and continuing education. The College also contributes to the cultural and economic enrichment of Clallam and Jefferson Counties. The College confers an applied baccalaureate degree, associates degrees, certificates and high school diplomas. The College is governed by a five member Board of Trustees appointed by the governor with the consent of the Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.



The College's service district comprises roughly 100,000 people, including several Native American tribes. More than 4,600 individuals were served in academic year 2016-2017. The College's main campus is located in Port Angeles, Washington, a community of about 19,370 residents. The College has campuses in Forks and Port Townsend and offers services at many locations across the district. During FY 2017, the College completed renovations of Building 202 at Fort Worden State Park, welcoming students for fall quarter. The College also completed construction of the new Allied Health and Early Childhood Development Center. This space provides state of the art technology and equipment that mirrors the healthcare work environment and the early childhood education program and childcare facility.

Using the Financial Statements

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, 2017. The Statement of Revenues, 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 FY 2017, the College adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68,* *and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended by GASB Statement No. 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers, and, that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense, and benefit payments. The change in accounting principle resulted in reporting an additional amount of $1,439,891 in FY17 ending pension liability.

Statement of Net Position

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

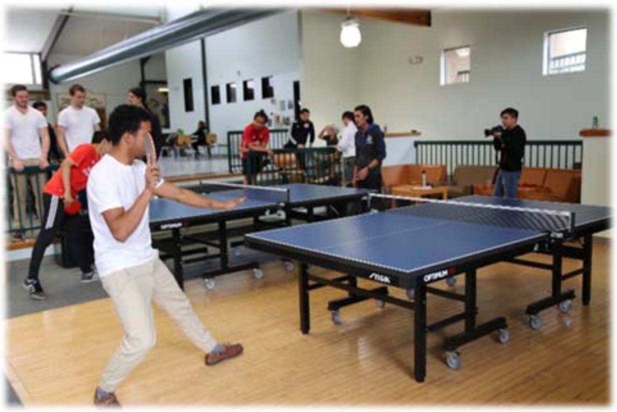
Condensed Statement of Net Position As of June 30th	**FY 2017**	**FY 2016**
Assets		
Current Assets	8,058,745	11,321,751
Non-current Assets	5,386,873	-
Capital Assets, net	89,079,795	83,091,657
Total Assets	**$ 102,525,413**	**$ 94,413,408**
Deferred Outflows of Resources	**$ 784,467**	**$ 524,107**
Liabilities		
Current Liabilities	1,764,388	4,287,711
Non-current Liabilities	8,240,990	6,296,876
Total Liabilities	**$ 10,005,378**	**$ 10,584,587**
Deferred Inflows of Resources	**$ 463,047**	**$ 356,973**
Net Position	**$ 92,841,454**	**$ 83,995,955**

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease in current assets in FY 2017 can be attributed to a decrease in state appropriation receivable related to capital projects as well as local funding of a construction project.

Net capital assets increased by $5,988,138 from FY 2016 to FY 2017. Current depreciation expense of $2,280,698 was offset by an increase related to the Allied Health and Early Childhood Development Center, completed in Spring 2017, along with ongoing acquisitions of capitalizable equipment and library resources.

Non-current assets consist of the long-term portion of a note receivable related to leasehold improvements made to preserve and rehabilitate Building 202 at Fort Worden State Park in Jefferson County, Washington. Due to the historic nature of the building, Federal Historic Tax Credits were generated, allowing the pass through of these credits to an equity investor, while in turn, affording the project additional capital.

Deferred outflows of resources are pension-related deferrals associated with the implementation of GASB Statement No. 68 in FY 2015 and Statement No. 73 in FY 2017. The College recorded $524,107 in FY 2016 and $784,467 in FY 2017 for pension-related deferred outflows.
The increase in deferred outflows reflects the College's proportionate share of an increase in the state-wide amounts reported by the Department of Retirement Systems due to differences between expected and actual experience related to the actuarial assumptions.



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 decrease in current liabilities from FY 2016 to FY 2017 is due to a reduction in accounts payable relating to completion of major construction projects along with the payoff of a COP.

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 COP debt and the net pension liability. The College's non-current liabilities significantly increased due to the implementation of GASB Statement No. 73, reflecting the College's proportionate share of the State Board Supplemental Retirement Plan.

Deferred inflows of resources related to pensions increased from $356,973 in FY 2016 to $463,047 in FY 2017 due to the difference between actual and projected investment earnings on the state's pension plans as well as the implementation of GASB Statement No. 73.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College reports its net position in three 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 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 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 2017 beginning net position was adjusted by $1,792,636 to reflect the implementation of GASB Statement No. 73 to report the net pension liability of the State Board Supplemental Retirement Plan and the offsetting adjustment to net position.

Net Position As of June 30th	**FY 2017**	**FY 2016**
Net investment in capital assets	86,648,325	80,392,493
Restricted Expendable	632,543	664,084
Unrestricted	5,560,586	2,939,378
Total Net Position	**92,841,454**	**83,995,955**

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 2017. 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, grants, and contracts are included in this category. In contrast, non-operating revenues include monies the College receives from another government entity 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.

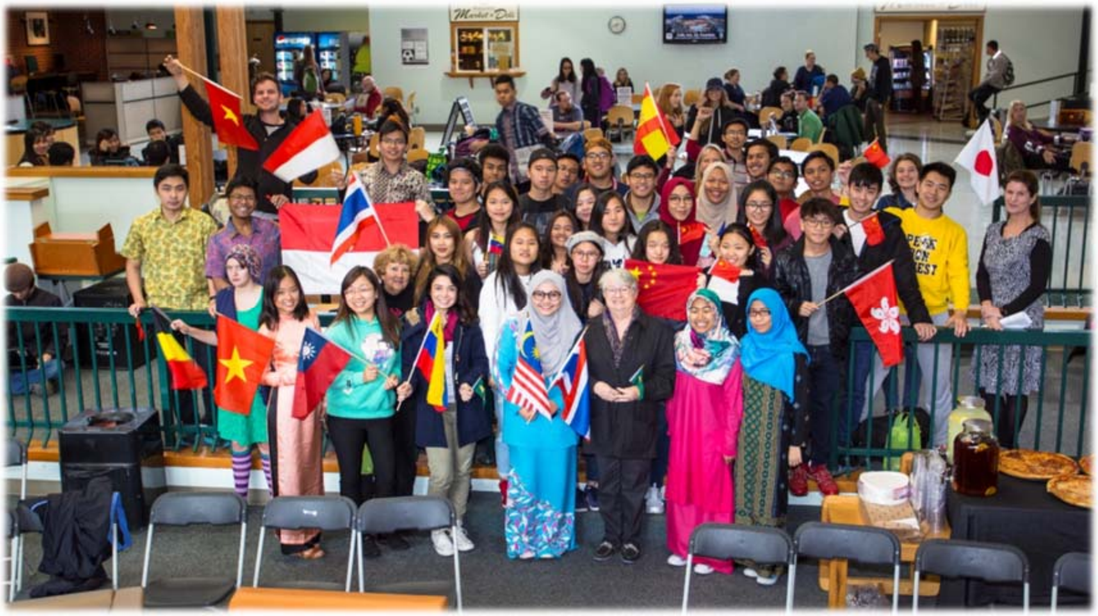
Operating expenses are expenses incurred in the normal operating of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating 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, Expenses and Changes in Net Position for the years ended June 30, 2017 and 2016 is presented below.

As of June 30th	FY 2017	FY 2016
Operating Revenues		
State and local grants and contracts	6,279,745	6,815,114
Student tuition and fees, net	4,661,381	4,928,114
Auxiliary enterprise sales, net	1,060,291	941,908
Federal grants and contracts	360,562	398,765
Other operating revenues	327,710	345,631
Total Operating Revenues	12,689,689	13,429,532
Non-Operating Revenues		
State Appropriations	12,144,229	11,196,132
Federal Pell grant revenue	3,046,947	3,225,105
Interest Income	104,442	6,370
Other non-operating revenues	950,000	
Total Non-Operating Revenues	16,245,618	14,427,607
Total Revenues	**28,935,307**	**27,857,139**
Operating Expenses by functional classification		
Instruction	9,215,694	9,416,139
Academic Support Services	2,422,396	2,230,092
Student Services	3,002,176	2,966,221
Institutional Support	5,640,378	4,763,862
Operation and Maintenance of Plant	3,877,714	2,361,872
Scholarships and other student financial aid	4,414,804	4,766,628
Auxiliary enterprises	1,752,029	1,479,303
Depreciation	2,280,698	2,241,122
Total Operating Expenses	32,605,889	30,225,237
Non-Operating Expenses	2,084,226	1,230,107
Total Expenses	**34,690,115**	**31,455,344**
Income (Loss) Before Capital Appropriations	**(5,754,808)**	**(3,598,205)**
Capital Appropriations	16,392,943	11,803,731
Increase in Net Position	**10,638,135**	**8,205,526**
Net Position, Beginning of the Year	83,995,955	75,790,428
Cummulative effect of change in accounting principle	(1,792,636)	-
Net Position, End of the Year	**92,841,454**	**83,995,955**

Revenues

The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2017, the SBCTC moved forward with a new allocation model, allocating funds to each of the 34 colleges based on a 3 year average of actual full time equivalent students. In FY 2017, the College experienced a modest increase in its state allocation due to the



implementation of this new model. In addition, the College received a one-time allocation of $517,789 for a portion of its share of the Moore vs. HCA settlement cost. This allocation does not carry forward to future years.

The decrease in tuition and fee revenue is primarily attributable to reduced enrollment coupled with a 15% baccalaureate tuition decrease enacted by the Legislature within the Affordable Education Act.

Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2017, so did the College's Pell Grant revenue.

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. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law, and provides educational services to local correctional facilities under contract to the state Department of Corrections. Grant funds include federal grants serving adults in basic education programs, technical programs and Upward Bound. The College also was awarded the College Spark grant, amounting to $500,000 in funding over a five year period, to design programs and formulate policy in order to provide students with more clarity on how to navigate the path to a desired degree.

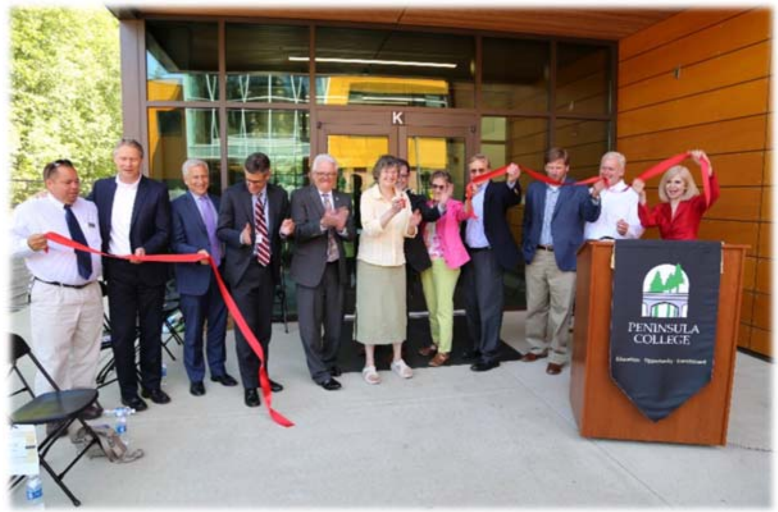
The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement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

Expenses

In FY 2017, salaries and wages expense experienced a slight increase from the prior fiscal year due to a 1.8% Legislative increase along with a reduction in part time faculty staffing and sick leave buyout payments. Benefit costs grew by $401,519 as a result of a statewide increase to the employer contribution for employee healthcare premiums. 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, purchased services or non-capitalized furniture and equipment. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing an increase in any year when a new building is placed in service.

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



At June 30, 2017, the College had invested $89,079,795 in capital assets, net of accumulated depreciation. This represents an increase of $5,988,138 from last year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	454,368	454,368	-
Construction in Progress	98,793	14,151,838	(14,053,045)
Buildings, net	86,372,316	66,309,363	20,062,953
Other Improvements and Infrastructure, net	831,606	1,029,988	(198,382)
Equipment, net	1,079,332	846,646	232,686
Library Resources, net	243,380	299,455	(56,075)
Total Capital Assets, net	**89,079,795**	**83,091,657**	**5,988,138**

The increase in capital assets is attributable to the completion of the Allied Health and Early Childhood Development Center, as well as normal replacement and acquisition and/or removal of equipment and library resources. Additional information on capital assets can be found in Note 6 of the Notes to the Financial Statements.

At June 30, 2017 the College had $2,431,470 in outstanding debt comprised entirely of Certificates of Participation. Additional information concerning notes payable, long term debt and debt service schedules can be found in Notes 12 and 13 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

The Washington State Supreme court is maintaining a contempt order against the state in its 2012 McCleary K-12 school funding ruling which found that the state wasn’t adequately funding its K-12 education system in accordance with the state constitution. It appears as though the Legislature may have to come up with another $1 billion in annual revenue in its 2018 session instead of waiting for the 2019-2021 biennium.

Peninsula College
Statement of Net Position
June 30, 2017

Assets	
Current assets	
Cash and cash equivalents (Note 3)	5,169,216
Restricted cash and cash equivalents (Note 3)	606,694
Accounts Receivable (Note 4)	1,948,583
Note receivable (Note 4)	90,042
Inventories	244,210
Total current assets	8,058,745
Non-Current Assets	
Note receivable (Note 4)	5,386,873
Capital assets:	
Land and construction in progress (Note 5)	553,161
Capital assets, net of depreciation (Note 5)	88,526,634
Total non-current assets	94,466,668
Total assets	**102,525,413**
Deferred Outflows of Resources	
Deferred Outflows of Resources Related to Pensions (Notes 6 & 15)	784,467
Total Deferred Outflows of Resources	784,467
Liabilities	
Current Liabilities	
Accounts Payable (Note 7)	205,072
Accrued Liabilities (Note 7)	1,103,242
Compensated Absences (Note 10)	551
Deposits Payable	5,410
Unearned Revenue (Note 8)	315,911
Certificates of Participation Payable (Note 14)	134,202
Total current liabilities	1,764,388
Noncurrent Liabilities	
Compensated Absences (Note 10)	1,522,326
Pension Liability (Note 14)	4,421,396
Certificates of Participation Payable (Note 14)	2,297,268
Total non-current liabilities	8,240,990
Total liabilities	**10,005,378**
Deferred Inflows of Resources	
Deferred Inflows of Resources Related to Pensions (Notes 6 & 15)	463,047
Total Deferred Inflows of Resources	463,047
Net Position	
Net Investment in Capital Assets	86,648,325
Restricted for Expendable:	
Student Aid	627,133
Other	5,410
Unrestricted	5,560,586
Total Net Position	**92,841,454**

The accompanying notes are an integral part of the financial statements.

Peninsula College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating Revenues	
State and local grants and contracts	6,279,745
Student tuition and fees (net of scholarship allowance of $2,169,025)	4,661,381
Auxiliary enterprise sales, net	1,060,291
Federal grants and contracts	360,562
Other operating revenues	327,710
Total operating revenue	12,689,689
Operating Expenses	
Salaries and wages	13,630,795
Benefits	4,642,512
Scholarships and fellowships	4,601,098
Depreciation	2,280,698
Purchased services	2,153,996
Non-capitalized furniture and equipment	1,835,559
Supplies and materials	1,082,441
Utilities	482,550
Other expenses	1,896,240
Total operating expenses	32,605,889
Operating income (loss)	(19,916,200)
Non-Operating Revenues (Expenses)	
State appropriations	12,144,229
Federal Pell grant revenue	3,046,947
Interest income	104,442
Building and Innovation fees remitted to state	(616,182)
Interest on indebtedness	(121,169)
Other non-operating revenues	950,000
Other non-operating expenses	(1,346,875)
Net non-operating revenues (expenses)	14,161,392
Income or (loss) before capital appropriations	(5,754,808)
Capital appropriations	16,392,943
Increase (Decrease) in net position	10,638,135
Net Position	
Net position, beginning of year	83,995,955
Cummulative effect of change in accounting principle	(1,792,636)
Net position, beginning of year, as restated	82,203,319
Net position, end of year	92,841,454

The accompanying notes are an integral part of the financial statements.

Peninsula College
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flow from operating activities	
Student tuition and fees	4,508,185
Grants and contracts	6,978,831
Payments to vendors	(7,494,998)
Payments to employees	(13,581,828)
Payments for benefits	(4,571,030)
Auxiliary enterprise sales	1,062,764
Payments for scholarships and fellowships	(4,601,098)
Other receipts	766,918
Other payments	(2,252,710)
Net cash used by operating activities	(19,184,966)
Cash flow from noncapital financing activities	
State appropriations	12,119,031
Pell grants	3,046,947
Building and Innovation fees remitted to state	(637,624)
Net cash provided by noncapital financing activities	14,528,354
Cash flow from capital and related financing activities	
Capital appropriations	17,877,525
Acquisition and construction of capital assets	(15,158,921)
Capital contributions	316,296
Principal paid on capital debt	(267,694)
Interest paid on capital debt	(121,169)
Net cash used by capital and related financing activities	2,646,037
Cash flow from investing activities	
Interest Income	104,442
Net cash provided by investing activities	104,442
Increase (decrease) in cash and cash equivalents	(1,906,134)
Cash and cash equivalents at the beginning of the year	7,682,043
Cash and cash equivalents at the end of the year	5,775,909
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	(19,916,200)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,280,698
Changes in assets and liabilities	
Receivables, net	680,607
Inventories	6,146
Accounts payable	(2,220,405)
Accrued liabilities	(34,783)
Unearned revenue	(75,892)
Compensated absences	49,562
Pension liability adjustment expense	45,227
Deposits payable	74
Net cash used by operating activities	(19,184,966)
Noncash Investing, Capital and Financing Activites	
Note receivable related to leasehold improvement sale	5,543,211

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

June 30, 2017

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Peninsula College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic education for adults, 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.

Basis of Presentation

The financial statements have been prepared in accordance with Governmental Accounting Standards Board (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.

Basis of Accounting

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

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

The preparation of the 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; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash includes cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated for general operating needs of the College. The internal investment pool comprises cash.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and sales of auxiliary enterprise services provided to students, faculty and staff. This amount 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, are valued at cost using the last-in, first-out inventory method, also known as LIFO.

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 rest 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, acquisition 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, assets are capitalized as follows:

- all land
- buildings, building improvements, leasehold improvements, and infrastructure with a unit cost of $100,000 or more
- intangible assets and software with a unit cost of $1,000,000 or more
- all other assets with a unit cost of $5,000 or more or collections with a total cost of $5,000 or more

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, 15 to 50 years for improvements other than buildings and infrastructure, 7 years for library resources, 2 to 10 years for most equipment and 11 to 40 years for heavy duty equipment.

In accordance with GASB Statement 42, the College reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2017, 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 are related to the subsequent fiscal year. The college has recorded 2017 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 in accordance with GASB 68, *Accounting and Financial Reporting for Pensions*, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY17, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68.* The reporting requirements are similar to GASB 68 but use current fiscal year end as the measurement date for reporting the pension liabilities.

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 category represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Expendable.* This category includes resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted.* This category represents resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues and Expenses

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

Operating Revenues: This includes activities that 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) some 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, Federal Pell grant revenue, state appropriations, and investment income.

Non-operating Expense: Non-operating expenses include state remittances related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation loans.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on 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, 2017 are $2,169,025.

State Appropriations
The State of Washington appropriates funds to the State Board of Community and Technical Colleges (SBCTC) which allocates funding to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statement of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Building and Innovation Fee Remittance
Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature and is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College 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. Accounting and Reporting Changes
In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68.* The Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College implemented this pronouncement during FY 2017. The College recorded a beginning balance adjustment to long-term obligations of $1,792,636 as a result of the implementation of GASB Statement No. 73.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73,* amends the definition of covered payroll for pensions reported in required supplementary information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through a pension plan, the required supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based. The College implemented this pronouncement during FY 2017.

Accounting Standard Impacting the Future

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 19, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determine OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. This Statement will have a significant impact on the College's financial statements.

3. Cash

Cash includes bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is 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.

The LGIP portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification and liquidity for external investment pools that wish to measure all of its investments at amortized costs. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP.

The Office of the State Treasurer (OST) prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, or online at: http://tre.wa.gov/partners/for-local-governments/local-government-investment-pool-lgip/lgip-comprehensive-annual-financial-report/. In addition, more information is available regarding the LGIP in the Washington State Consolidated Annual Financial report, which can be found online at http://ofm.wa.gov/cafr/default.asp.

The College can contribute or withdraw funds in any amount from the LGIP on a daily basis. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The College adjusts its LGIP investment amounts monthly to reflect interest earnings as reported from the Office of the State Treasurer.

As of June 30, 2017, the carrying amount of the College's cash was $5,775,909. The majority of restricted cash included in total cash consists of amounts restricted for institutional financial aid funds per RCW 28B.15.820. The classification is represented in the table below.

Cash and Cash Equivalents	June 30, 2017
Bank Demand and Time Deposits	3,230,760
Restricted Cash	606,694
Local Government Investment Pool	1,932,922
Petty Cash and Change Funds	5,534
Total Cash and Cash Equivalents	**5,775,909**

Custodial Credit Risks – Deposits
Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with Bank of America. 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).

4. Receivables
Accounts receivable consists of tuition and fee charges to students and sales of auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements.

At June 30, 2017, accounts receivable were as follows.

Accounts Receivable	Amount
Student Tuition and Fees	489,950
Due from the Federal Government	122,079
Due from Other State Agencies	582,819
Auxiliary Enterpises	64,716
Other	1,094,649
Subtotal	2,354,213
Less Allowance for Uncollectible Accounts	(405,630)
Accounts Receivable, net	**1,948,583**

The Note Receivable relates to a promissory note received from 202 Landlord LLC on September 16, 2016 relating to leasehold improvements made to preserve and rehabilitate Building 202 at Fort Worden State Park in Jefferson County, Washington. The principal sum of $5,543,211, with an annual interest rate of 2.24% is payable monthly with a term of 40 years. The borrower has the option of prepaying the principal amount due in whole or in part without penalty.

	Balance oustanding 6/30/16	Additions	Reductions	Balance oustanding 6/30/17	Current Portion
Note Receivable	-	5,543,211	(66,296)	5,476,915	90,042
Total	-	5,543,211	(66,296)	5,476,915	90,042

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $2,280,698.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	454,368			454,368
Construction in Progress	14,151,838	98,793	(14,151,838)	98,793
Total nondepreciable assets	**14,606,206**	**98,793**	**(14,151,838)**	**553,161**
Depreciable capital assets				
Buildings	81,441,493	22,159,172	(1,103,711)	102,496,954
Other improvements and infrastructure	2,081,495			2,081,495
Equipment	3,312,157	544,437	(62,886)	3,793,708
Library resources	1,591,106	10,266	(10,812)	1,590,560
Subtotal depreciable capital assets	**88,426,251**	**22,713,875**	**(1,177,409)**	**109,962,718**
Less accumulated depreciation				
Buildings	15,132,131	1,706,835	(714,327)	16,124,638
Other improvements and infrastructure	1,051,507	198,382		1,249,889
Equipment	2,465,511	311,751	(62,886)	2,714,376
Library resources	1,291,651	63,730	(8,201)	1,347,180
Total accumulated depreciation	**19,940,800**	**2,280,698**	**(785,414)**	**21,436,083**
Total depreciable capital assets	**68,485,451**	**20,433,178**	**(391,995)**	**88,526,634**
Capital assets, net of accumulated depreciation	**83,091,657**	**20,531,971**	**(14,543,833)**	**89,079,795**

6. 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 the Statement of Net Position relates to pensions.

Deferred outflows 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 outflows on pension 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 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 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.

7. Accounts Payable and Accrued Liabilities

At June 30, 2017, accrued liabilities are the following:

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	379,541
Accounts Payable	205,072
Amounts Held for Others and Retainage	723,702
Total	1,308,315

8. Unearned Revenue

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

Unearned Revenue	Amount
2017 Summer & Fall Quarter Tuition & Fees	315,911
Total Unearned Revenue	315,911

9. Risk Management

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

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, 2016 through June 30, 2017 were $31,713. Cash reserves for unemployment compensation for all employees at June 30, 2017 were $135,128.

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

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

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Pending an affirmative calendar year vote by all employees in their employment group, during which the period including the fiscal year July 2016 through June 30, 2017 was affirmative, 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. Compensatory time is categorized as a current liability since it must be used before other leave. Accrued annual and sick leave are categorized as non-current liabilities for current employees.

The accrued vacation leave totaled $632,370, and the accrued sick leave totaled $889,956 at June 30, 2017.

11. Leases Payable

The College has leases for office equipment with various vendors as well as a lease of instructional space in Building 202 at Fort Worden. The leases are classified as operating leases. The Fort Worden lease commenced in September 2016 and has an initial term of five years. The lease shall automatically renew for two additional periods of five years each. As of June 30, 2017, the minimum lease payments under operating leases consist of the following:

Fiscal Year	Equipment	Instructional Space	Total Operating Leases
2018	33,657	241,200	274,857
2019	25,689	241,200	266,889
2020	21,322	241,200	262,522
2121	9,002	241,200	250,202
2122	5,485	40,200	45,685
Total minimum lease payments		**1,005,000**	**1,100,154**

12. Notes Payable

In August 2012, the College obtained financing in order to build the Wellness Center Addition to the Gymnasium through COP, issued by the OST in the amount of $710,000. Students assessed themselves, quarterly, a mandatory per credit fee to service the debt starting in 2012. The interest rate charged is 3.10%. Student fees related to this COP are accounted for in a dedicated fund.

In March 2011, the College obtained financing in order to install energy efficient upgrades to Keegan Hall through COP, issued by the OST in the amount of $378,149. The interest rate charged is 3.19%.

In April 2013, the College obtained financing in order to purchase and renovate the Forks Satellite Site through COP, issued by the OST in the amount of $1,945,000. The interest rate charged is 4.175%.

The College's debt service requirements for these note agreements for the next five years and thereafter are as follows:

13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2017 are as follows.

	Certificates of Participation		
Fiscal Year	**Principal**	**Interest**	**Total**
2018	134,202	110,306	244,508
2019	145,770	104,082	249,852
2020	152,401	97,168	249,569
2021	159,097	89,938	249,035
2022	125,000	83,306	208,306
2023-2027	700,000	318,531	1,018,531
2028-2032	870,000	147,619	1,017,619
2033-2037	145,000	6,706	151,706
Total	2,431,470	957,657	3,389,127

14. Schedule of Long Term Liabilities

	Balance oustanding 6/30/16	Additions	Reductions	Balance oustanding 6/30/17	Current Portion
Certificates of Participation	2,699,164		(267,694)	2,431,470	134,202
Pension Liability	2,429,247	2,491,278	(499,129)	4,421,396	-
Compensated Absences	1,473,314	723,135	(673,573)	1,522,877	551
Total	6,601,726	3,214,413	(1,440,396)	8,375,743	134,753

15. Pension Plans

A. General

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a 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 2017, the covered payroll for the College's employees was $3,195,795 for PERS, $193,563 for TRS, and $8,470,170 for SBRP. Total covered payroll was $11,859,528.

The College's defined benefit 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 Peninsula College, for fiscal year 2017:

Aggregate Pension Amounts – All Plans

Pension Liabilities	$	4,421,396
Deferred outflows of resources related to pensions	$	784,467
Deferred inflows of resources related to pensions	$	463,047
Pension expense/expenditures	$	442,380

As established in chapter 28B.10.RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state. The College implemented GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* for fiscal year 2017 financial reporting. The College has elected to use the current fiscal year end as the measurement date for reporting net position liabilities for the Higher Education Supplemental Retirement Plan in alignment with the State CAFR.

B. College Participation in Plans Administered by the Department of Retirement Systems

PERS

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. Entrance to PERS Plan 1 is closed to new employees. 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.

PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised with 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Benefits Provided. PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. PERS 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. PERS Plan 3 members have the option to retire early with reduced benefits.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

TRS

Plan Description. The Legislature established the TRS Plan in 1938. TRS Plans 1 and 2 are defined benefit plans. TRS Plan 1 was closed to new entrants on September 30, 1977. Employees currently have a choice of entering TRS Plan 2 or 3. TRS Plan 2 and 3 provide retirement benefits to certain eligible faculty hired on or after October 1, 1977. TRS Plan 3 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 includes an annual cost-of-living adjustment. The defined contribution component is fully funded by employee contributions and investment performance. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided. TRS plans provide retirement, disability, and death benefits to eligible members.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. TRS Plan 2 members have the option to retire early with reduced benefits. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of the service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan. TRS Plan 3 members have the option to retire early with reduced benefits.

TRS members meeting specific eligibility requirements, have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

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 employee payroll are shown in the table below. The College and the employees made 100% of required contributions.

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.

Contribution Rates and Required/Actual Contributions. The College's contribution rates and required/actual contributions for the above retirement plans for the years ending June 30, 2017, 2016, and 2015 are as follows:

Contribution Rates at June 30

	FY 2015		FY 2016		FY 2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	6.00%	13.13%
Plan 2	4.96%	10.39%	5.95%	13.13%	5.95%	13.13%
Plan 3	5 - 15%	10.39%	5 - 15%	13.13%	5 - 15%	13.13%

	FY 2015		**FY 2016**		**FY 2017**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 10,341	$119,454	$ 7,166	$146,362	$ 6,712	$159,343
Plan 2	$ 97,810	$ 99,731	$131,694	$134,060	$142,579	$145,142
Plan 3	$ 42,417	$ 30,414	$ 44,286	$ 39,941	$ 45,050	$ 46,899
TRS						
Plan 1	$ -	$ 1,912	$ -	$ 7,913	$ -	$ 12,059
Plan 3	$ 4,741	$ 2,417	$ 13,187	$ 8,638	$ 16,300	$ 13,008

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 Comingled 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, 2016, the annual money-weighted return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	2.19%
PERS Plan 2/3	2.47%
TRS Plan 1	2.09%
TRS Plan 2/3	2.51%

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, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	**100%**	

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

Pension Expense
Pension expense is included as part of "Employee Benefits" expense in the Statement of Revenues, Expenses and Changes in Net Position. The table below shows the components of each pension plans expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	79,899	203,323	5,700	9,896	298,818
Amortization of change in proportionate liability	(25,804)	33,707	59,471	3,307	70,681
Total Pension Expense	54,095	237,031	65,171	13,203	369,500

Changes in Proportionate Shares of Pension Liabilities
The changes to the College's proportionate share of pension liabilities from 2015 to 2016 for each retirement plan are listed below:

	2015	2016	Change
PERS 1	.025904%	.025437%	-0.000467
PER 2/3	.029095%	.029602%	0.000507
TRS 1	.000852%	.002600%	0.001748
TRS 2/3	.000907%	.002643%	0.001736

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 in relation 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, 2015, with the results rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all prior 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 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetimes.
The actuarial assumptions used in the June 30, 2015 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 2015 actuarial valuation report.

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 assets sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 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.

Sensitivity of the net pension liability to changes in the discount rate

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	1,647,363	1,366,087	1,124,031
PERS Plan 2/3	2,744,163	1,490,437	(775,859)
TRS Plan 1	109,126	88,770	71,237
TRS Plan 2/3	82,143	36,296	(42,165)

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

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

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			79,364	49,201
Difference between expected and actual earnings of pension plan investments	34,395		182,384	
Changes of Assumptions			15,405	
Changes in College's proportionate share of pension liabilities			62,740	
Contributions to pension plans after measurement date	162,230		196,345	
	196,625	-	536,238	49,201

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			2,746	1,611
Difference between expected and actual earnings of pension plan investments	2,815		5,843	
Changes of Assumptions			370	
Changes in College's proportionate share of pension liabilities			14,917	255
Contributions to pension plans after measurement date	12,042		12,872	
	14,858	-	36,747	1,865

The $383,489 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, 2018.

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

Year ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2018	(8,469)	34,737	(728)	3,200
2019	(8,469)	22,430	(728)	3,200
2020	31,588	146,088	2,634	8,136
2021	19,744	87,438	1,637	6,255
2022				1,219
	34,395	290,692	2,815	22,010

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

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

Plan Description

The State Board Retirement Plan is a privately administered single-employer defined contribution plan with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. Peninsula College participates in this plan as authorized by chapter 28B.10.RCW, the plans cover faculty and other positions as designated by each participating employer. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals; no assets are accumulated in trusts or equivalent arrangements.

Contributions. Contribution rates for the (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, 2017 were each $725,201.

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

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

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

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the colleges in the amount of $902,000. The College's share of the amount was $13,664. 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 2017, the College paid into this fund at a rate of 0.5% of covered salaries totaling $42,352. This amount was not used as a part of GASB 73 calculations as its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for $13,280,150 of the fund balance.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to June 30, 2017, measurement date using the following actuarial assumptions, applied to all period included in the measurement:

Salary increases	3.50% - 4.25%
Fixed income and Variable income Investment Returns	4.25% - 6.25%

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

Most actuarial assumptions used in the June 30, 2016, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrations of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate
The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Index, or 3.58 percent for the June 30, 2017, measurement date.

Pension Expense
For the year ended June 30, 2017, Peninsula College reported $72,880 for pension expense in the Higher Education Supplemental Retirement Plans.

Proportionate Shares of Pension Liabilities
The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 1.51%. The College's proportion of the net pension liability was based a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating colleges, actuarially determined.

Plan Membership
Membership of the State Board Supplemental Retirement Plans consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Plan	Inactive Members (Or Beneficiaries) Curently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
State Board Suppl Retirement Plan	1	1	89	91

Change in Total Pension Liability/(Asset)
The following table presents the change in total pension liability/(asset) of Higher Education Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans:

Change in Total Pension Liability/(Asset)	
Service Cost	82,060
Interest	53,232
Changes in benefit terms	-
Differences between expected and actual experience	(383,804)
Changes of assumptions	(90,588)
Benefit Payments	(13,664)
Other	-
Net Change in Pension Liability	(352,765)
Total Pension Liability - Beginning	1,792,636
Total Pension Liability - Ending (a)	1,439,871

Sensitivity of the Total Pension Liability/(Asset) to Changes in the Discount Rate
The following table presents the total pension liability/(asset), calculated using the discount rate of 3.58 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

Total Pension Liability/(Asset)	1% Decrease	Current Discount Rate	1% Increase
Peninsula College	1,654,208	1,439,871	1,262,360

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the Higher Education Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 333,314
Changes of assumptions	-	78,667
Transactions subsequent to the measurement date	-	-
Total	-	411,980

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30:

	Peninsula College
2018	(62,427)
2019	(62,427)
2020	(62,427)
2021	(62,427)
2022	(62,427)
Therafter	(99,844)

D. Defined Contribution Plans

Public Employees' Retirement System Plan 3

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

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

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

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

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to Note 16.B for TRS Plan descriptions.

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

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

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

Washington State Deferred Compensation Program

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

16. 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 determined the statewide disclosure information for the community and technical college system. The SBCTC allocated these amounts to the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $10,455,491, with an annual required contribution (ARC) of $942,061. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $202,129. The College's net OPEB obligation at June 30, 2017 was approximately $2,755,874. This amount is not included in the College's financial statements.

The College paid $2,323,659 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

17. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summaries 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, 2017.

Expenses by Functional Classification		
Instruction	$	9,215,694
Academic Support Services		2,422,396
Student Services		3,002,176
Intitutional Support		5,640,378
Operation and Maintenance of Plant		3,877,714
Scholarships and other student financial aid		4,414,804
Auxiliary enterprises		1,752,029
Depreciation		2,280,698
Total operating expenses	**$**	**32,605,889**

18. Commitments and Contingencies

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

19. Related Parties

The Peninsula College Foundation is a non-profit corporation created for the purpose of providing student and program support to the College. The Peninsula College Foundation has equity stake in 202 Landlord LLC, a Washington limited liability company. In order to make use of the Federal Historic Tax Credits generated by the project, leasehold improvements made by the College to preserve and rehabilitate Building 202 at Fort Worden were purchased by 202 Landlord LLC in FY 2017 in exchange for a promissory note receivable in the amount of $5,543,211. Building 202 is leased by Peninsula College for an initial term of five years, with an initial annual lease amount of $241,200, which is recognized as other operating expense in the financial statements of the College. The lease shall automatically renew for two additional periods of five years each.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Peninsula College's Proportionate Share of the Net Pension Liability

Schedule of Peninsula College's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30

Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.026586%	$ 1,339,282	$ 2,673,655	50.09%	61.19%
2015	0.025904%	$ 1,355,020	$ 2,763,035	49.04%	59.10%
2016	0.025437%	$ 1,366,049	$ 2,917,536	46.82%	57.03%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*This schedule will continue to be built until it contains 10 years of data.

Required Supplementary Information (continued)

Cost Sharing Employer Plans

Schedules of Peninsula College's Proportionate Share of the Net Pension Liability

Schedule of Peninsula College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.028662%	$ 579,363	$ 2,463,094	23.52%	93.29%
2015	0.029095%	$ 1,039,581	$ 2,590,688	40.13%	89.20%
2016	0.029602%	$ 1,490,417	$ 2,798,109	53.27%	85.82%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*This schedule will continue to be built until it contains 10 years of data.

Cost Sharing Employer Plans

Schedules of Peninsula College's Proportionate Share of the Net Pension Liability

Schedule of Peninsula College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.000806%	$ 23,773	$ 36,681	64.81%	68.77%
2015	0.000852%	$ 26,993	$ 42,123	64.08%	65.70%
2016	0.002600%	$ 88,763	$ 130,249	68.15%	62.07%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*This schedule will continue to be built until it contains 10 years of data.

Cost Sharing Employer Plans

Schedules of Peninsula College's Proportionate Share of the Net Pension Liability

Schedule of Peninsula College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30					
Fiscal Year	College's proportion of the net pension liability	College proportionate share of the net pension liability	College covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan's fiduciary net position as a percentage of the total pension liability
2014	0.000870%	$ 2,810	$ 36,681	7.66%	96.81%
2015	0.000907%	$ 7,653	$ 42,123	18.17%	92.48%
2016	0.002643%	$ 36,296	$ 130,249	27.87%	88.72%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

*This schedule will continue to be built until it contains 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 related to covered payroll of employees Participating in PERS plan 1	Contributions related to covered payroll of employees Participating in PERS plan 2/3	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll of employees participating in PERS 1	Covered payroll of employees participating in PERS 2/3	Total Covered payroll	Contributions as a percentage of covered payroll
2014	$ 117,677	$ 19,141	$ 98,536	$ 117,677	$ (0)	$ 210,561	$ 2,463,094	$ 2,673,655	4.40%
2015	$ 119,454	$ 15,563	$ 103,891	$ 119,454	$ 0	$ 172,347	$ 2,590,688	$ 2,763,035	4.32%
2016	$ 146,362	$ 13,137	$ 133,225	$ 146,362	$ 0	$ 119,427	$ 2,798,109	$ 2,917,536	5.02%
2017	$ 159,343	$ 12,305	$ 147,038	$ 159,343	$ -	$ 111,862	$ 3,083,934	$ 3,195,795	4.99%
2018									
2019									
2020									
2021									
2022									
2023									

Notes: This schedule will continue to be built until it contains 10 years of data.

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions

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

Fiscal Year Ended June 30

Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 121,079	$ 121,079	$ -	$ 2,463,094	4.92%
2015	$ 130,145	$ 130,145	$ -	$ 2,590,688	5.02%
2016	$ 174,001	$ 174,001	$ -	$ 2,798,109	6.22%
2017	$ 192,041	$ 192,041	$ -	$ 3,083,934	6.23%
2018					
2019					
2020					
2021					
2022					
2023					

Notes: This schedule will continue to be built until it contains 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 related to covered payroll of employees Participating in TRS plan 1	Contributions related to covered payroll of employees Participating in TRS plan 2/3	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll of employees participating in TRS 1	Covered payroll of employees participating in TRS 2/3	Total Covered payroll	Contributions as a percentage of covered payroll
2014	$ 1,595	$ -	$ 1,595	$ 1,595	$ -	$ -	$ 36,681	$ 36,681	4.35%
2015	$ 1,912	$ -	$ 1,912	$ 1,912	$ -	$ -	$ 42,123	$ 42,123	4.54%
2016	$ 7,913	$ -	$ 7,913	$ 7,913	$ -	$ -	$ 130,249	$ 130,249	6.08%
2017	$ 12,059	$ -	$ 12,059	$ 12,059	$ -	$ -	$ 193,563	$ 193,563	6.23%
2018									
2019									
2020									
2021									
2022									
2023									

Notes: This schedule will continue to be built until it contains 10 years of data.

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 2,134	$ 2,134	$ -	$ 36,681	5.82%
2015	$ 2,417	$ 2,417	$ -	$ 42,123	5.74%
2016	$ 8,638	$ 8,638	$ -	$ 130,249	6.63%
2017	$ 13,008	$ 13,008	$ -	$ 193,563	6.72%
2018					
2019					
2020					
2021					
2022					
2023					

Notes: This schedule will continue to be built until it contains 10 years of data.

State Board Supplemental Defined Benefit Plans

Schedule of Changes in the Total Pension Liability and Related Ratios Peninsula College Fiscal Year Ended and Measurement Date June 30	
	2017
Total Pension Liability	
Service Cost	$ 82,060
Interest	53,232
Changes of benefit terms	-
Differences between expected and actual experience	(383,804)
Changes of assumptions	(90,588)
Benefit Payments	(13,664)
Other	-
Net Change in Total Pension Liability	**(352,765)**
Total Pension Liability - Beginning	**1,792,636**
Total Pension Liability - Ending	**$ 1,439,871**
College's proportion of the Pension Liability	1.5%
Covered-employee payroll	8,470,170
Total Pension Liability as a percentage of covered-employee payroll	17.0%

Notes: This schedule will continue to be built until it contains 10 years of data.

State Board Supplemental Defined Benefit Plans
Notes to Required Supplementary Information

The State Board Supplemental Retirement Plans are financed on a pay-as-you-go basis. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals; no assets are accumulated in trusts or equivalent arrangements. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, salary growth and the variable income investment return.