PENINSULA COLLEGE

2013 Financial Report

Education Opportunity Enrichment

2013 Financial Report

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TRUSTEES AND ADMINISTRATIVE OFFICERS

EXECUTIVE OFFICERS

Dr. Luke Robins, President

Ms. Deborah Frazier, Vice President for Finance and Administration

Dr. Mary O'Neil-Garrett, Vice President for Instruction

Mr. Jack Huls, Vice President for Student Services

Dr. Paula Doherty, Vice President for Institutional Effectiveness

Ms. Mary Hunchberger, Executive Director College Advancement and Director of Strategic Change Management

Trustees and Officer list effective as of December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements & Financial Analysis

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, 2013 (FY 2013). The FY 2013 report constitutes the College's inaugural audited financial statements. As a result, no comparisons to the prior fiscal year ended June 30, 2012 are provided, since comparisons would be made to unaudited information. Future audits will include two years of audited information, and future discussions will include comparisons of the two years.

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 College 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, adult basic education and community service educational programs. Established in 1961, Peninsula College's mission is to provide educational 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 applied baccalaureate degrees, associate degrees, certificates and high school diplomas.

The College's service district comprises roughly 100,000 people, including several Native American tribes, and more than 5,600 individuals were served in academic year 2012-13. The College's main campus is located in Port Angeles, Washington, a community of about 19,100 residents. The College has campuses in Forks and Port Townsend and offers services at many locations across the district. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

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

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

Statement of Net Position

The Statement of Net Position provides information about the College's financial position. It presents the College's assets, liabilities, and net position as of the last day of the fiscal year and includes all assets and liabilities of the College. A condensed Statement of Net Position follows, demonstrating that assets exceed liabilities:

Condensed Statement of Net Position As of June 30th	**FY 2013**
Assets	
Current Assets	9,908,608
Capital Assets, net	70,786,145
Total Assets	**$ 80,694,753**
Liabilities	
Current Liabilities	1,930,220
Other Liabilities, non-current	2,774,290
Total Liabilities	**$ 4,704,510**
Net Position	**$ 75,990,243**

Assets

Current assets consist primarily of cash, short term investments, various accounts receivables and inventories. The college invests conservatively in demand deposits (CDs) and in the State of Washington's Local Government Investment Pool (LGIP). Capital assets include land, buildings, improvements, infrastructure, and equipment valued at $5,000 or more, net of depreciation. Capital assets are owned by the State of Washington and managed by the College. The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed.

At June 30, 2013, the College had invested $70,786,145 in capital assets, net of accumulated depreciation.

Asset Type	June 30, 2013
Land	156,858
Construction in Progress	491,138
Buildings, net	67,539,268
Other Improvements and Infrastructure, net	1,625,772
Equipment, net	749,391
Library Resources, net	223,718
Total Capital Assets, Net	**$70,786,145**

Liabilities

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. 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.
Non-current liabilities primarily consist of the value of compensated absences and the long-term portion of Certificates of Participation (COP) debt.

Compensated Absences

Compensated absences is the value of vacation and sick leave earned but not yet used by employees. Employees earn leave and may take the leave in the course of employment, and, unused balances at the time of termination of employment are compensated within the limits provided in state law.

Long-Term Debt Activities

On June 30, 2013, the College had $1,504,761 in outstanding debt. The college holds COP debt for two projects being repaid by students through self-imposed fees: the Pirate Union Building remodel and the Fitness Center. The college holds debt for one energy efficiency project for Keegan Hall; the vendor guaranteed savings from the energy improvements are used as the repayment mechanism. To be reflected in future statements is a COP for the purchase and renovation of a building for the Forks satellite site, which is being repaid from the operating budget.

Net Position

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

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

Restricted:

Non Expendable **–** consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

investment purposes only. The college has two reportable items in this category from donations from many years ago. All donations are now made through the Peninsula College Foundation.

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 college is not reporting any balance in this category at this time.

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

The net position of the college is affected in 2013 by an anomalous transaction related to appropriations for the renovation of building 202 at Fort Worden for use as a PC campus. In the 2011-13 biennium, $2 million each was appropriated to State Parks and Peninsula College in the capital budget for this renovation. In FY 2012, under a Memorandum of Understanding that sets forth PC as the project lead, Parks transferred cash against their capital appropriation to Peninsula College. In 2013, PC was asked to transfer the money back to Parks, so the Legislature could recapture the funds and then appropriate the $2 million directly to PC in the 2013-15 capital appropriation. These transactions occurred in different fiscal years and, despite being capital appropriations, had to be recorded as revenues and expenditures in the operating accounts. The FY 2014 statements will show the total capital appropriation of $4 million directly to PC.

Condensed Net Position As of June 30th	**FY 2013**
Net Investment in Capital Assets	$69,281,385
Restricted	
Nonexpendable	$296,335
Expendable	-
Unrestricted	$6,412,523
Total Net Position	**$75,990,243**

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 2013. 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.

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

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

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th	**FY 2013**
Operating Revenues	12,450,760
Operating Expenses	28,913,275
Net Operating Loss	$ (16,462,515)
Non-Operating Revenues	13,750,926
Non-Operating Expenses	(2,946)
Income (Loss) Before Other Revenues, expenses, gains or losses	$ (2,708,644)
Capital Appropriations	1,511,964
Increase (Decrease) in Net Position	$ (1,196,680)
Net Position, Beginning of the Year	$ 77,186,922
Net Position, End of the Year	$ 75,990,242

Revenues

Operating Revenues

Operating revenues are earned by the College in exchange for providing goods and services. Tuition and grants and contracts are included in this category.

The Legislature and SBCTC instituted increases in tuition rates to partially offset unprecedented reductions in state appropriations from FY 2009-2013. For FY 2013, the College kept other fees stable, resulting in only small changes in these revenues.

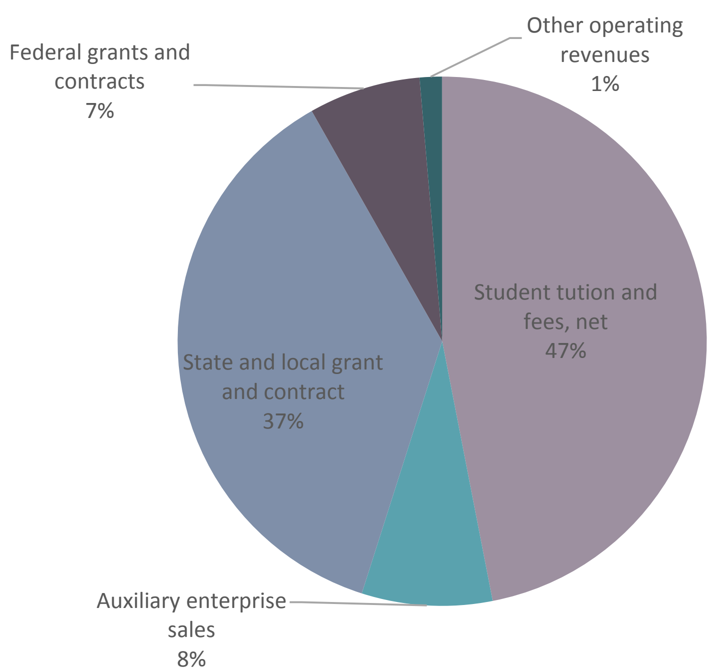
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

The College serves some students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College serves contracted international students who are not supported by state dollars. The College also 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 to serve adults in basic education programs, worker retraining programs, Upward Bound, and a Title III strengthening institutions grant.

Operating Revenues by Category

For the Year Ended June 30, 2013



Operating Revenues by Category

For the year ended June 30, 2013

Student tution and fees, net	5,843,893	47%
Auxiliary enterprise sales	993,951	8%
State and local grant and contract	4,590,137	37%
Federal grants and contracts	852,164	7%
Other operating revenues	169,288	1%
Interest on collections	1,327	0%
	12,450,760	**100%**

Non-operating Revenues
Non-operating revenues include monies the college receives from another government without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues.

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased again in FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. State appropriations to PC peaked in FY 2009 and by 2013 had been reduced by 30%.

Capital Revenues
The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year.

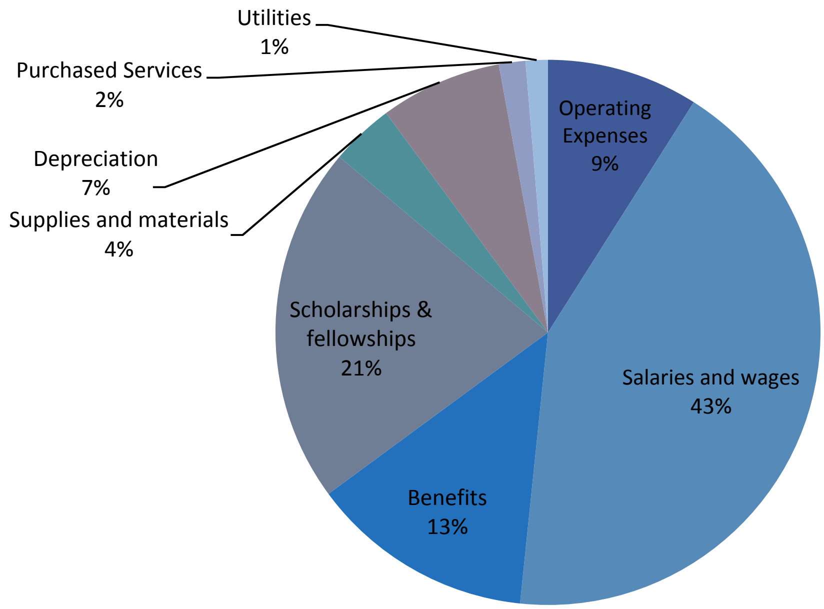
Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

Expenses
Operating expenses have declined in tandem with unprecedented state appropriations cuts that are only partially offset by tuition increases. The College reduced the number of employees, cut services and was subject to various state spending freezes and employee salary reductions. Selected categories of operating expense are displayed below. Salaries and benefits constitute the largest area of spending for the college.

Certain capital project costs that do not meet accounting criteria for capitalization as part of the cost of the building are instead recognized as supplies and materials or purchased services costs. These fluctuations are to be expected. Depreciation expense is also primarily driven by capital activity, with the annual depreciation expense showing a significant increase in any year when a new building is placed in service. Other Operating expenses include scholarships and fellowships and supplies and materials.

Operating Expenses by Category

For the Year Ended June 30, 2013



Operating Expenses by Category

For the year ended June 30, 2013

Operating Expenses	2,598,394	9%
Salaries and wages	12,333,068	43%
Benefits	3,835,780	13%
Scholarships & fellowships	6,135,609	21%
Supplies and materials	1,083,996	4%
Depreciation	2,089,753	7%
Purchased Services	454,467	2%
Utilities	382,207	1%
Total	**28,913,275**	**100%**

Statement of Cash Flows

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

Cash Flow from Operating Activities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

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

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

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

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

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

A condensed statement of cash flows is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Cash Flows As of June 30th	**FY 2013**
Operating Activities	(14,088,100)
Non-Capital Financing Activities	13,419,119
Capital Financing Activities	(104,691)
Investing Activities	342
Net Change in Cash	(773,330)
Cash, Beginning of Year	8,772,694
Cash, End of Year	7,999,364

The College's cash and cash equivalents on June 30th decreased in 2013 by $773,330. The primary contributing factor in the decrease was the recapture of funds from the Parks appropriation relating to the renovation of the historic building at Fort Worden.

Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. This trend affects higher education nationwide, but cuts to higher education in Washington have outpaced most other states. Based on the demands of the McCleary decision, which mandates significantly more funding for K-12, and the apparent reluctance of policymakers to increase state revenues, there is little cause to think that reductions in state appropriations to higher education will be restored in the next decade. New revenues will have to come from tuition and increased fees to students as well as more entrepreneurial activity on the part of colleges.

Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its February 2014 forecast, the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies.

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

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. Enrollment is down from its most recent peak statewide; locally enrollment has remained higher than the state average.

Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT

October 27, 2014

Peninsula College
Port Angeles, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Peninsula College, Clallam County, Washington, as of and for the year ended June 30, 2013, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Peninsula College Foundation, which represents 100 percent, of the assets, net position, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Peninsula College Foundation, is based solely on the report of the other auditors.

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Peninsula College, Washington, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of Peninsula College are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the State of Washington that is attributable to the transactions of the College and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the State of Washington as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion was 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 on pages 4 through 13 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,

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

Peninsula College

Statement of Net Position
June 30,2013

Assets		
Current assets		
Cash and cash equivalents		7,999,364
Short-term investments		381,602
Accounts Receivable		1,311,954
Inventories		215,688
	Total current assets	9,908,608
Non-Current Assets		
Capital assets, net of depreciation		70,786,145
	Total non-current assets	70,786,145
	Total assets	**80,694,753**
Liabilities		
Current Liabilities		
Accounts Payable		244,584
Accrued Liabilities		1,191,662
Deposits Payable		4,627
Unearned Revenue		310,182
Leases and Certificates of Participation Payable		179,164
	Total current liabilities	1,930,220
Noncurrent Liabilities		
Compensated Absences		1,448,693
Long-term liabilities		1,325,598
	Total non-current liabilities	2,774,290
	Total liabilities	**4,704,510**
Net Position		
Net Investment in Capital Assets		69,281,385
Restricted for:		
Nonexpendable		296,335
Expendable		-
Unrestricted		6,412,523
Total Net Position		**75,990,243**
Total Liabilities and Net Position		**80,694,753**

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, 2013

Operating Revenues		
Student tuition and fees, net		5,843,893
Auxiliary enterprise sales		993,951
State and local grants and contracts		4,590,137
Federal grants and contracts		852,164
Other operating revenues		169,288
Interest on collections		1,327
	Total operating revenue	12,450,760
Operating Expenses		
Operating Expenses		2,598,394
Salaries and wages		12,333,068
Benefits		3,835,780
Scholarships and fellowships		6,135,609
Supplies and materials		1,083,996
Depreciation		2,089,753
Purchased services		454,467
Utilities		382,207
	Total operating expenses	28,913,275
	Operating income (loss)	(16,462,515)
Non-Operating Revenues		
State appropriations		9,513,920
Federal Pell grant revenue		4,236,664
Investment income, gains and loses		342
	Net non-operating revenues	**13,750,926**
Non-Operating Expenses		
Interest on indebtedness		(12,984)
Other non-operating expenses		10,038
	Net non-operating expenses	**(2,946)**
Income or (loss) before other revenues, expenses, gains, or losses		(2,708,644)
Capital Revenues		
Capital appropriations		1,511,964
	Increase (Decrease) in net position	(1,196,680)
Net Position		
Net position, beginning of year		77,186,922
Net position, end of year		75,990,242

The accompanying notes are an integral part of the financial statements

Peninsula College
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash flow from operating activities	
Student tuition and fees	5,682,079
Grants and contracts	5,762,651
Payments to vendors	(3,990,380)
Payments for utilities	(385,858)
Payments to employees	(12,362,125)
Payments for benefits	(3,842,344)
Auxiliary enterprise sales	997,288
Payments for scholarships and fellowships	(6,118,872)
Interest on Collections	1,327
Other receipts	168,133
Net cash used by operating activities	(14,088,100)
Cash flow from noncapital financing activities	
State appropriations	9,182,455
Pell grants	4,236,664
Net cash provided by noncapital financing activities	13,419,119
Cash flow from capital and related financing activities	
Capital appropriations	972,766
Purchases of capital assets	(1,718,079)
Certificate of participations proceeds	810,845
Principal paid on capital debt	(173,169)
Interest paid	12,984
Other Activities	(10,038)
Net cash used by capital and related financing activities	(104,691)
Cash flow from investing activities	
Income of investments	342
Net cash provided by investing activities	342
Increase in cash and cash equivalents	(773,330)
Cash and cash equivalents at the beginning of the year	8,772,694
Cash and cash equivalents at the end of the year	7,999,364

The accompanying notes are an integral part of the financial statements

Peninsula College

Statement of Cash Flows - continued
For the Year Ended June 30, 2013

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(16,462,515)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,089,753
Changes in assets and liabilities	
Receivables , net	170,314
Inventories	23,370
Accounts payable	(118,389)
Accrued Liabilities	246,545
Unearned revenue	(32,965)
Deposits Payable	835
Compensated absences	(4,454)
Short term investments	(593)
Net cash used by operating activities	(14,088,100)

The accompanying notes are an integral part of the financial statements

The Peninsula College Foundation
A Washington Non-Profit Corporation

Statement of Assets, Liabilities & Net Assets-Cash Basis

December 31, 2012	**2012**
Assets	
Assets:	
Cash & cash equivalents	$ 389,369
Investments	85,735
Assets restricted for endowment	910,513
Total Assets	**$ 1,385,617**
Liabilities and Net Assets	
Net Assets:	
Unrestricted:	
Undesignated	140,825
Total Unrestricted Net Assets	**140,825**
Temporarily restricted	357,197
Permanently restricted	887,595
Total Liabilities and Net Assets	**$ 1,385,617**

The accompanying notes are an integral part of the financial statements

The Peninsula College Foundation

A Washington Non-Profit Corporation

Statement of Support, Revenues, Expenses and Changes in Net Assets-Cash Basis

Year Ended December 31, 2012 **2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Public support:				
Contributions	$ 15,338	$ 187,810	$ -	$ 203,148
American Conversations	31,928	-	-	31,928
Less: direct event expense	(18,033)	-	-	(18,033)
Booster Club	-	87,843	-	87,843
Investment income	14,407	3,840	-	18,247
Net realized & unrealized gain (loss) on investments	71,571	19,077	-	90,648
Net assets released from restrictions	370,131	(370,131)	-	-
Total Support and Revenue	**485,342**	**(71,561)**	-	**413,781**
Expenses:				
Program Services	380,936	-	-	380,936
Management and General	44,896	-	-	44,896
Fundraising	9,231	-	-	9,231
Total Expenses	**435,063**	-	-	**435,063**
Increase (Decrease) in Net Assets	**50,279**	**(71,561)**	-	**(21,282)**
Net Assets, Beginning of Year	90,546	428,758	887,595	1,406,899
Net Assets, End of Year	**$ 140,825**	**$ 357,197**	**$ 887,595**	**$ 1,385,617**

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 2013
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 skills, and community services. The College confers applied baccalaureate degrees, associate degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

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

The Peninsula College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1992 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to create access, excellence, and success for the Peninsula College community. Because the majority of the Foundation's income and resources is restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2013, the Foundation distributed approximately $266,450 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Director of Business Services Office at 1502 East Lauridsen Boulevard, Port Angeles, WA 98362 or by calling (360) 417-6205.

Basis of Presentation

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

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

Beginning in fiscal year 2012-13, the college adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62) and amendments contained in GASB Statement No 66 *Technical Corrections – 2012*, which incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in the pronouncements of the FASB and American Institute of Certified Public Accountants (AICPA). This statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement amends the net asset reporting requirement in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The College did not identify any transactions requiring treatment as a deferred inflow or outflow.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for financial statements for periods beginning after December 15, 2012. The impact of this pronouncement is uncertain at this time.

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

The impact of this pronouncement is uncertain at this time.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which improves recognition, measurement and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The impact of this pronouncement is uncertain at this time.

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

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

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

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

Cash, Cash Equivalents and Investments
Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalent, and investments at fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated for general operating needs of the College. The internal investment pool comprises of cash, cash equivalents, and certificate of deposits.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the college, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, only equipment with a unit cost of $5,000 or greater are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and components, 20 to 25 years for infrastructure and land improvements, 7 years for library resources and 5 to 7 years for 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, 2013, no assets had been written down.

Unearned Revenues
Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer quarter tuition and fees 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 Position
The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted for Nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

- *Restricted for Expendable*. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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

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

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

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2013 are $1,817,781.

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

Operating Revenues/Expenses
Operating Revenues consist of tuition and fees, grants and contracts, sales and service of educational activities and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as nonoperating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

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

As of June 30, 2013, the carrying amount of the College's cash and equivalents was $7,999,364 as represented in the table below.

Table 1: Cash and Cash Equivalents	**June 30, 2013**
Petty Cash and Deposits in Transit	$95,439
Bank Demand and Time Deposits	$5,993,867
Local Government Investment Pool	$1,910,058
Total Cash and Cash Equivalents	**$7,999,364**

Investments consist of time certificates of deposit.

Table 2: Investment Maturities	**Fair Value**	**One Year or Less**	**1 - 5 Years**	**6 - 10 Years**	**10 or More Years**
Time Certificate of Deposits	$ 381,602	$ 381,602			
Total Investments	**$ 381,602**	**$ 381,602**	**$ -**	**$ -**	**$ -**

Custodial Credit Risks—Deposits
Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with the Bank of America. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Interest Rate Risk—Investments
The College manages its exposure to interest rate changes by limiting the duration of investments to mature at various points in the year. Investments consist of Time Certificates of Deposit which contain endowment funds.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Custodial Credit Risk—Investments
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2013, the College only has investments at banks which are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Investment Expenses
Under implementation of GASB 35, investment income for the College is shown net of investment expenses. There were no investment expenses incurred for the fiscal year ended June 30, 2013.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2013, accounts receivable were as follows.

Table 3: Accounts Receivable	Amount	
Student Tuition and Fees	$	555,697
Due from the Federal Government	$	63,180
Due from Other State Agencies	$	641,106
Auxiliary Enterprises	$	64,774
Other	$	179,468
Subtotal	$	1,504,225
Less Allowance for Uncollectible Accounts	$	(192,272)
Accounts Receivable, net	**$**	**1,311,954**

4. Inventories

Inventories, stated at cost using the LIFO method, consisted of the following as of June 30, 2013.

Table 4: Inventories	Amount	
Merchandise Inventories	$	215,688
Inventories	**$**	**215,688**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2013 is presented as follows. The current year depreciation expense was $2,089,753.

Table 5: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 156,858	$ -	$ -	$ 156,858
Construction in progress	183,784	338,542	(31,188)	491,138
Total nondepreciable capital assets	340,642	338,542	(31,188)	647,996
Depreciable capital assets				
Buildings	77,018,308	1,064,709	(316,823)	77,766,194
Other improvements and infrastructure	2,269,815			2,269,815
Equipment	2,317,629	280,148		2,597,777
Library resources	1,347,770	65,868	(11,130)	1,402,508
Subtotal depreciable capital assets	82,953,522	1,410,725	(327,953)	84,036,294
Less accumulated depreciation				
Buildings	8,708,879	1,614,678	(96,631)	10,226,926
Other improvements and infrastructure	445,365	198,678		644,043
Equipment	1,630,720	217,666		1,848,386
Library resources	1,126,052	58,731	(5,993)	1,178,790
Total accumulated depreciation	11,911,016	2,089,753	(102,624)	13,898,145
Total depreciable capital assets	71,042,506	(679,028)	(225,329)	70,138,149
Capital assets, net of accumulated depreciation	**$ 71,383,148**	**$ (340,486)**	**$ (256,517)**	**$ 70,786,145**

6. Accounts Payable and Accrued Liabilities

At June 30, 2013, accrued liabilities are the following.

Table 6: Accounts Payable and Accrued Liabilities	Amount	
Amounts Owed to Employees	$	323,466
Accounts Payable	$	244,584
Amounts Held for Others and Retainage	$	868,195
Total	**$**	**1,436,246**

7. Unearned Revenue

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

Table 7: Unearned Revenue	Amount	
Summer Quarter Tuition & Fees	$	310,182
Housing and Other Deposits		-
Total Unearned Revenue	$	310,182

8. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The College finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2012 through June 30, 2013, were $60,335.12. Cash reserves for unemployment compensation for all employees at June 30, 2013, were $9,538.

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

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

9. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Depending on an affirmative calendar year vote by all employees in their employment group, during which the period including the fiscal year from July 1, 2012 through June 30, 2013 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. The accrued vacation leave totaled $589,116 at June 30, and accrued sick leave totaled $859,577 at June 30, 2013.

10. Notes Payable

In February 2001, the College obtained financing in order to renovate the Student Union Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $1,610,000. Subsequently, the COP was refinanced in October 2009 with a remaining balance of $965,000. Students assessed themselves, quarterly, a mandatory fee to service the debt starting in 2001. The interest rate charged is 2.763%.

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

In August 2012, the College obtained financing in order to build the Wellness Center Addition to the Gymnasium through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $710,000. Students assessed themselves, quarterly, a mandatory fee to service the debt starting in 2012. The interest rate charged is 3.10%.

Student fees related to these COPs are accounted for in a dedicated fund, which is used to pay principal and interest, not coming out of the general operating budget. The College's debt service requirements for these note agreements for the next five years and thereafter are as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Annual Debt Service Requirements

Future debt service requirements at June 30, 2013 for the next five years and thereafter are as follows:

Annual Debt Service Requirements

Certificates of Participation

Fiscal year	Principal	Interest	Total
2014	$ 179,164	$ 87,184	$ 266,348
2015	185,189	80,594	$ 265,783
2016	191,244	73,341	$ 264,586
2017	197,694	65,663	$ 263,357
2018	64,202	57,600	$ 121,802
2019-2023	287,268	280,519	$ 567,787
2024-2028	205,000	273,750	$ 478,750
2029-2033	195,000	214,800	$ 409,800
2034-2038	-	-	$ -
Total	**1,504,761**	**1,133,452**	**2,638,213**

12. Schedule of Long Term Debt

	Balance outstanding 6/30/12	Additions	Reductions	Balance outstanding 6/30/13	Current portion
Certificates of Participation	967,930	710,000	(173,169)	1,504,761	179,164
Total	**$ 967,930**	**$ 710,000**	**$ (173,169)**	**$ 1,504,761**	**$ 179,164**

13. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) 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 FY2012-13, the payroll for the College's employees was $2,397,223 for PERS, $38,455 for TRS, and $8,073,038 for SBRP. Total covered payroll was $10,508,716.

PERS and TRS

Current 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

- PERS Plan 2 provides 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 provides 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. The defined benefit plan benefits are vested after an employee completes five years of eligible service.
- TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2013, 2012 and 2011 are as follows.

Contribution Rates at June 30

	FY2011		FY2012		FY2013	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	5.31%	6.00%	7.08%	6.00%	7.21%
Plan 2	3.90%	5.31%	4.64%	7.08%	4.64%	7.21%
Plan 3	5 - 15%	5.31%	5 - 15%	7.08%	5 - 15%	7.21%
TRS						
Plan 3	5-15%	6.14%	5-15%	8.04%	5-15%	8.05%

Required Contributions

	FY2011		FY2012		FY2013	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$15,470	$13,691	$17,402	$20,858	$14,559	$17,473
Plan 2	$79,550	$108,313	$79,941	$124,149	$75,047	$116,534
Plan 3	$53,803	$36,626	$49,492	$43,717	$39,692	$38,841
TRS						
Plan 3	$4,036	$4,131	$2,538	$2,041	$3,855	$3,103

State Board Retirement Plan

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

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

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement

benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.
The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2013 were $1,402,682.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2013, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $0. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2013, the College paid into this fund at a rate of 0.25% of covered salaries, totaling $20,198. As of June 30, 2013, the Community and Technical College system accounted for $2,052,816 of the fund balance.

The unfunded actuarial accrued liability calculated at July 1, 2013 was $69,213,000 under the plan's entry age normal method and is amortized over an 11 year period. The annual required contribution (ARC) is projected at $11,041,000. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability by SBCTC. The net pension obligation as of June 30, 2013 is $54,894,190.

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

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

The state of Washington funds OPEB obligations at a state-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB Statement No. 45, does not exist at department levels, and as a result, the Actuarial Accrued Liability (AAL) is not available for the College. The state of Washington's Comprehensive Annual Financial Report (CAFR) includes the state's measurement and recognition of OPEB expense/expenditures, liabilities, note disclosures, and required supplementary information specified by GASB Statement No. 45. The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

The College paid $1,878,436 for healthcare expenses in 2013, which included its pay-as-you-go portion of the OPEB liability.

14. Operating Expenses by Program

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

The following table lists operating expenses by program for the year ending June 30, 2013.

Expenses by Functional Classification		
Instruction	$	9,431,187
Academic Support Services		2,206,161
Student Services		3,031,276
Institutional Support		3,473,407
Operation and Maintenance of Plant		2,001,065
Scholarships and other student financial aid		5,236,987
Auxiliary enterprises		1,443,439
Depreciation		2,089,753
Total operating expenses	**$**	**28,913,275**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

15. Commitments and Contingencies

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

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

16. Subsequent Events

The College has commitments of $1,945,000 for the Forks Satellite Site project that includes renovation of a building. Construction began in summer 2013 with the completion anticipated in early 2014.

ENROLLMENT AND DEGREES CONFERRED

Associate Degrees
Associate in Arts (DTA)
Associate in Arts Honors (DTA)
Associate in Business (DTA/MRP)
Associate in Elementary Education (DTA/MRP)
Associate in Math Education (DTA/MRP)
Associate in Science (Transfer Track)
-*DTA stands for Direct Transfer Agreement*
-*MRP stands for Major Related Program*

Associate in Applied Science (Professional Technical Degrees & Certificates)
The following Professional Technical programs offer Associate in Applied Science (AAS), Associate in Applied Science - Transfer (AAS-T) degrees and Short-Term Certificates

Addiction Studies
Administrative Office Systems
Advanced Manufacturing - Composites Technology
Automotive Technology
Business Administration
Commercial Driver's License
Computer Applications Technology
Criminal Justice
Cybersecurity and Computer Forensics
Early Childhood Education
Emergency Medical Technician
Energy and Innovation Entrepreneurship Program
Energy Efficiency
Family Life Education
Food Service Management
Green Building
Homeland Security & Emergency Management
Information Technology
Medical Assistant
Multimedia Communications
Nursing
Water Quality Control
Welding

Bachelor of Applied Science
Bachelor of Applied Science in Applied Management