PENINSULA COLLEGE

2014 Financial Report

Education Opportunity Enrichment

2014
Financial Report

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TRUSTEES AND ADMINISTRATIVE OFFICERS

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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

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, 2014 (FY 2014).

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, basic education for adults 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, associates degrees, certificates and high school diplomas.

The College's service district comprises roughly 100,000 people, including several Native American tribes, and more than 5,134 individuals were served in academic year 2013-14. The College's main campus is located in Port Angeles, Washington, a community of about 19,090 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 comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	**FY 2014**	**FY 2013**
Assets		
Current Assets	10,068,349	10,367,908
Capital Assets, net	73,046,952	70,724,227
Total Assets	**$ 83,115,301**	**81,092,135**
Liabilities		
Current Liabilities	1,773,463	1,930,220
Other Liabilities, non-current	4,425,081	2,774,290
Total Liabilities	**$ 6,198,544**	**4,704,510**
Net Position	**$ 76,916,758**	**$ 76,387,625**

Current assets consist primarily of cash, short term investments, various accounts receivable and inventories. The College invests conservatively in demand deposits, CDs and in the State of Washington's Local Government Investment Pool (LGIP). The modest decrease in current assets can be attributed to a decrease in receivables and an increase in the contra account estimate for the allowance for doubtful accounts.

Net capital assets, consisting primarily of land, buildings, improvements, infrastructure, and equipment valued at $5,000 or more, net of depreciation, increased by $2,322,726 from FY 2013 to FY 2014. The majority of the increase is a result of the purchase and renovation of the Forks Satellite Building which was completed in 2014, along with ongoing acquisitions of capitalizable equipment.

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 2013 to FY 2014 is due to the reduction of agency funds held in a consortium for the Washington's Community and Technical College's library system.

Non-current liabilities primarily consist of the value of compensated absences and the long-term portion of Certificates of Participation debt.

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

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 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 primary expendable funds for the college is 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.

Condensed Net Position As of June 30th	**FY 2014**	**FY 2013**
Net Investment in Capital Assets	$69,841,355	$69,219,467
Restricted		
Nonexpendable	296,335	296,335
Expendable	547,865	526,005
Unrestricted	6,231,203	6,345,818
Total Net Position	**$76,916,758**	**$76,387,625**

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

A condensed comparison Statement of Revenues, Expense and Changes in Net Position is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Position As of June 30th	**FY 2014**	**FY 2013**
Operating Revenues	$15,099,960	$12,450,760
Operating Expenses	29,977,202	28,913,275
Net Operating Loss	(14,877,241)	(16,462,515)
Non-Operating Revenues	14,645,703	13,750,926
Non-Operating Expenses	912,374	(2,946)
Income (Loss) Before Other Revenues	(1,143,912)	(2,708,643)
Capital Appropriations	1,673,045	1,511,964
Increase (Decrease) in Net Position	529,133	(1,196,679)
Net Position, Beginning of the Year	76,387,625	77,584,304
Net Position, End of the Year	$ 76,916,758	$ 76,387,625

As of July 1, 2013, net position as previously reported was restated. The College has adjusted the Beginning Net Position to correct an oversight in reporting the state appropriation receivable, innovation and building fees payable. This resulted in an understatement of the Ending Net Position for 2013. The payable to the State is correctly reported in the 2014 statements.

Ending Net Position, June 30, 2013	$75,990,242
Restatements:	
Corrected State Treasurer receivable accrual	459,300
Removal of capital assets per OFM policy 30.20.20	(57,897)
Adjustment to FY 1213 depreciation expense	(4,021)
July 1, 2013 Net Position as Restated	$76,387,625

Revenues

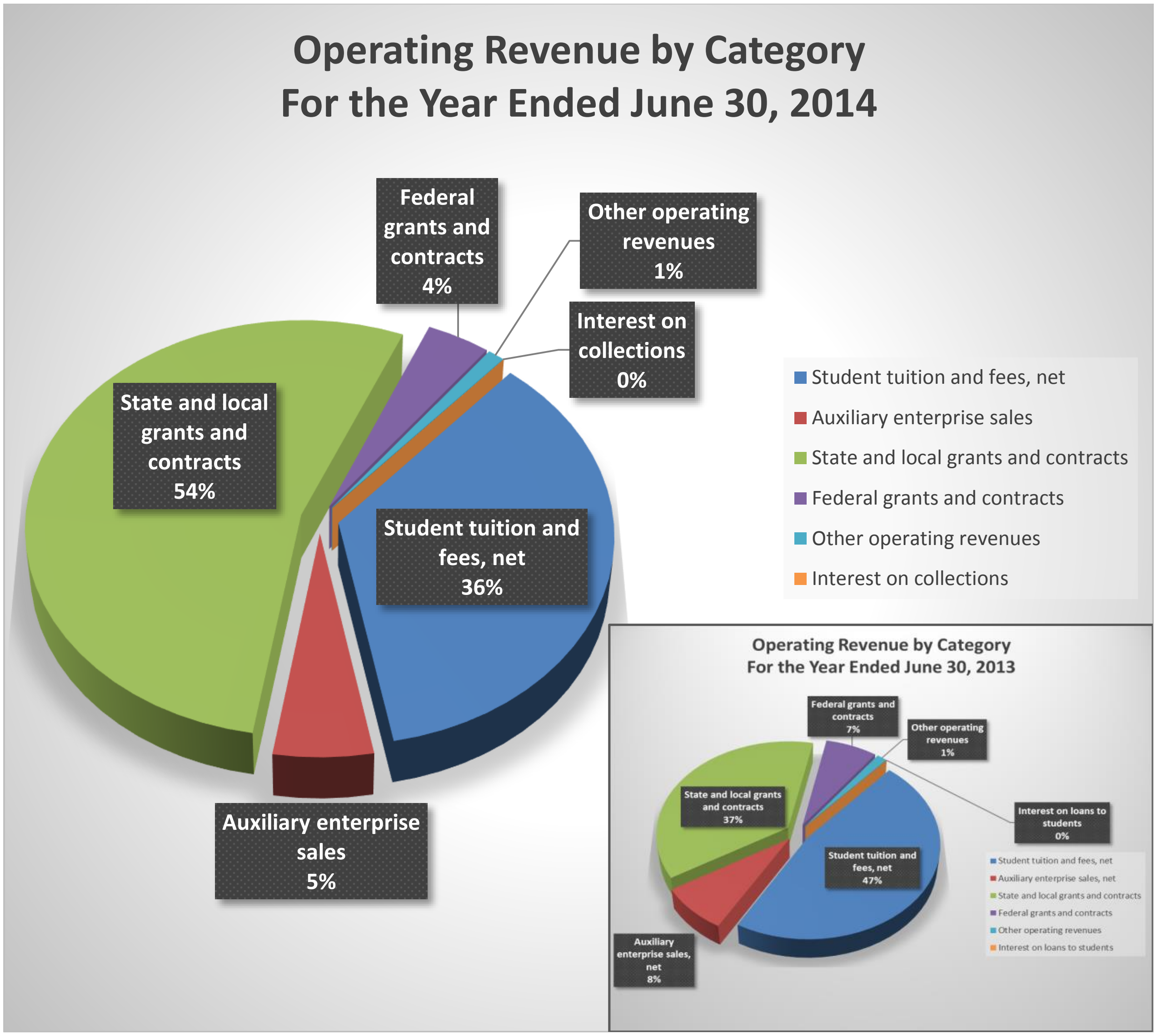
Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times up through FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY 2014, the Legislature reinstated a small portion of the previous cuts.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. The Legislature did not allow tuition increases for the two-year colleges in FY 2014. Flat tuition rates combined with declining College enrollment have resulted in a decrease in overall tuition revenues

In FY 2014, grant and contract revenues increased by $3.5 million when compared with FY 2013. A majority of this fluctuation was due to an anomalous transaction in FY 2013 related to the appropriation for the renovation of building 202 at Fort Worden for use as a PC campus. This resulted in a reduction to revenue when funds were recaptured by the Legislature for re-appropriation directly to the College in the 2013-2015 biennium. 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 to serve adults in basic education programs, technical programs, and Upward Bound, and a Department of Labor training grant.

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.

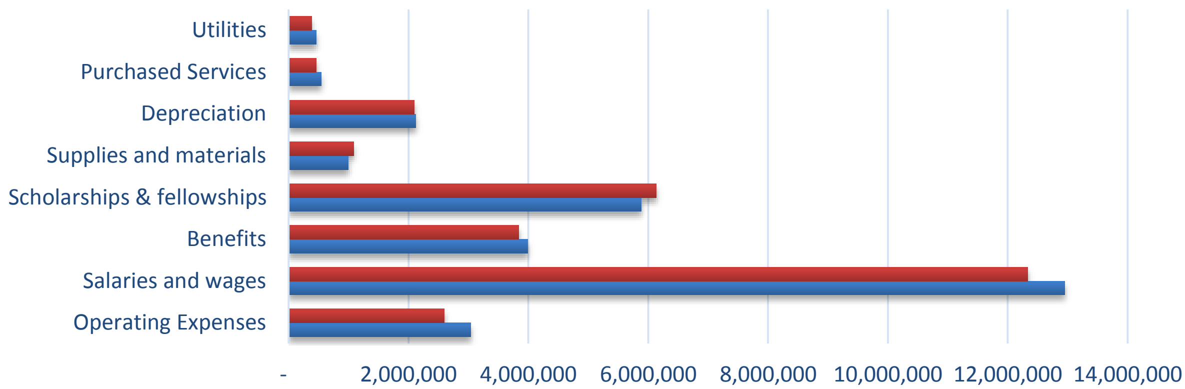


Expenses

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

More recently, in FY 2014, salary and benefit costs increased as result of the Legislature's appropriation of funds to restore classified staff pay reductions. In addition, the legislature restored some funds to the college and granted permission for those funds to be used for pay increases for faculty and exempt personnel. Utility costs have also increased as a result of rate increases for electricity and propane. Other operating expense increases are attributable to the opening of the new Forks Branch Campus facility. Certain expenses such as furnishings associated with a capital project do not meet accounting criteria for capitalization and are instead recognized as other operating expenses. These fluctuations are to be expected. 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.

Operating Expense by Category
For the Years Ended June 30, 2014 and 2013



	Operating Expenses	Salaries and wages	Benefits	Scholarships & fellowships	Supplies and materials	Depreciation	Purchased Services	Utilities
FY 2013	2,598,394	12,333,068	3,835,780	6,135,609	1,083,996	2,089,753	454,467	382,207
FY 2014	3,040,415	12,945,946	3,989,497	5,885,422	998,096	2,118,204	540,975	458,649

Capital Assets and Long-Term Debt Activities

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

At June 30, 2014, the College had invested $73,046,952 in capital assets, net of accumulated depreciation. This represents an increase of $2,322,726 from last year, as shown in the table below: Majority of the increase is a result of the purchase and renovation of the Forks Satellite Building which was completed in 2014, along with ongoing acquisitions of capitalizable equipment.

Asset Type	FY 2014	FY 2013	Change
Land	454,368	156,858	297,510
Construction in Progress	899,542	491,138	408,404
Buildings, net	69,188,445	67,482,008	1,706,437
Other Improvements and Infrastructure, net	1,426,753	1,625,135	(198,382)
Equipment, net	834,954	745,369	89,585
Library Resources, net	242,890	223,718	19,172
Total Capital Assets, Net	**$73,046,952**	**$70,724,227**	**2,322,726**

A summary of changes in capital assets is disclosed in Note 5 and see Note 14 for additional information on long term debt.

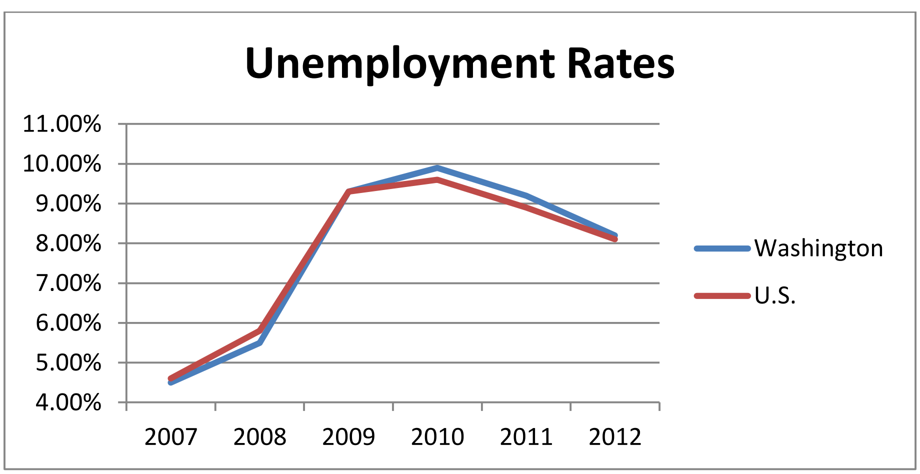
Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2014 tuition flat for resident, non-resident and baccalaureate students. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations.

Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its 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 geopolitical unrest all remain major threats to the U.S. and Washington economies. However, the passage of a federal budget in January and the recent suspension of the debt ceiling reduce uncertainty surrounding federal fiscal policy.

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. With job growth and unemployment rate reductions, enrollment trend typically drops. Enrollment is down slightly about 4 percent from its recent peak. If this trend continues it will result in reduction of tuition revenue.



INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Peninsula College
July 1, 2013 through June 30, 2014

Board of Trustees
Peninsula College
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Except for the matter discussed “Basis for Disclaimer of Opinion” paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

Disclaimer of Opinion

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

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Peninsula College, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Matters of Emphasis

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 and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 8, 2015

Peninsula College

Statement of Net Position

June 30,2014

Assets		
Current assets		
Cash and cash equivalents		$ 8,103,150
Short-term investments		296,357
Accounts Receivable		1,416,463
Inventories		252,379
	Total current assets	$ 10,068,349
Non-Current Assets		
Capital assets, net of depreciation		$ 73,046,952
	Total non-current assets	$ 73,046,952
	Total assets	**$ 83,115,301**
Liabilities		
Current Liabilities		
Accounts Payable		$ 217,987
Accrued Liabilities		955,138
Compensated absences		728
Deposits Payable		5,372
Unearned Revenue		344,048
Leases and Certificates of Participation Payable		250,189
	Total current liabilities	$ 1,773,463
Noncurrent Liabilities		
Compensated Absences		$ 1,469,672
Long-term liabilities		2,955,409
	Total non-current liabilities	$ 4,425,081
	Total liabilities	**$ 6,198,544**
Net Position		
Net Investment in Capital Assets		$ 69,841,355
Restricted for:		
Nonexpendable		296,335
Expendable		
Student Loans		520,841
Endowment Earnings		21,651
Other		5,372
Unrestricted		6,231,203
Total Net Position		**$ 76,916,758**
	Total Liabilities and Net Position	**$ 83,115,301**

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, 2014

Operating Revenues		
Student tuition and fees, net		$ 5,385,426
Auxiliary enterprise sales, net		833,664
State and local grants and contracts		8,116,286
Federal grants and contracts		602,930
Other operating revenues		159,623
Interest on loans to students		2,033
	Total operating revenue	**$ 15,099,960**
Operating Expenses		
Operating Expenses		$ 3,040,415
Salaries and wages		12,945,946
Benefits		3,989,496
Scholarships and fellowships		5,885,422
Supplies and materials		998,096
Depreciation		2,118,204
Purchased services		540,975
Utilities		458,649
	Total operating expenses	**$ 29,977,202**
	Operating income (loss)	**$ (14,877,241)**
Non-Operating Revenues (Expenses)		
State appropriations		$ 10,414,546
Federal Pell grant revenue		4,110,206
Investment income, gains and loses		120,951
Interest on indebtedness		(132,613)
Building Fee & Innovation Fee		(726,803)
Other non-operating expenses		(52,958)
	Non-operating revenue (expenses)	**$ 13,733,329**
Income (loss) before other revenues		**$ (1,143,912)**
Other Revenues		
Capital appropriations		$ 1,673,045
	Increase (Decrease) in net position	**$ 529,133**
Net Position		
Net position, beginning of year		**$ 76,387,625**
Net position, end of year		**$ 76,916,758**

The accompanying notes are an integral part of the financial statements

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

Cash flow from operating activities		
Student tuition and fees	$	5,521,103
Grants and contracts		8,819,814
Payments to vendors		(4,428,845)
Payments for utilities		(449,063)
Payments to employees		(12,940,044)
Payments for benefits		(3,987,729)
Auxiliary enterprise sales		839,823
Payments for scholarships and fellowships		(5,885,422)
Loans issued to students and employees		2,033
Other receipts (payments)		(130,803)
Net cash used by operating activities	**$**	**(12,639,134)**
Cash flow from noncapital financing activities		
State appropriations	$	10,404,156
Pell grants		4,110,206
Innovation Fee Remittance		(149,076)
Net cash provided by noncapital financing activities	**$**	**14,365,286**
Cash flow from capital and related financing activities		
Certificate of participation issuance cost	$	(51,170)
Capital appropriations		1,700,741
Purchases of capital assets		(4,442,718)
Certificate of participations proceeds		1,945,000
Principal paid on capital debt		(244,164)
Building Fee Remittance		(603,640)
Interest paid		(132,613)
Net cash used by capital and related financing activities	**$**	**(1,828,564)**
Cash flow from investing activities		
Proceeds from sales and maturities of investments	$	85,245
Income of investments		120,951
Net cash provided by investing activities	**$**	**206,196**
Increase in cash and cash equivalents	**$**	**103,786**
Cash and cash equivalents at the beginning of the year	**$**	**7,999,364**
Cash and cash equivalents at the end of the year	**$**	**8,103,150**

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	**$**	**(14,877,241)**
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	$	2,118,204
Changes in assets and liabilities		
Receivables , net	$	363,397
Inventories		(36,691)
Other assets		21,908
Accounts payable		(26,597)
Accrued liabilities		(236,524)
Deferred revenue		33,866
Compensated absences		(201)
Deposits payable		745
Net cash used by operating activities	**$**	**(12,639,134)**

The accompanying notes are an integral part of the financial statements

The Peninsula College Foundation
A Washington Non-Profit Corporation

Statement of Financial Position

December 31, 2013		2013
Assets		
Assets:		
Cash & cash equivalents	$	440,918
Contributions receivable		2,010
Loans receivable		17,684
Prepaid expense		557
Investments		78,524
Assets restricted for endowment		1,083,089
Total Assets	**$**	**1,622,782**
Liabilities and Net Assets		
Liabilities:		
Accounts payable		6,445
Total Liabilities		**6,445**
Net Assets:		
Unrestricted:		
Undesignated		251,583
Total Unrestricted Net Assets		**251,583**
Temporarily restricted		427,159
Permanently restricted		937,595
Total Net Assets		**1,616,337**
Total Liabilities and Net Assets	**$**	**1,622,782**

The accompanying notes are an integral part of the financial statements

The Peninsula College Foundation

A Washington Non-Profit Corporation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2013				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Public support:				
Contributions	$ 73,100	$ 212,802	$ 50,000	$ 335,902
Event Income	12,936	-	-	12,936
Less: direct expenses	(5,304)	-	-	(5,304)
Inkind contributions	77,432	-	-	77,432
Booster Club	-	87,278	-	87,278
Investment income	(716)	17,265	-	16,549
Net realized & unrealized gain (loss) on investments	11,703	137,293	-	148,996
Net assets released from restrictions	384,676	(384,676)	-	-
Total Support and Revenue	**553,827**	**69,962**	**50,000**	**673,789**
Expenses:				
Program Services	320,998	-	-	320,998
Management and General	83,605	-	-	83,605
Fundraising	51,496	-	-	51,496
Total Expenses	**456,099**	-	-	**456,099**
Increase (Decrease) in Net Assets	**97,728**	**69,962**	**50,000**	**217,690**
Net Assets, Beginning of Year	153,855	357,197	887,595	1,398,647
Net Assets, End of Year	**$ 251,583**	**$ 427,159**	**$ 937,595**	**$ 1,616,337**

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 2014
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, 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 are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2014, the Foundation distributed approximately $232,576 to the College for restricted 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

There were no new accounting pronouncements implemented by the College this fiscal year.

Basis of Accounting

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

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

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

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

Cash, Cash Equivalents and Investments

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

At June 30, 2014 and 2013, the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is $21,651 and $22,233, respectively, which is reported as restricted, expendable on the Statement of Position. State law allows for the spending of net appreciation on investments of donor-restricted endowments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Accounts Receivable

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

Inventories

Inventories, consisting primarily of merchandise for resale in the college bookstore, 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. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources, 2 to 10 years for most equipment and 11 to 40 years for heavy duty equipment, aircraft, locomotives and vessels.

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

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded 2014 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 Position

The College's net position is classified as follows.

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

Classification of Revenues

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:
Operating Revenues. 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 published charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2014 are $2,121,246.

State Appropriations

The state of Washington appropriates funds to the State Board for 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 Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Operating Revenue/Expenses

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

2. Cash and Investments

Cash

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

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $8,103,150 as represented in the table below.

Table 1: Cash and Cash Equivalents	June 30, 2014
Petty Cash and Change Funds	$6,254
Bank Demand and Time Deposits	$6,184,363
Local Government Investment Pool	$1,912,532
Total Cash and Cash Equivalents	**$8,103,150**

Investments consist of time certificates of deposit.

Table 2: Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years	More Years
Time Certificate of Deposits	$ 296,357	$ 296,357			
Total Investments	**$ 296,357**	**$ 296,357**	**$ -**	**$ -**	**$ -**

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).

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.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2014, the College 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, 2014.

3. Accounts Receivable

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

At June 30, 2014, accounts receivable were as follows:

Table 3: Accounts Receivable	**Amount**	
Student Tuition and Fees	$	488,602
Due from the Federal Government	$	182,562
Due from Other State Agencies	$	795,556
Auxiliary Enterprises	$	61,629
Other	$	303,576
Subtotal	$	1,831,926
Less Allowance for Uncollectible Accounts	$	(415,463)
Accounts Receivable, net	**$**	**1,416,463**

4. Inventories

Inventories, stated at cost using the LIFO method, consisted of the following as of June 30, 2014.

Table 4: Inventories	Amount
Merchandise Inventories	$ 252,379
Inventories	**$ 252,379**

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $2,118,204.

Table 5: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 156,858	$ 297,510		$ 454,368
Construction in progress	491,138	408,404		899,542
Total nondepreciable capital assets	647,996	705,914	0	1,353,910
Depreciable capital assets				
Buildings	77,612,657	3,336,009		80,948,666
Other improvements and infrastructure	2,081,495			2,081,495
Equipment	2,597,777	319,048	(10,225)	2,906,600
Library resources	1,402,508	81,747	(31,023)	1,453,232
Subtotal depreciable capital assets	83,694,437	3,736,804	(41,248)	87,389,993
Less accumulated depreciation				
Buildings	10,130,649	1,629,572		11,760,221
Other improvements and infrastructure	456,360	198,382		654,742
Equipment	1,852,407	229,463	(10,225)	2,071,645
Library resources	1,178,790	60,787	(29,235)	1,210,342
Total accumulated depreciation	13,618,206	2,118,204	(39,460)	15,696,950
Total depreciable capital assets	70,076,231	1,618,600	(1,788)	71,693,042
Capital assets, net of accumulated depreciation	**$ 70,724,227**	**$ 2,324,514**	**$ (1,788)**	**$ 73,046,952**

6. Accounts Payable and Accrued Liabilities

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

Table 6: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 331,335
Accounts Payable	217,987
Amounts Held for Others and Retainage	623,803
Total	**$ 1,173,126**

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 and Fall Quarter 2014 Tuition & Fees	$ 344,048
Other Deposits	-
Total Unearned Revenue	$ 344,048

8. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2013 through June 30, 2014, were $27,248. Cash reserves for unemployment compensation for all employees at June 30, 2014, were $40,060.

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, 2013 through June 30, 2014 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 $569,208, compensatory time totaled $728, and accrued sick leave totaled $900,464 at June 30, 2014.

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

10. Leases Payable

The College has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2014, the minimum lease payments under capital leases and operating leases consist of the following.

Table 10: Leases Payable	Operating
Fiscal year	**Leases**
2015	9,907
2016	9,104
2017	9,104
2018	8,064
2019	1,300
Total minimum lease payments	37,479
Less Amount representing interest	
Net present value	**$ 37,479**

11. 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 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 per credit fee to service the debt starting in 2012. The interest rate charged is 3.10%.

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

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 April 2013, the College obtained financing in order to purchase and renovate the Forks Satellite Site through certificates of participation (COP), issued by the Washington Office of State Treasurer (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:

12. Annual Debt Service Requirements

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

Annual Debt Service Requirements	Certificates of Participation		
Fiscal year	Principal	Interest	Total
2015	$ 250,189	$ 140,000	$ 390,189
2016	256,244	130,798	387,042
2017	267,694	121,169	388,863
2018	134,202	110,306	244,508
2019	145,770	104,082	249,852
2020-2024	696,498	418,025	1,114,523
2025-2029	765,000	250,831	1,015,831
2030-2034	690,000	74,413	764,413
Total	**$ 3,205,598**	**$ 1,349,624**	**$ 4,555,221**

13. Schedule of Long Term Debt

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificates of Participation	$ 1,504,761	$ 1,945,000	$ (244,164)	$ 3,205,598	$ 250,189
Compensated Absences	1,448,693	550,382	(529,403)	1,469,672	728
Total	**$ 2,953,454**	**$ 2,495,382**	**$ (773,567)**	**$ 4,675,270**	**$ 250,917**

14. Pension Plans

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

For FY 2013-14, the payroll for the College's employees was $2,673,655 for PERS, $36,681 for TRS, and $8,275,975 for SBRP. Total covered payroll was $10,986,311.

PERS and TRS

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

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

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

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

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

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

Contribution Rates at June 30

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

Required Contributions

	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$17,402	$20,858	$14,559	$17,473	$12,634	$19,386
Plan 2	$79,941	$124,149	$75,047	$116,534	$92,370	$172,861
Plan 3	$49,492	$43,717	$39,692	$38,841	$42,449	$53,876
TRS						
Plan 3	$2,538	$2,041	$3,855	$3,103	$3,668	$3,794

State Board Retirement Plan

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

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

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2014 were $1,421,733.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $0. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $41,379. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 of the fund balance.

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $6,404,343, with an annual required contribution (ARC) of $625,708. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $117,729. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $507,978. This amount is not included in the College's financial statements.

The College paid $1,908,273 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

15. 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 summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2014.

Expenses by Functional Classification		
Instruction	$	9,437,566
Academic Support Services	$	2,435,821
Student Services	$	3,210,652
Institutional Support	$	4,213,704
Operations and Maintenance of Plant	$	2,274,523
Scholarships and Other Student Financial Aid	$	4,844,867
Auxiliary enterprises	$	1,441,866
Depreciation	$	2,118,204
Total operating expenses	**$**	**29,977,202**

16. Net Position Restatement

As of July 1, 2013, net position as previously reported was restated as follows:

July 1, 2013 Net Position as Previously Reported	75,990,242
Restatements:	
Adjustment to FY 1213 State Treasurer receivable accrual	459,300
Removal of capital assets per OFM policy 30.20.20	(57,897)
Adjustment to FY 1213 depreciation expense	(4,021)
July 1, 2013 Net Position as Restated	76,387,625

17. Commitments and Contingencies

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

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

18. Subsequent Events

The College is not aware of any subsequent events or factors affecting these financial statements.

ENROLLMENT AND DEGREE CONFERRED

Associate Degrees
Associate in Arts (DTA)
Associate in Business (DTA/MRP)
Associate in Elementary Education (DTA/MRP)
Associate in Mathematics 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 Efficiency
Family Life Education
Food Service Management
Green Building
Homeland Security & Emergency Management
Information Technology
Medical Assistant
Multimedia Communications
Nursing
Physical Therapy Assistant
Water Quality Control
Welding

Bachelor of Applied Science
Bachelor of Applied Science in Applied Management