



PENINSULA COLLEGE

Clallam and Jefferson County, Washington

2016 Financial Report

Fiscal Year Ended June 30, 2016

Education Opportunity Enrichment

2016 Financial Report

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Independent Auditor's Report on Financial Statements

Independent Auditor's Report on Financial Statements (continued)

Independent Auditor's Report on Financial Statements (continued)

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Independent Auditor's Report on Financial Statements (continued)

Independent Auditor's Report on Financial Statements (continued)

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, 2016 (FY 2016). This overview provides readers with an analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity

Peninsula College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic education for adults and community service educational programs. Established in 1961, Peninsula College's mission is to provide education opportunities in the areas of academic transfer, professional/technical, adult basic education and continuing education. The College also contributes to the cultural and economic enrichment of Clallam and Jefferson Counties. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. 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.



The College's service district comprises roughly 100,000 people, including several Native American tribes. More than 4,582 individuals were served in academic year 2015-2016. The College's main campus is located in Port Angeles, Washington, a community of about 19,270 residents. The College has campuses in Forks and Port Townsend and offers services at many locations across the district. The College recently has been involved in renovating Building 202 at Fort Worden to provide a responsive, instructional environment for higher education. The space will include four general classrooms, science classroom, studio/art room, learning lab, workforce training room, student study space, reception and advising areas as well as faculty offices.

Using the Financial Statements

The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

Management's Discussion and Analysis (continued)

The Statement of Net Position provides information about the College as of June 30, 2016. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flow provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the College's financial health.



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

Statement of Net Position

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

Management's Discussion and Analysis (continued)

Condensed Statement of Net Position As of June 30th	FY 2016	FY 2015
Assets		
Current Assets	11,321,751	11,378,164
Capital Assets, net	83,091,657	72,879,100
Total Assets	\$ 94,413,408	\$ 84,257,264
Deferred Outflows Related to Pensions	\$ 524,107	\$ 339,983
Liabilities		
Current Liabilities	4,287,711	1,918,435
Other Liabilities, non-current	6,296,876	6,095,715
Total Liabilities	\$ 10,584,587	\$ 8,014,150
Deferred Inflows Related to Pensions	\$ 356,973	\$ 792,668
Net Position	\$ 83,995,955	\$ 75,790,429

Current assets consist primarily of cash, investments, various accounts receivables and inventories. The decrease in current assets in FY 2016 can be attributed to local funding of a construction project, the transfer of an endowment to the Peninsula College Foundation and a slight decrease in inventory held in the College bookstore.

Net capital assets increased by \$10,212,557 from FY 2015 to FY 2016. Current depreciation expense of \$2,241,122 was offset by an increase related to the Allied Health and Early Childhood Development Center construction costs, due to be completed in Spring 2017, renovation of Fort Worden Building 202, which was completed in Fall 2016, along with ongoing acquisitions of capitalizable equipment and library resources.

Deferred outflows of resources totaling \$524,107 are related to the net pension liability that was recorded on the College's financials this year and represent a consumption of equity that applies to a future period.



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 increase in current liabilities from FY 2015 to FY 2016 is due to an increase in accounts payable relating to construction projects along with the accrual of the College's share of the Health Care Authority lawsuit settlement payable in FY 2017.

Management's Discussion and Analysis (continued)

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, the long-term portion of Certificates of Participation debt and the net pension liability. The College's non-current liabilities increased, reflecting an increase in the College's proportionate share of the net pension liability.



Deferred inflows of resources related to the College's net pension liability totaled \$356,973. Deferred inflows of resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

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

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

Restricted:

Nonexpendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. Donors interested in establishing such funds to benefit the College do so through the Foundation. Past donors who had given directly to the college were contacted and asked to authorize that their gifts be transferred to the Foundation. As a result, the College no longer reports any balance in this category.

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are for student aid.

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

Management's Discussion and Analysis (continued)

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.

Net Position As of June 30th	FY 2016	FY 2015
Net investment in capital assets	80,392,493	69,923,692
Restricted		
Nonexpendable	-	296,335
Expendable	664,084	631,815
Unrestricted	2,939,378	4,938,587
Total Net Position	83,995,955	75,790,429

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 2016. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

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



Operating expenses are expenses incurred in the normal 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.

Management's Discussion and Analysis (continued)

A condensed comparison of the College's Revenues, Expense and Changes in Net Position for the years ended June 30, 2016 and 2015 is presented below.

As of June 30th	FY 2016	FY 2015
Operating Revenues	\$13,429,532	\$14,746,313
Operating Expenses	30,225,238	28,939,702
Net Operating Loss	(16,795,705)	(14,193,389)
Non-Operating Revenues net Expenses	13,197,500	13,305,568
Income (Loss) Before Capital Appropriations, Contributions and Special Item	(3,598,205)	(887,821)
Capital Appropriations, Contributions and Special Item	11,803,731	2,194,833
Increase in Net Position	8,205,526	1,307,012
Net Position, Beginning of the Year	75,790,429	74,483,417
Net Position, End of the Year	\$83,995,955	\$75,790,429

Revenues

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. 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 and FY 2015.

As of FY 2016, appropriations are still below pre-recession levels. The appropriation amount has increased for Legislative enacted 3% employee pay raises, increased employer health insurance premiums, new funding for high demand programs and tuition backfill to help cover the Affordable Education Act, which reduced the tuition rates students are charged by 5%.

Decreased tuition rates combined with declining College enrollment have resulted in a decrease in overall tuition revenues. Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2016, so did the College's Pell Grant revenue.

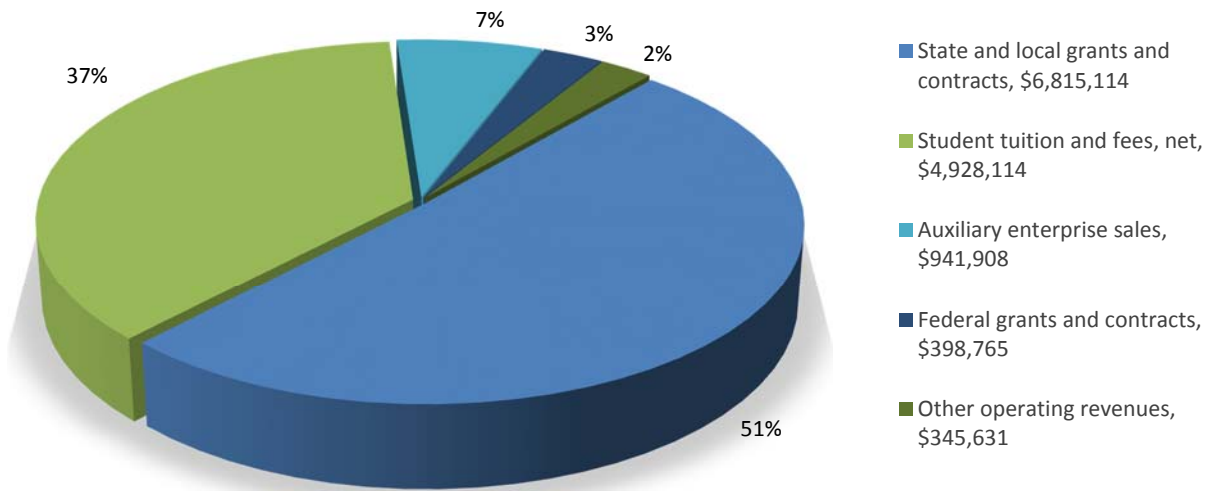
The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law, and provides educational services to local correctional facilities under contract to the state Department of Corrections. Grant funds include federal grants serving adults in basic education programs, technical programs, 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



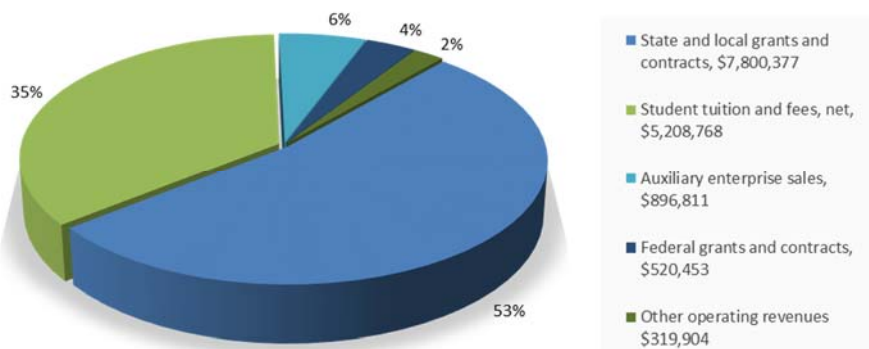
Management's Discussion and Analysis (continued)

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.

**Operating Revenue by Category
For the Year Ended June 30, 2016**



**Operating Revenue by Category
For the Year Ended June 30, 2015**

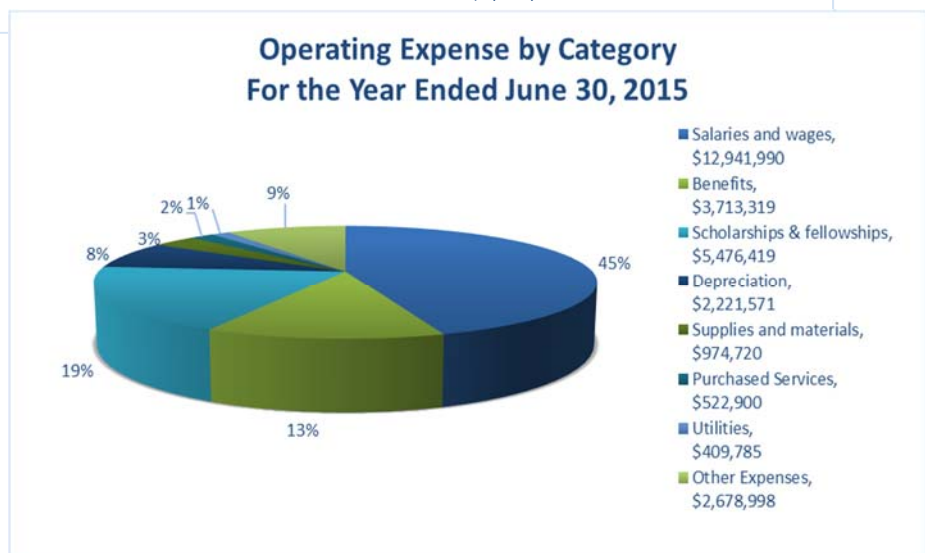
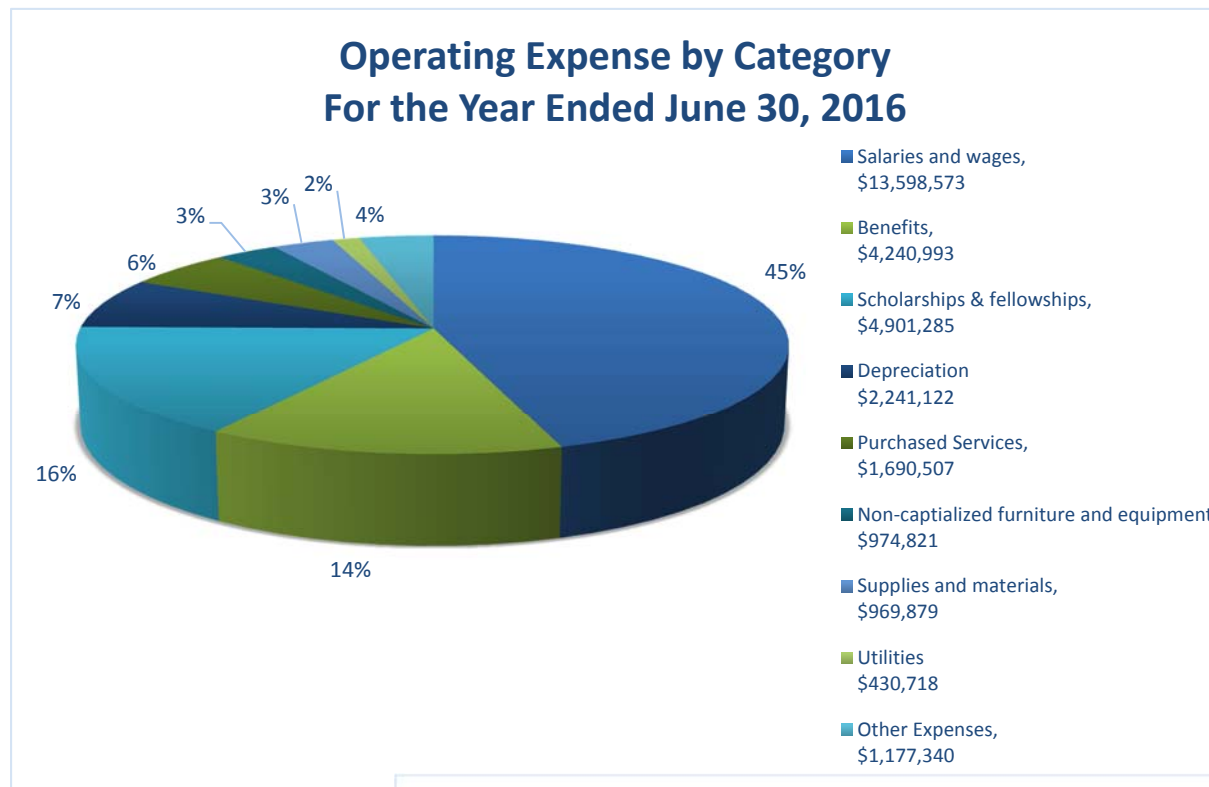


Management's Discussion and Analysis (continued)

Expenses

Faced with severe budget cuts over the past six years, the College has continuously sought opportunities to identify savings and efficiencies.

In FY 2016, salaries expense increased \$657,000 due to a 3% wage increase and part-time faculty. Benefit costs grew by \$528,000 as a result of a statewide increase to the employer contribution for employee health care premiums. Certain capital project costs do not meet accounting criteria for capitalization as part of the cost of the building and are instead recognized as supplies and materials 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.



Management's Discussion and Analysis (continued)

Capital Assets and Long-Term Debt Activities

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

At June 30, 2016, the College had invested \$83,091,657 in capital assets, net of accumulated depreciation. This represents an increase of \$10,212,557 from last year, as shown in the table below.

Asset Type	June 30, 2016	June 30, 2015	Change
Land	454,368	454,368	-
Construction in Progress	14,151,838	2,265,603	11,886,235
Buildings, net	66,309,363	67,761,691	(1,452,329)
Other Improvements and Infrastructure, net	1,029,988	1,228,370	(198,382)
Equipment, net	846,646	895,774	(49,128)
Library Resources, net	299,455	273,294	26,161
Total Capital Assets, Net	\$83,091,657	\$72,879,100	10,212,557

The increase in net capital assets can be attributed to significant capital projects that were in process on June 30, 2016, which include the renovation of Fort Worden Building 202 and the construction of the Allied Health and Early Childhood Development Center, coupled with normal replacement and acquisition of equipment and library resources. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

At June 30, 2016, the College had \$2,699,164 in outstanding debt comprised entirely of Certificates of Participation. Additional information of notes payable, long term debt and debt service schedules can be found in Notes 13 and 14 of the Notes to the Financial Statements.



Management's Discussion and Analysis (continued)

Economic Factors That May Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill some of this loss. For FY 2017, the State Board for Community and Technical Colleges elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model will be based on performance in several key indicators from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. It is unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, without new state revenues, as state budget writers continue to grapple with court-mandated basic education obligations such as the McCleary Act.

Peninsula College
Statement of Net Position
June 30, 2016

Assets

Current assets

Cash and cash equivalents (Note 3)	6,998,393
Restricted cash and cash equivalents (Note 3)	683,650
Accounts Receivable (Note 4)	3,389,352
Inventories (Note 5)	<u>250,356</u>
Total current assets	<u>11,321,751</u>

Non-Current Assets

Capital Assets	
Land and construction in progress (Note 6)	14,606,206
Capital assets, net of depreciation (Note 6)	<u>68,485,451</u>
Total non-current assets	<u>83,091,657</u>
Total assets	<u>94,413,408</u>

Deferred Outflows of Resources

Deferred Outflows of Resources Related to Pensions (Note 7 and 16)	<u>524,107</u>
Total Deferred Outflows of Resources	<u>524,107</u>

Liabilities

Current Liabilities

Accounts Payable (Note 8)	2,425,477
Accrued Liabilities (Note 8)	1,160,245
Compensated Absences (Note 11)	37,156
Deposits Payable	5,336
Unearned Revenue (Note 9)	391,802
Certificates of Participation Payable (Note 15)	<u>267,694</u>
Total current liabilities	<u>4,287,711</u>

Noncurrent Liabilities

Compensated Absences (Note 11)	1,436,159
Pension Liability (Note 15)	2,429,247
Certificates of Participation Payable (Note 15)	<u>2,431,470</u>
Total non-current liabilities	<u>6,296,876</u>
Total liabilities	<u>10,584,587</u>

Deferred Inflows of Resources

Deferred Inflows of Resources Related to Pensions (Note 7 and 16)	<u>356,973</u>
Total Deferred Inflows of Resources	<u>356,973</u>

Net Position

Net Investment in Capital Assets	80,392,493
Restricted for Expendable:	
Student Aid	658,747
Other	5,336
Unrestricted	<u>2,939,378</u>
Total Net Position	<u>83,995,955</u>

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, 2016

Operating Revenues

State and local grants and contracts	6,815,114
Student tuition and fees (net of scholarship allowance of \$2,067,077)	4,928,114
Auxiliary enterprise sales, net	941,908
Federal grants and contracts	398,765
Other operating revenues	<u>345,631</u>
Total operating revenue	<u>13,429,532</u>

Operating Expenses

Salaries and wages	13,598,573
Benefits	4,240,992
Scholarships and fellowships	4,901,285
Depreciation	2,241,122
Purchased services	1,690,507
Non-capitalized furniture and equipment	974,821
Supplies and materials	969,879
Utilities	430,718
Other expenses	<u>1,177,340</u>
Total operating expenses	<u>30,225,237</u>

Operating income (loss) (16,795,704)

Non-Operating Revenues (Expenses)

State appropriations	11,196,132
Federal Pell grant revenue	3,225,105
Interest income	6,370
Building and Innovation fees remitted to state	(740,667)
Interest on indebtedness	(130,798)
Other non-operating expenses	<u>(358,642)</u>
Net non-operating revenues (expenses)	<u>13,197,500</u>

Income or (loss) before capital appropriations, contributions and special item (3,598,204)

Capital appropriations	11,504,804
Capital contributions	709,655
Shift endowment and scholarship to Foundation	(410,727)

Increase (Decrease) in net position 8,205,527

Net Position

Net position, beginning of year	<u>75,790,429</u>
Net position, end of year	<u><u>83,995,956</u></u>

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

Peninsula College
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flow from operating activities	
Student tuition and fees	4,963,551
Grants and contracts	7,003,520
Payments to vendors	(2,033,725)
Payments to employees	(13,597,650)
Payments for benefits	(4,383,710)
Auxiliary enterprise sales	906,892
Payments for scholarships and fellowships	(4,901,285)
Other receipts	1,365,690
Other payments	(2,189,117)
Net cash used by operating activities	<u>(12,865,836)</u>
Cash flow from noncapital financing activities	
State appropriations	11,382,992
Pell grants	3,225,105
Building and Innovation fees remitted to state	(732,202)
Net cash provided by noncapital financing activities	<u>13,875,895</u>
Cash flow from capital and related financing activities	
Capital appropriations	10,289,648
Acquisition and construction of capital assets	(12,438,569)
Capital contributions	692,374
Principal paid on capital debt	(256,244)
Interest paid on capital debt	(130,798)
Net cash used by capital and related financing activities	<u>(1,843,589)</u>
Cash flow from investing activities	
Shift endowment and scholarship to Foundation	(410,727)
Interest Income	6,370
Net cash provided by investing activities	<u>(404,357)</u>
Increase (decrease) in cash and cash equivalents	(1,237,886)
Cash and cash equivalents at the beginning of the year	<u>8,919,929</u>
Cash and cash equivalents at the end of the year	<u><u>7,682,043</u></u>
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	<u>(16,795,705)</u>
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	2,241,122
Changes in assets and liabilities	
Receivables, net	(14,520)
Inventories	16,842
Accounts payable	1,644,250
Accrued liabilities	162,530
Unearned revenue	(5,918)
Compensated absences	21,134
Pension liability adjustment expense	(135,799)
Deposits payable	230
Net cash used by operating activities	<u><u>(12,865,835)</u></u>

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

Notes to the Financial Statements

June 30, 2016

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Peninsula College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic education for adults, and community services. The College confers applied baccalaureate degrees, associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

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

Basis of Presentation

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

Basis of Accounting

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

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.

Notes to Financial Statements (continued)

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 and Cash Equivalents

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP.

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

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, assets are capitalized as follows:

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

Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives

Notes to Financial Statements (continued)

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

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2016, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but are related to the subsequent fiscal year. The College has recorded 2016 summer and fall quarter tuition and fees as unearned revenues.

Tax Exemption

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

Net Pension Liability

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Net Position

The College's net position is classified as follows.

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

Notes to Financial Statements (continued)

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.

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on 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, 2016 are \$2,067,077.

State Appropriations

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

Building and Innovation Fee Remittance

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

Notes to Financial Statements (continued)

exchange transactions reported as an expense in the non-operating revenues and expenses section of the Statement of Revenues, Expenses and Changes in Net Position.

2. Accounting and Reporting Changes

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which identifies the hierarchy of generally accepted accounting principles (GAAP). The Statement reduced the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The College adheres to this hierarchy of GAAP.

3. Cash and Cash Equivalents

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.

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

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, or online at: <http://www.tre.wa.gov/lqip/cafr/LqipCafr.shtml>. In addition, more information is available regarding the LGIP in the Washington State Consolidated Annual Financial report, which can be found online at <http://www.ofm.wa.gov/cafr/>.

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

As of June 30, 2016, the carrying amount of the College's cash and equivalents was \$7,682,043. The majority of restricted cash included in total cash consists of amounts restricted for institutional financial aid funds per RCW 28B.15.820. The classification is represented in the table below.

Cash and Cash Equivalents	June 30, 2016
Bank Demand and Time Deposits	\$5,071,319
Restricted Cash	683,650
Local Government Investment Pool	1,920,770
Petty Cash and Change Funds	6,304
Total Cash and Cash Equivalents	\$7,682,043

Notes to Financial Statements (continued)

Custodial Credit Risks—Deposits

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

4. 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, 2016, accounts receivable were as follows.

Accounts Receivable	Amount
Student Tuition and Fees	\$ 539,062
Due from the Federal Government	13,312
Due from Other State Agencies	2,302,523
Auxiliary Enterprises	72,221
Other	824,880
Subtotal	\$ 3,751,998
Less Allowance for Uncollectible Accounts	(362,646)
Accounts Receivable, net	\$ 3,389,352

5. Inventories

Inventories, stated at cost using the LIFO method, consisted of the following as of June 30, 2016.

Inventories	Amount
Merchandise Inventories	\$ 250,356
Inventories	\$ 250,356

Notes to Financial Statements (continued)

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2016 is presented as follows. The current year depreciation expense was \$2,241,122.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	454,368			454,368
Construction in progress	2,265,603	11,886,235		14,151,838
Total nondepreciable capital assets	2,719,971	11,886,235	-	14,606,206
Depreciable capital assets				
Buildings	81,208,969	232,524		81,441,493
Other improvements and infrastructure	2,081,495			2,081,495
Equipment	3,170,793	241,621	(100,257)	3,312,157
Library resources	1,520,634	95,470	(24,998)	1,591,106
Subtotal depreciable capital assets	87,981,891	569,615	(125,255)	88,426,251
Less accumulated depreciation				
Buildings	13,447,278	1,684,857	(4)	15,132,131
Other improvements and infrastructure	853,125	198,382		1,051,507
Equipment	2,275,019	290,469	(99,977)	2,465,511
Library resources	1,247,340	67,414	(23,103)	1,291,651
Total accumulated depreciation	17,822,762	2,241,122	(123,084)	19,940,800
Total depreciable capital assets	70,159,129	(1,671,507)	(2,171)	68,485,451
Capital assets, net of accumulated depreciation	72,879,100	10,214,728	(2,171)	83,091,657

7. Deferred Outflows and Deferred Inflows of Resources

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

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

Notes to Financial Statements (continued)

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

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

8. Accounts Payable and Accrued Liabilities

At June 30, 2016, accrued liabilities are the following:

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	\$ 353,882
Accounts Payable	2,425,477
Amounts Held for Others and Retainage	806,363
Total	\$ 3,585,722

9. Unearned Revenue

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

Unearned Revenue	Amount
2016 Summer & Fall Quarter Tuition & Fees	\$ 391,802
Total Unearned Revenue	\$ 391,802

10. Risk Management

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2015 through June 30, 2016, were \$21,900. Cash reserves for unemployment compensation for all employees at June 30, 2016, were \$109,102.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with

Notes to Financial Statements (continued)

COP proceeds. The policy has a deductible of \$250,000 per occurrence and the policy limit is \$100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

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

11. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Depending on an affirmative calendar year vote by all employees in their employment group, during which the period including the fiscal year July 1, 2015 through June 30, 2016 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. Current accrued liabilities include leave associated with employees who had given notice of their resignation within the financial statement closing period payable within the first quarter of FY 17. Compensatory time is categorized as a current liability since it must be used before other leave. Accrued annual and sick leave are categorized as non-current liabilities for current employees.

The accrued vacation leave totaled \$632,077, and accrued sick leave totaled \$841,237 at June 30, 2016.

12. Leases Payable

The College has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2016, the minimum lease payments under operating leases consist of the following.

Fiscal year	Operating Leases	
2017	\$	26,210
2018		24,867
2019		17,215
2020		12,730
2021		563
Total minimum lease payments	\$	81,585

13. 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

Notes to Financial Statements (continued)

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 COP, issued by the OST in the amount of \$710,000. Students assessed themselves, quarterly, a mandatory per credit fee to service the debt starting in 2012. The interest rate charged is 3.10%.

Student fees related to 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.

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

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

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

14. Annual Debt Service Requirements

Future debt service requirements at June 30, 2016 are as follows.

Fiscal year	Certificates of Participation		
	Principal	Interest	Total
2017	\$ 267,694	\$ 121,169	\$ 388,863
2018	134,202	110,306	244,508
2019	145,770	104,082	249,852
2020	152,401	97,168	249,569
2021	314,097	89,938	404,035
2022-2026	720,000	352,031	1,072,031
2027-2031	650,000	182,419	832,419
2032-2036	285,000	21,713	306,713
Total	\$ 2,669,164	\$ 1,078,826	\$ 3,747,990

Notes to Financial Statements (continued)

15. Schedule of Long Term Liabilities

	Balance outstanding 6/30/15	Additions	Reductions	Balance outstanding 6/30/16	Current portion
Certificates of Participation	2,955,409	-	(256,245)	2,699,164	267,694
Pension Liability	1,945,227	1,113,106	(629,086)	2,429,247	-
Compensated Absences	1,452,181	548,383	(527,249)	1,473,315	37,156
Total	\$ 6,352,817	\$1,661,489	\$ (1,412,580)	\$ 6,601,726	\$ 304,850

16. Pension Plans

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

For FY2016, the payroll for the College's employees was \$2,917,536 for PERS, \$130,249 for TRS, and \$8,660,249 for SBRP. Total covered payroll was \$11,708,033.

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

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

Basis of Accounting

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Peninsula College, for fiscal year 2016:

Notes to Financial Statements (continued)

Aggregate Pension Amounts - All Plans

Pension liabilities	\$2,429,247
Deferred outflows of resources related to pensions	\$ 524,107
Deferred inflows of resources related to pensions	\$ 356,973
Pension expense/expenditures	\$ 199,117

PERS

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

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

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

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

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

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the

Notes to Financial Statements (continued)

same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

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

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

TRS

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

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

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

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

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

Notes to Financial Statements (continued)

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

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

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

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

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

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

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

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, 2016, 2015, and 2014 are as follows:

Contribution Rates at June 30

	FY 2014		FY 2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	9.21%	6.00%	11.18%
Plan 2	4.92%	9.21%	4.92%	9.21%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	9.21%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	10.39%	6.00%	13.13%
Plan 2	4.69%	10.39%	4.96%	10.39%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	10.39%	5-15%	13.13%

	FY 2014		FY 2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	\$ 12,634	\$ 117,677	\$ 10,341	\$ 119,454	\$ 7,166	\$ 146,362
Plan 2	\$ 92,370	\$ 92,198	\$ 97,810	\$ 99,731	\$ 131,694	\$ 134,060
Plan 3	\$ 42,449	\$ 28,881	\$ 42,417	\$ 30,414	\$ 44,286	\$ 39,941
TRS						
Plan 1	\$ -	\$ 1,595	\$ -	\$ 1,912	\$ -	\$ 7,913
Plan 3	\$ 3,668	\$ 2,134	\$ 4,741	\$ 2,417	\$ 13,187	\$ 8,638

Investments

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

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

Notes to Financial Statements (continued)

For the year ended June 30, 2015, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	4.45%
PERS Plan 2/3	4.63%
TRS Plan 1	4.41%
TRS Plan 2/3	4.65%

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

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2015, are summarized in the following table:

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

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

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	80,757	123,195	1,362	2,174	207,489
Amortization of change in proportionate liability	(38,652)	28,712	1,594	(26)	(8,372)
Total Pension Expense	42,105	151,907	2,957	2,148	199,117

Notes to Financial Statements (continued)

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2014 to 2015 for each retirement plan are listed below:

	2014	2015	Change
PERS 1	.026586%	.025904%	-0.000682
PER 2/3	.028662%	.029095%	0.000433
TRS 1	.000806%	.000852%	0.000046
TRS 2/3	.000870%	.000907%	0.000037

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

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

Discount Rate

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

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

Notes to Financial Statements (continued)

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

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

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	1,649,741	1,355,020	1,101,588
PERS Plan 2/3	3,039,789	1,039,581	(491,903)
TRS Plan 1	33,932	26,993	21,026
TRS Plan 2/3	32,382	7,653	(10,730)

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

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

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			\$ 110,508	
Changes of assumptions			\$ 1,675	
Difference between expected and actual earnings of pension plan investments		\$ 74,134		\$ 277,519
Changes in College's proportionate share of pension liabilities			\$ 75,468	
Contributions to pension plans after measurement date	\$ 151,596		\$ 166,754	
	\$ 151,596	\$ 74,134	\$ 354,405	\$ 277,519

Notes to Financial Statements (continued)

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			\$ 1,211	
Changes of assumptions			\$ 7	
Difference between expected and actual earnings of pension plan investments		\$ 1,998		\$ 2,969
Changes in College's proportionate share of pension liabilities	\$ -		\$ 322	\$ 352
Contributions to pension plans after measurement date	\$ 8,214		\$ 8,352	
	\$ 8,214	\$ 1,998	\$ 9,892	\$ 3,321

The \$ 334,916 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

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

Year ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2017	\$ (28,732)	\$ (46,636)	\$ (775)	\$ (918)
2018	\$ (28,732)	\$ (46,636)	\$ (775)	\$ (918)
2019	\$ (28,732)	\$ (58,943)	\$ (775)	\$ (918)
2020	\$ 12,061	\$ 62,346	\$ 327	\$ 802
2021	-			171
	\$ (74,134)	\$ (89,868)	\$ (1,998)	\$ (1,780)

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.

Notes to Financial Statements (continued)

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, 2016 were each \$744,484.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2016, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of \$766,692. 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 2016, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$43,327. As of June 30, 2016, the Community and Technical College system accounted for \$10,439,441 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 available to employees at termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

17. 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

Notes to Financial Statements (continued)

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 \$8,111,429, with an annual required contribution (ARC) of \$807,185. The ARC represents the amortization of the liability for FY 2016 plus the current expense for active employees, which is reduced by the current contributions of approximately \$117,390. The College's net OPEB obligation at June 30, 2016 was approximately \$1,870,672. This amount is not included in the College's financial statements.

The College paid \$2,126,884 for healthcare expenses in 2016, which included its pay-as-you-go portion of the OPEB liability.

18. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net 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, 2016.

Expenses by Functional Classification	
Instruction	\$ 9,416,139
Academic Support Services	2,230,092
Student Services	2,966,221
Institutional Support	4,763,862
Operations and Maintenance of Plant	2,361,872
Scholarships and Other Student Financial Aid	4,766,628
Auxiliary enterprises	1,479,303
Depreciation	2,241,122
Total operating expenses	\$ 30,225,238

19. Special Item

The College shifted endowment and scholarship funds totaling \$410,727 to the Peninsula College Foundation in order to maximize management and investment of these resources.

20. Commitments and Contingencies

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.

Notes to Financial Statements (continued)

The College has a commitment of \$14,974,908 for completion of the new Allied Health and Early Childhood Development Center. The construction is funded through a State Capital Allocation. At June 30, 2016, the building was in the construction phase.



Aerial View of Allied Health and Early Childhood Development Center under construction

The College has a commitment of \$698,521 for completion of renovation of the Fort Worden Education Center. This project is funded from a combination of State Capital Allocation and local funding. At June 30, 2016, the building was in the construction phase.

21. Subsequent Events

The two transactions described below were structured to make use of the Federal Historic Tax Credit related to the preservation and rehabilitation of Building 202 at Fort Worden State Park in Jefferson County, WA, as administered by the Washington State Parks and Recreation Commission.

On September 14, 2016, the College entered into an agreement with 202 Landlord LLC, a Washington limited liability company, to sell ownership stake for \$5,543,211 in leasehold improvements made by the College to Building 202 at Fort Worden State Park in Jefferson County, WA. Payment will be collected monthly in the amount of \$17,605 through April 1, 2056, with a borrower option to prepay the principal amount in whole or part without penalty. Included within this agreement is a Developer Fee due the College of \$950,000.

On September 14, 2016, the College entered into an agreement with 202 Master Tenant LLC, a Washington limited liability company, to sub-lease Building 202 at Fort Worden State Park in Jefferson County, WA. The 20 year lease provides approximately 20,100 square feet of building space as well as parking access. Base annual rent is initially set at \$241,200 per year to be made in quarterly installments. It includes an automatic renewal term to extend the initial duration of the lease for two additional 5 year periods.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

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

Schedule of Peninsula College's Share of the Net Pension Liability		
Public Employees' Retirement System (PERS) Plan 1		
Measurement Date of June 30		
	2015	2014
College's proportion of the net pension liability	0.025904%	0.026586%
College proportionate share of the net pension liability	\$ 1,355,020	\$ 1,339,282
College covered-employee payroll	\$ 172,347	\$ 210,561
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	786.22%	636.05%
Plan's fiduciary net position as a percentage of the total pension liability	59.10%	61.19%

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

Required Supplementary Information (continued)

Cost Sharing Employer Plans

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

Schedule of Peninsula College's Share of the Net Pension Liability		
Public Employees' Retirement System (PERS) Plan 2/3		
Measurement Date of June 30		
	2015	2014
College's proportion of the net pension liability	0.029095%	0.028662%
College proportionate share of the net pension liability	\$ 1,039,581	\$ 579,363
College covered-employee payroll	\$ 2,590,688	\$ 2,463,094
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	40.13%	23.52%
Plan's fiduciary net position as a percentage of the total pension liability	89.20%	93.29%

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

Required Supplementary Information (continued)

Cost Sharing Employer Plans

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

Schedule of Peninsula College's Share of the Net Pension Liability		
Teachers' Retirement System (TRS) Plan 1		
Measurement Date of June 30		
	2015	2014
College's proportion of the net pension liability	0.000852%	0.000806%
College proportionate share of the net pension liability	\$ 26,993	\$ 23,773
College covered-employee payroll	\$ -	\$ -
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A	N/A
Plan's fiduciary net position as a percentage of the total pension liability	65.70%	68.77%

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

Required Supplementary Information (continued)

Cost Sharing Employer Plans

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

Schedule of Peninsula College's Share of the Net Pension Liability		
Teachers' Retirement System (TRS) Plan 2/3		
Measurement Date of June 30		
	2015	2014
College's proportion of the net pension liability	0.000907%	0.000870%
College proportionate share of the net pension liability	\$ 7,653	\$ 2,810
College covered-employee payroll	\$ 42,123	\$ 36,681
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	18.17%	7.66%
Plan's fiduciary net position as a percentage of the total pension liability	92.48%	96.81%

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

Required Supplementary Information (continued)

Pension Plan Information

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 117,677	\$ 117,677	\$ -	\$ 210,561	55.89%	
2015	\$ 119,454	\$ 119,454	\$ -	\$ 172,347	69.31%	
2016	\$ 146,362	\$ 146,362	\$ -	\$ 119,427	122.55%	
2017						
2018						
2019						
2020						
2021						
2022						
2023						

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

Required Supplementary Information (continued)

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 121,079	\$ 121,079	\$ -	\$ 2,463,094	4.92%	
2015	\$ 130,145	\$ 130,145	\$ -	\$ 2,590,688	5.02%	
2016	\$ 174,001	\$ 174,001	\$ -	\$ 2,798,109	6.22%	
2017						
2018						
2019						
2020						
2021						
2022						
2023						

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

Required Supplementary Information (continued)

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30						
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll	
2014	\$ 1,595	\$ 1,595	\$ -	\$ -	N/A	
2015	\$ 1,912	\$ 1,912	\$ -	\$ -	N/A	
2016	\$ 7,913	\$ 7,913	\$ -	\$ -	N/A	
2017						
2018						
2019						
2020						
2021						
2022						
2023						

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

Required Supplementary Information (continued)

Cost Sharing Employer Plans
Schedules of Contributions

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

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