



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Pierce College

For the period July 1, 2016 through June 30, 2017

Published March 15, 2018

Report No. 1020904





Office of the Washington State Auditor

Pat McCarthy

March 15, 2018

Board of Trustees
Pierce College
Lakewood, Washington

Report on Financial Statements

Please find attached our report on the Pierce College's financial statements.

We are issuing this report in order to provide information on the College's financial condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**State of Washington
Pierce College
July 1, 2016 through June 30, 2017**

Board of Trustees
Pierce College
Lakewood, Washington

We have audited, 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, the financial statements of the business-type activities and the aggregate discretely presented component units of the Pierce College, Pierce County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 7, 2018. As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of the Pierce College Foundation, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Pierce College Foundation were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Pierce College Foundation.

The financial statements of the Pierce 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, 2017, 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

March 7, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pierce College July 1, 2016 through June 30, 2017

Board of Trustees
Pierce College
Lakewood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Pierce College, Pierce County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pierce College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pierce College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The financial statements of the Pierce College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Pierce College, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

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

As discussed in Note 1, the financial statements of the Pierce 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, 2017, 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 and required supplementary information listed on page 11 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 March 7, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

March 7, 2018

FINANCIAL SECTION

Pierce College July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Pierce College Foundation Non-Governmental Discretely Presented Component Unit
Statements of Financial Position – 2017

Pierce College Foundation Non-Governmental Discretely Presented Component Unit
Statements of Activities and Changes in Net Assets – 2017

Pierce College Foundation Non-Governmental Discretely Presented Component Unit
Statements of Cash Flows – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Pierce College's Proportionate Share of the Net Pension Liability – PERS 1
– 2017

Schedule of Pierce College's Proportionate Share of the Net Pension Liability –
PERS 2/3 – 2017

Schedule of Pierce College's Proportionate Share of the Net Pension Liability – TRS 1 –
2017

Schedule of Pierce College's Proportionate Share of the Net Pension Liability – TRS 2/3
– 2017

Schedule of Contributions – PERS 1 – 2017

Schedule of Contributions – PERS 2/3 – 2017

Schedule of Contributions – TRS 1 – 2017

Schedule of Contributions – TRS 2/3 – 2017

Schedule of Changes in the Total Pension Liability and Related Ratios – 2017

Notes to the Required Supplementary Information – 2017

Overview of the Financial Statements and Financial Analysis

Pierce College is pleased to present its financial statements for fiscal year 2017. While audited financial statements for fiscal year 2016 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on the current year data.

The financial statements presented in this report encompass the College and its discretely presented component unit(s). 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. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health as a whole.

This discussion and analysis provides an overview of the financial position and activities of Pierce College (the College) for the fiscal year ended June 30, 2017. This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion should be read in conjunction with the College's financial statements and accompanying note disclosures.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of Pierce College. The Statement of Net Position presents end-of-year data concerning Assets (property that we own and what we are owed by others), Deferred Outflows of Resources (consumption of net position by the College that is applicable to a future reporting period), Liabilities (what we owe to others and have collected from others before we have provided the service), Deferred Inflows of Resources (acquisition of net position by the College that is applicable to a future reporting period), and Net Position (Assets and Deferred Outflows of Resources, minus Liabilities and Deferred Inflows of Resources). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of institution. They are also able to determine how much the institution owes to vendors and others. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) and their availability for expenditure by the institution.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The next category is restricted net position, which is divided into two categories, expendable for Institutional Financial Aid and expendable for Student Loans. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the institution for any lawful purpose of the institution and 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.

During 2017, the College adopted GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 as amended by GASB Statement 71. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside of the scope of Statement 68. The College is required to record its proportionate share of net pension liabilities, deferred inflows, pension expense and benefit payments. The change in accounting principle resulted in a restatement of net position of \$(4,576,690) associated with GASB Statement No. 73. Additional information can be found in Notes 11 and 12.

Condensed Summary of Net Position

	June 30, 2017	June 30, 2016	Change
Assets			
Current assets	\$ 30,050,364	\$ 25,618,380	\$ 4,431,984
Non-current assets	14,527,063	17,729,737	(3,202,674)
Capital assets, net	153,961,945	156,811,790	(2,849,845)
Total assets	198,539,372	200,159,907	(1,620,535)
Deferred outflows of resources	3,235,629	2,144,108	1,091,521
Liabilities			
Current liabilities	10,134,540	11,184,747	(1,050,207)
Non-current liabilities	26,082,927	24,650,371	1,432,556
Total liabilities	36,217,467	35,835,118	382,349
Deferred inflows of resources	1,349,801	1,653,017	(303,216)
Net position			
Net investment in capital assets	148,966,945	151,441,790	(2,474,845)
Restricted expendable	828,204	1,596,852	(768,648)
Unrestricted	14,412,584	11,777,238	2,635,346
Total net position	\$ 164,207,733	\$ 164,815,880	\$ (608,147)

**Prior year balances restated for comparability*

Current assets consist primarily of cash, investments, and various accounts receivables. The increase of current assets in FY 2017 can be attributed to deliberate changes in the College's investment strategy to prepare for the possibility that the State of Washington would not pass a budget by July 01, 2017 and the College may have needed to operate for some amount of time without an allocation from the State.

Net capital assets decreased by \$2,849,845 from FY 2016 to FY 2017. The decrease is primarily the result of current depreciation expense of \$5,206,401. This decrease was offset in part by ongoing acquisitions of capitalizable equipment.

Non-current assets consist of the long-term portion of certain investments. Some long-term investments that matured were deliberately held as current assets, as mentioned above.

Deferred outflows of resources totaling \$3,235,629 are related to the net pension liability that was recorded on the College's financials this year. The increase in deferred outflows reflect the College's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to the actuarial assumptions.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements. The decrease in current liabilities from FY 2016 to FY 2017 is primarily the result of the payout related to the settlement of Moore vs. HCA, which was accrued as a liability in FY 2016, as well as a decrease in unearned revenue for summer quarter received prior to the start of the FY 2018.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt. The College's non-current liabilities continue to decrease as the College pays down the principal owed on Certificates of Participation for the Pierce College Fort Steilacoom Health Education Center (HEC) and the Pierce College Puyallup Health Education Center (HEP). The changes in non-current liabilities also includes minimal increases to vacation and sick leave balances.

Deferred inflows of resources related to the College's net pension liability totaled \$1,349,801. The decrease in deferred inflows in 2017 reflects the decrease in difference between actual and projected investment earnings on the state's pension plans and also the implementation of GASB Statement No. 73.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public College's dependency on State Government Appropriations will result in operating deficits. The GASB requires state appropriations to be classified as non-operating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Condensed Statement of Revenues, Expenses and Changes in Net Position is presented below and reflects a negative year with a decrease in Net Position at the end of the year.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2017	June 30, 2016	Change
Operating revenues			
Student tuition and fees, net	\$ 27,124,278	\$ 26,738,277	\$ 386,001
Auxiliary enterprise sales	1,186,400	1,236,677	(50,277)
State and local grants and contracts	18,161,696	17,208,984	952,712

Federal grants and contracts	875,067	1,097,972	(222,905)
Other operating revenues	393,912	158,761	235,151
Interest on loans to students	4,742	4,324	418
Total operating revenues	47,746,095	46,444,995	1,301,100
Operating expenses	90,758,250	85,285,600	5,472,650
Operating loss	(43,012,155)	(38,840,605)	(4,171,550)
Non-operating revenues			
State appropriations	28,965,270	26,549,370	2,414,900
Federal Pell grant revenue	12,320,201	12,098,594	221,607
Investment income, net	(37,752)	368,596	(330,844)
Non-operating expenses	(2,875,380)	(2,618,617)	(256,763)
Net non-operating revenues (expenses)	38,372,339	36,397,943	1,974,396
Income (loss) before capital contributions	(4,639,816)	(2,442,662)	(2,197,154)
Capital appropriations	4,031,669	761,181	3,270,488
Decrease in net position	(608,147)	(1,681,481)	1,073,344
Net position, beginning of year	169,392,570	171,074,051	(1,681,481)
Change in accounting principle	(4,576,690)	-	(4,576,690)
Net position, end of year	\$ 164,207,733	\$ 169,392,570	\$ (5,184,837)

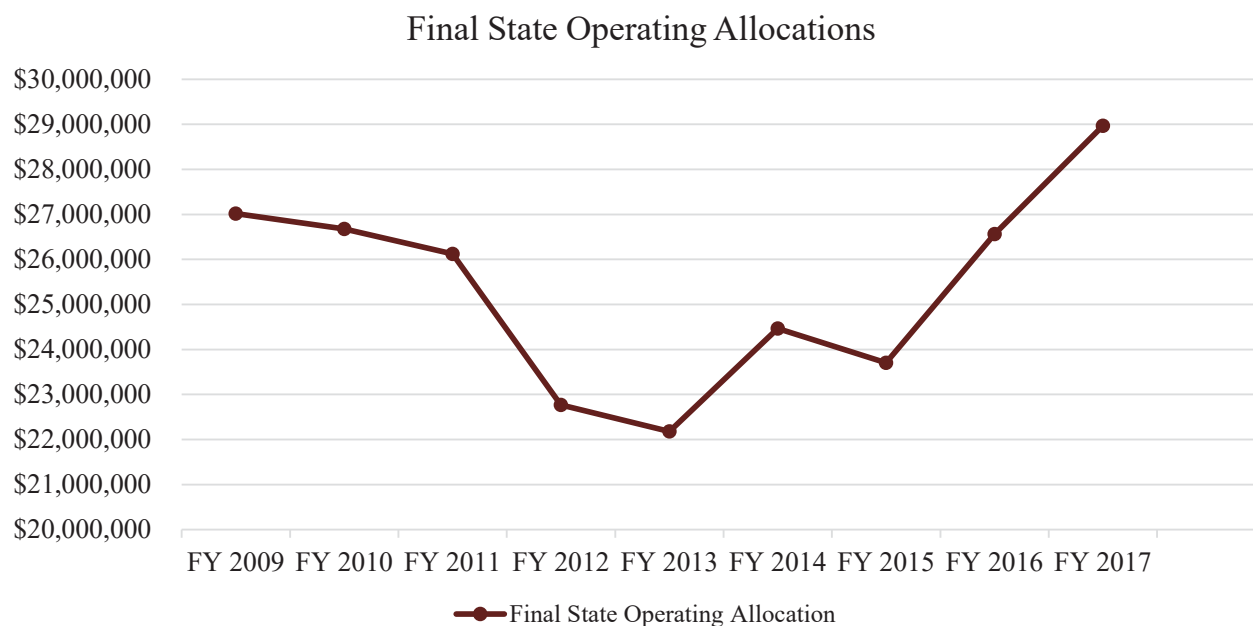
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Tuition, auxiliary enterprise sales, and grants and contracts are included in this category. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. The College's operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

Non-operating revenues are revenues received for which goods and services are not provided. Non-operating revenues include state appropriations, federal Pell grant revenue and investment income, net of related expenses. State capital appropriations and capital grants are considered neither operating nor non-operating revenues and are reported after "Income before capital contributions".

Revenues

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2017, the SBCTC moved forward with a new allocation model. The new model is based on performance in several key indicators from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. In FY 2017, the College saw a 0.07% increase in its state allocation due to the implementation of this new model. In addition, the College received a one-time allocation of \$891,307 for a portion of its share of Moore vs HCA settlement cost. This allocation does not carry forward to future years.

In FY2017, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This reduced the amount of tuition revenue collected by the College. The Legislature did however backfill a portion of this loss as seen in the graph regarding final state operation allocations.



In FY2017, the College’s increase in tuition and fee revenue is primarily attributable to a 0.35% increase in enrollment. In addition, the College serves contracted students on a fee-only basis, as allowed by law. These enrollments declined (11.13%) in FY2017.

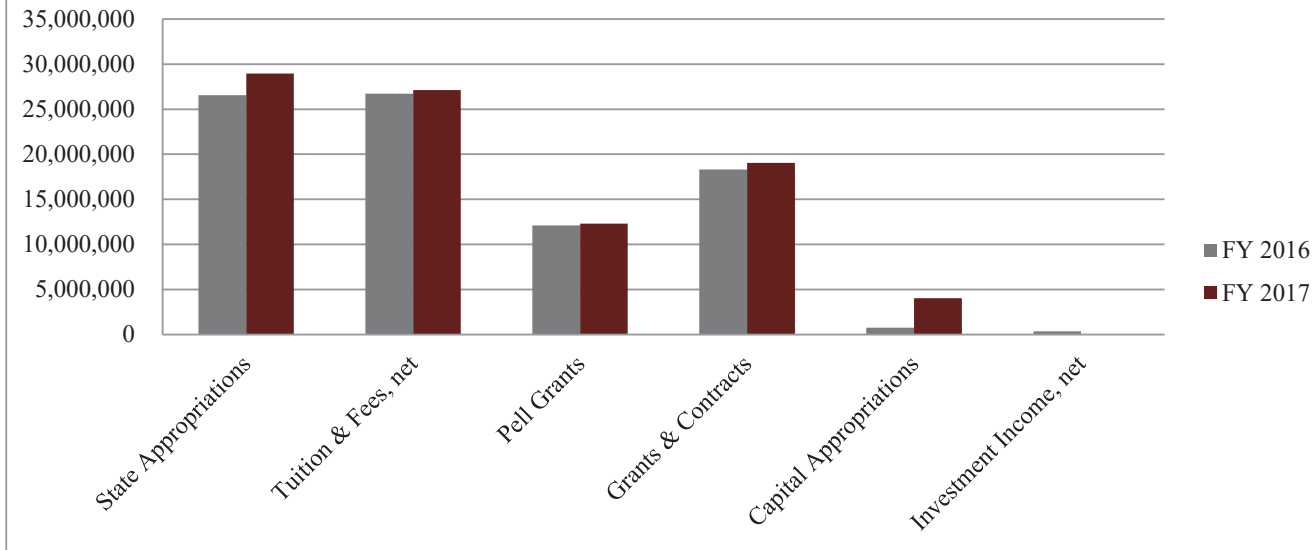
Pell Grant revenues generally follow enrollments trends. As the College’s enrollment increased during FY2017, so did the College’s Pell Grant revenue. For FY 2017, the College attempted to keep other fees as stable as possible, resulting in only small changes in these revenues.

In FY 2017, state and local grant and contract revenues increased by \$952,712 when compared with FY 2016. This is primarily attributable to an increase of 5.59% in Running Start enrollments. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College entered year four as a recipient of a Department of Education – Fund for the Improvement of Postsecondary Education grant CFDA No. 84.116. In FY 2017 Pierce was also awarded the Department of Education – Asian American Native Pacific Islander Serving Institution (AANAPISI) grant CFDA No. 84.832B. This grant is \$1,500,000 over five years.

The College receives capital spending authority on a biennial basis and may carry unexpended budgeted 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.

Selected Elements of Revenue

For the Years Ended June 30, 2017 and 2016



Expenses

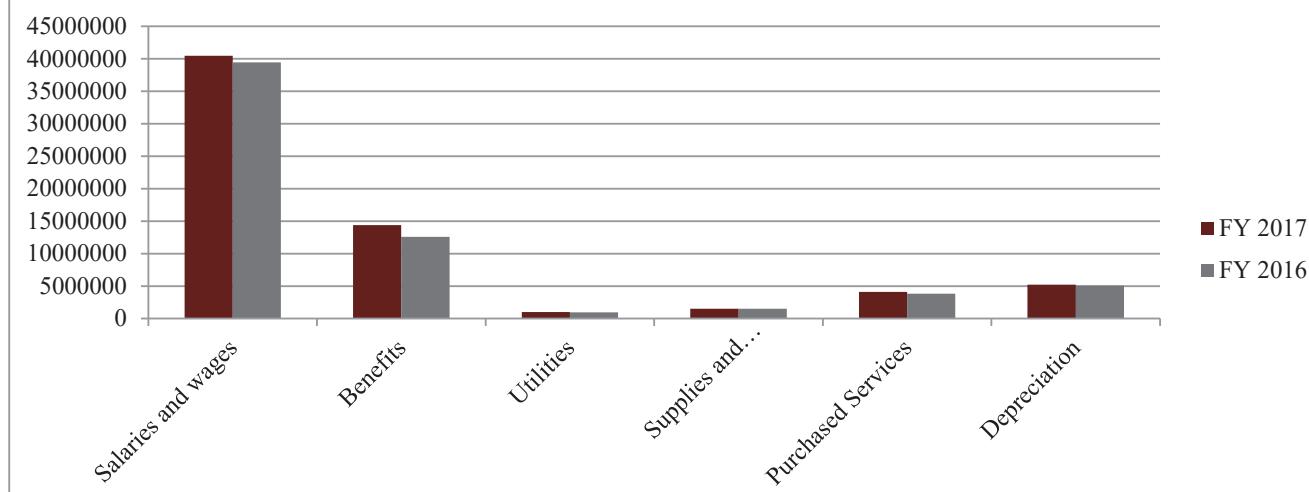
The College has continuously sought opportunities to identify savings and efficiencies, and invest these dollars in areas that show direct correlation to mission fulfillment.

More recently, in FY 2017, salary and benefit costs increased as result of adding positions (classified, exempt, and faculty), increased costs for healthcare, a small cost of living adjustment, and having to compete in the job market in order to replace retiring exempt employees and/or faculty.

The College had only a slight increase in utility expenses for FY 2017 as a result of targeted efforts to reduce use, in spite of rate increases from utility providers. Supplies and materials decreased as well. Purchased services saw an increase in FY2017 primarily as a result of specifically targeted initiatives designed to increase institutional effectiveness. In FY 2017 depreciation increased slightly. All other costs are reported as operating expenses. Examples include: printing and reproduction; employee training; travel; and non-capitalizable equipment, hardware and software.

Selected Elements of Expense

For the Years Ended June 30, 2017 and 2016



Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spend for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Position.

Capital Assets and Long-Term Debt Activities

At June 30, 2017, the College had invested \$153,961,945 in capital assets, net of accumulated depreciation. This represents a decrease of \$2,849,845 from last year, as shown in the table below.

	June 30, 2017	June 30, 2016	Change
Land	\$ 726,552	\$ 726,552	\$ -
Construction in progress	4,845	-	4,845
Buildings, net	149,498,511	152,001,581	(2,503,070)
Other improvements and infrastructure, net	1,554,176	1,688,370	(134,194)
Equipment, net	1,712,028	1,926,793	(214,765)
Library resources, net	465,833	468,494	(2,661)
Total capital assets, net	\$ 153,961,945	\$ 156,811,790	\$ (2,849,845)

A summary of changes in capital assets is disclosed in Note 5.

The decrease in net capital assets can be attributed to depreciation of the Pierce College Fort Steilacoom Rainier Science and Technology Building completed in FY 2010, the Pierce College Puyallup Arts and Allied Health Building completed in FY 2010, as well as the completion of major improvements related to the Pierce College Fort Steilacoom Cascade Core Renovation Project (Phase 2) in FY 2013.

At June 30, 2017, the College had \$4,995,000 in outstanding debt. The College entered into a Certificate of Participation (COP) for the Pierce College Fort Steilacoom Health Education Center (HEC) during FY 2006 as well as the Pierce College Puyallup Health Education Center (HEP) in FY2007. In FY2016 both COPs were refunded by the state of Washington with new bond issuances at lower interest rates.

See Note 9 for additional information on certificates of participation payable and Note 10 on long-term debt activities.

Economic Outlook

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.

Pierce demonstrates financial stability with sufficient cash flow and reserves to support its programs and services. Financial planning reflects available funds, realistic development of financial resources and appropriate risk management to ensure short-term solvency and anticipate long-term obligations, including payment of future liabilities.

Pierce's financial position is one of low capital debt, no operating debt, stable operating budget, and overall reserves that translate to roughly three months of operating costs. Pierce's annual operating budget is approximately \$55 million. While Pierce's overall budget has varied over the past five years due to the natural cycles of capital expenditures, the remainder of the budget has been steady. Pierce develops and adheres to a balanced operating budget each year. A financial dashboard report is prepared for each Board of Trustees meeting; this includes the district's current position on key elements, including any new budget resources received during the year, budget to actual spending, state-funded and Running Start enrollments, cash tuition collections, and major capital project obligations and spending.

Beginning with the annual operating budget development process, and continuing throughout the year, Pierce monitors revenue collected in comparison with models used to estimate key resources. These include the district's state allocation, tuition, Running Start payments from local high schools, and reimbursements of indirect costs from Military and International contracted programs. In addition, the district reviews cash balances and cash demands frequently. Pierce maintains available (pooled) cash sufficient to accommodate expected cash expenditures. The district invests balances that exceed expected obligations in a mixture of short and mid-term investments, providing sufficient liquidity if unexpected needs arise.

In developing the annual operating budget, issues of long-term obligations and solvency are considered. Efforts to formalize long-term planning have been hampered by the unpredictability of state funding, which continues to represent the largest resource available to the district. Pierce's largest investment is its employees, with salaries and benefits accounting for approximately 84% of each year's operating budget.

Reductions in state funding have required Pierce to make difficult choices over the past few years, strategically eliminating some programs and services. At the same time, Pierce sought or reallocated resources to support emerging programs and reorganize or increase services designed to help our students succeed. During the budget process, Pierce continues to examine its efforts and redirect resources in response to actual results and outcomes, through its participation in Achieving the Dream and Institutional Effectiveness work.

In the 2015-2017 biennium, the legislature did not fully fund the authorized COLA increases for all state employees. Consequently, the college cut over \$880,000 in services to make up for budget gaps from state funding. The College has embarked on intensive initiatives designed to close achievement gaps and increase completion of degrees and certificates. These initiatives are resource intensive, and lack of funding will negatively impact our ability to further increase our graduation rates and close the achievement gaps among our students.

The volatility and unpredictability of state funding contributes to Pierce's conservative approach to debt and reserves. Pierce currently has only two long-term liabilities, incurred to construct Health Education Centers at each college; students voted to create a dedicated fee to help pay for design, construction and debt service for these facilities. The anticipated revenue from these fees is pledged to pay the principal and interest on certificates of participation (COP) (bond-like instruments held by the State Treasurer's Office). Current cash balances in these accounts are sufficient to meet approximately three years of scheduled repayments. The revenue stream supporting these accounts is reviewed at least annually and continues to be sufficient to make payments during the repayment period, even when likely fluctuations in enrollment levels due to economic cycles are considered.

The state of Washington continues to address the requirement of the Supreme Court's 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to sufficiently fund basic education.

Progress was made during the 2013-15 biennium but did not satisfy the court. The ruling, scheduled for full implementation in 2018, may have an impact on state appropriations for higher education.

Pierce College
Statement of Net Position
As of June 30, 2017

Assets

Current assets

Cash and cash equivalents	\$21,942,575
Investments, current portion	2,838,454
Accounts receivable, net	5,237,910
Interest receivable	12,004
Prepaid expenses	19,421
Total current assets	<u>30,050,364</u>

Non-current assets

Restricted cash	76,113
Long-term investments	14,450,950
Capital assets, net	153,961,945
Total non-current assets	<u>168,489,008</u>
Total assets	<u>198,539,372</u>

Deferred outflows of resources related to pensions

	3,235,629
Total deferred outflows of resources related to pensions	<u>3,235,629</u>

Liabilities

Current liabilities

Accounts payable	1,023,997
Accrued liabilities	6,059,280
Deposits payable	3,395
Unearned revenue	2,617,868
Certificates of participation payable	430,000
Total current liabilities	<u>10,134,540</u>

Non-current liabilities

Compensated absences	4,775,214
Net Pension liability	16,742,713
Long-term liabilities	4,565,000
Total non-current liabilities	<u>26,082,927</u>
Total liabilities	<u>36,217,467</u>

Deferred inflows of resources related to pensions

	1,349,801
Total deferred inflows of resources related to pensions	<u>1,349,801</u>

Net Position

Net Investment in Capital Assets	148,966,945
Restricted for expendable purposes:	
Institutional Financial Aid	828,204
Unrestricted	14,412,584
Total Net Position	<u>\$164,207,733</u>

The footnote disclosures are an integral part of the financial statements.

Pierce College
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2017

Operating revenues

Student tuition and fees, net	\$27,124,278
Auxiliary enterprise sales	1,186,400
State and local grants and contracts	18,161,696
Federal grants and contracts	875,067
Other operating revenues	393,912
Interest on loans to students	4,742
Total operating revenues	<u>47,746,095</u>

Operating expenses

Other expenses	8,837,365
Salaries and wages	40,446,596
Benefits	14,391,699
Scholarships and fellowships	15,268,210
Supplies and materials	1,492,742
Depreciation	5,206,401
Purchased services	4,115,383
Utilities	999,854
Total operating expenses	<u>90,758,250</u>
Net operating loss	<u>(43,012,155)</u>

Non-operating revenues (expenses)

State appropriations	28,965,270
Federal Pell grant revenue	12,320,201
Investment income, net of expense	(37,752)
Building fee remittance	(2,104,210)
Innovation fund remittance	(478,746)
Interest on indebtedness	(292,424)
Net non-operating revenues (expenses)	<u>38,372,339</u>
Loss before capital appropriations	<u>(4,639,816)</u>

Capital appropriations	<u>4,031,669</u>
Decrease in net position	<u>(608,147)</u>

Net Position

Net position, beginning of year	169,392,570
Restatement (Note 12)	<u>(4,576,690)</u>
Net position, beginning of year, restated	<u>164,815,880</u>
Net position, end of year	<u>\$164,207,733</u>

The footnote disclosures are an integral part of the financial statements.

Pierce College
Statement of Cash Flows
For the year ended June 30, 2017

Cash flow from operating activities

Student tuition and fees	\$24,714,120
Grants and contracts	19,942,971
Payments to vendors	(14,782,092)
Payments for utilities	(968,266)
Payments to employees	(40,172,535)
Payments for benefits	(13,832,522)
Auxiliary enterprise sales	1,321,690
Payments for scholarships and fellowships	(15,268,210)
Collection of loans to students and employees	98,427
Other receipts	3,739,457
Net cash used by operating activities	(35,206,960)

Cash flow from noncapital financing activities

State appropriations	31,421,702
Federal Pell grants	12,320,203
Building fee remittance	(2,125,373)
Innovation fund remittance	(482,635)
Net cash provided by noncapital financing activities	41,133,897

Cash flow from capital and related financing activities

Capital appropriations	1,520,459
Purchases of capital assets	(2,276,730)
Principal paid on capital debt	(375,000)
Interest paid on capital debt	(292,424)
Net cash provided by capital and related financing activities	(1,423,695)

Cash flow from investing activities

Purchases of investments	(5,873,326)
Proceeds from sales and maturities of investments	6,219,974
Investment loss	(37,752)
Net cash provided by investing activities	308,896

Net increase (decrease) in cash and cash equivalents	4,812,138
Cash and cash equivalents, beginning of year	17,206,550
Cash and cash equivalents, end of year	\$22,018,688

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss (\$43,012,155)

Adjustments to reconcile net loss to net cash used by operating activities

Depreciation expense	5,206,401
Receivables, net	3,138,632
Inventories	2,283
Other assets	1,580
Accounts payable	(2,959,418)
Accrued liabilities	3,017,536
Unearned Revenue	(1,163,820)
Compensated absences	53,396
Pension liability adjustment expense	414,426
Deposits payable	495
Loans to students and employees	93,685
Net cash used by operating activities	(\$35,206,959)

Noncash investing, capital and financing activities

Decrease in fair value of investments (\$76,027)

The footnote disclosures are an integral part of the financial statements.

Pierce College Foundation
Non-Governmental Discretely Presented Component Unit
Statements of Financial Position
As of December 31, 2016

	<u>2016</u>
ASSETS	
Current Assets:	
Cash	\$ 167,217
Investments	1,394,583
Accounts receivable	28,437
Contributions receivable	50,310
Property and equipment, net	<u>3,166,191</u>
TOTAL ASSETS	<u><u>\$ 4,806,738</u></u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 122,470
Due to Pierce College	49,847
Unearned rent revenue	55,500
Notes payable	<u>3,058,781</u>
TOTAL LIABILITIES	<u>3,286,598</u>
 Net Assets:	
Unrestricted	218,246
Temporarily restricted net assets	921,764
Permanently restricted net assets	<u>380,130</u>
TOTAL NET ASSETS	<u>1,520,140</u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,806,738</u></u>

The footnote disclosures are an integral part of the financial statements.

Pierce College Foundation
Non-Governmental Discretely Presented Component Unit
Statements of Activities and Changes in Net Assets
For the year ended December 31, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	97,513	93,563	1,678	\$ 192,754
Private grants	---	112,390	---	112,390
In-kind contributions	314,682	13,305	---	327,987
Special events, net of expense of \$41,210 and \$24,356 in 2016 and 2015	1,000	87,670	---	88,670
Contracts	---	313,387	---	313,387
Investment income	33,516	32,512	3,877	69,905
Rental income	---	50,706	---	50,706
Net assets released from restriction	669,233	(669,233)	---	---
TOTAL SUPPORT AND REVENUE	1,115,944	34,300	5,555	1,155,799
EXPENSES				
In-kind salaries, payroll taxes and benefits	296,001	---	---	296,001
Student housing	203,493	---	---	203,493
Program enhancements	197,621	---	---	197,621
Scholarships	173,635	---	---	173,635
Consulting and other professional services	72,631	---	---	72,631
Interest	86,577	---	---	86,577
Reimbursements	47,127	---	---	47,127
Supplies	32,519	---	---	32,519
Depreciation	26,816	---	---	26,816
In-kind materials and supplies	18,376	---	---	18,376
Utilities	17,542	---	---	17,542
In-kind occupancy	13,610	---	---	13,610
Property taxes	13,423	---	---	13,423
Investment fees	11,783	---	---	11,783
Insurance	11,584	---	---	11,584
Endowments	11,334	---	---	11,334
Special projects	10,695	---	---	10,695
Contributions to Pierce College	9,511	---	---	9,511
Other	7,453	---	---	7,453
Donor hosting	5,434	---	---	5,434
TOTAL EXPENSES	1,267,165	---	---	1,267,165
CHANGE IN NET ASSETS	(151,221)	34,300	5,555	(111,366)
NET ASSETS, Beginning	369,467	887,464	374,575	1,631,506
NET ASSETS, Ending	\$ 218,246	\$ 921,764	\$ 380,130	\$ 1,520,140

The footnote disclosures are an integral part of the financial statements.

Pierce College Foundation
Non-Governmental Discretely Presented Component Unit
Statements of Cash Flows
For the year-ended December 31, 2016

	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers, contributions, and Pierce College	\$ 734,956
Cash paid to suppliers and Pierce College	(671,302)
Interest and dividends received	40,614
Interest paid	(84,760)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>19,508</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment and construction in progress	(33,909)
Purchases of investments	(89,502)
Proceeds from redemption of investments	111,197
NET CASH USED BY INVESTING ACTIVITIES	<u>(12,214)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from note payable	510,000
Payments of note payable	(609,770)
Contributions permanently restricted	1,678
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(98,092)</u>
NET DECREASE IN CASH	(90,798)
CASH, Beginning	<u>258,015</u>
CASH, Ending	<u><u>\$ 167,217</u></u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ (111,366)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	26,816
Amortization on loan fees	1,816
Net realized and unrealized (gain) loss on investments	(29,291)
Contributions permanently restricted	(1,678)
(Increase) in:	
Accounts receivable	(26,463)
Contributions receivable	(50,310)
Increase (decrease) in:	
Accounts payable	121,006
Due to Pierce College	33,478
Unearned rent revenue	55,500
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 19,508</u></u>

DISCLOSURE OF ACCOUNTING POLICY AND NONCASH TRANSACTIONS

For the purposes of these financial statements, the Foundation considers cash to include cash in banks and liquid investments with original maturities of three months or less. For the year-ended December 31, 2016, noncash transactions consisted of donated materials for approximately \$328,000 and financing for the renovation and acquisition of the Center for Global Scholars building.

The footnote disclosures are an integral part of the financial statements.

Pierce College
Notes to the Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies

Reporting Entity

Pierce College's governing board is appointed by the State Governor, and the governing board of Pierce College appoints a chancellor to function as Chief Executive Officer. The State Legislature approves budgets and budget amendments for the appropriated funds of Pierce College. The State Treasurer may issue general obligation debt for major campus construction.

Pierce College does not have separate corporate powers and sue or are sued as a part of the state with legal representation provided through the state Attorney General's Office. Since Pierce College is legally part of the state, Pierce College's financial operations are reported in the state's financial statements using the fund structure prescribed by the GASB.

Nature of Organization

Pierce College, an agency of the state of Washington, is a coeducational institution of higher education and one of thirty public community and technical college districts in the state of Washington.

Pierce's policy-making body is a five-member Board of Trustees appointed by the Governor to five-year terms. The Pierce College Board of Trustees is charged with the responsibility and the authority for operation of Community College District 11 as prescribed in RCW 28B.50.140 and other statutes. The Board of Trustees has the responsibility to establish policy and to evaluate the success of Pierce's operation to include financial reviews, approve fundraising goals and plans, and direct strategic planning efforts.

Fifty years ago, Pierce College began creating life-changing possibilities for students out of a makeshift building in Lakewood. Today, the district encompasses two colleges in Lakewood and Puyallup, education centers at Joint Base Lewis McChord, virtual education through its distance learning program, and extensive community education opportunities.

Pierce College District covers more than 1,000 square miles in western Washington. The district includes all of Pierce County except the City of Tacoma and the Gig Harbor peninsula (the Tacoma and Peninsula School Districts). Pierce serves a population characterized by diversity and high mobility. The population in Pierce County is growing rapidly, even when compared to other areas of Washington State, which is projected to be the fourth fastest-growing state in the nation over the next decade.

During the 2016-17 academic year, Pierce District enrolled 15,828 students (unduplicated count) across all program areas and locations, generating 8,593 full time equivalent students. Of these, 50% were enrolled in an academic transfer program, 35% a Professional/Technical degree or certificate program, 5% in Basic Skills courses, and 10% in courses for personal interest. Students enrolled for an average of 11.8 credits. Of the 2016-17 student body, 61% of students were female; 52% were under the age of 26; 11.5% enrolled in Running Start (dual enrolled in high school and college); 49% reported their race/ethnicity as white, 14% as Hispanic/Latino, 8% as African American, 9% as Asian/Pacific Islander, 7% as multiracial or other, 1% as Native American, 4% as international students, and 8% chose not to disclose their race/ethnicity.

Across the district, employees function with a strong focus on mission, vision, and Core Themes. While each location has areas of singularity, a shared governance structure that engages students, faculty, and staff from all corners of the district creates a unified identity while serving the needs of each location equitably. Further, as a matrix organization, faculty and staff actively participate in operational teams that encourage innovation,

Pierce College

Notes to the Financial Statements (Continued)

June 30, 2017

engagement, and action, which complement the more traditional hierarchical structures. While complex, Pierce College works to provide multiple contexts in which each member of the organization can contribute to mission fulfillment.

We are proud of the academic excellence and student success that has filled the past 50 years, and look forward to creating even more opportunities for a diverse community of learners to thrive in an evolving world. Our 50th year provides a wonderful opportunity for us to reflect on the past, celebrate the present and move forward with a renewed dedication to our community and out students.

Discretely Presented Component Units

The Pierce College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 2003 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to build relationships with the community and acquire resources to support academic excellence and educational access at Pierce College. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Pierce College Foundation is governed by an independent Board consisting of community members; Pierce has a Memorandum of Understanding with the Foundation which addresses the type and value of support provided to the foundation by the district, and expectation of foundation support to district programs. In 2015, the Foundation purchased and began renovation on a 63-student residence hall for Pierce College students. The relationship with the district relative to the use of the residence hall is governed by a separate Memorandum of Understanding.

The Pierce College Fiscal Services Office performs accounting services to the Foundation, and coordinates the annual audit, which is performed by an accounting firm. The Fiscal Services Office also provides the foundation with advice concerning the conduct of fundraising campaigns, classification of donations and provides reports to the foundation Board on a regular basis.

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, 2017, the Foundation distributed \$367,562 to the College for restricted and unrestricted purposes. The Foundation has a year-end of December 31st. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 1601 39th Avenue SE, Puyallup, WA 98374.

Joint Ventures

INVISTA Performance Solutions (IPS) is a collaboration of four Pierce County Community Colleges: Clover Park Technical College, Pierce College Fort Steilacoom, Pierce College Puyallup, and Tacoma Community College.

Launched in September 2011, IPS, a partnership of colleges, operates as a single point of contact for regional business to access workforce development services. Their mission is to help companies gain a competitive

Pierce College

Notes to the Financial Statements (Continued)

June 30, 2017

advantage in the global economy by increasing the skills of their workforce. They offer high quality training and learning solutions to meet and exceed client expectations.

IPS is also a member of Global Corporate College and actively works with 45 colleges across the United States and internationally to serve companies with an expanded footprint. IPS has a successful history of delivering high-quality facilitation, coaching, courses, and seminars that are personalized to the performance goals of each business they serve.

Financial Statement 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.

Use of Estimates

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

Basis of Accounting

For financial reporting purposes, the College, along with the Pierce College Foundation, its discretely presented component unit, is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements are presented 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. Student tuition and fees are presented net of scholarships and fellowships applied to student accounts, while payments made directly are presented as scholarship and fellowship expenses.

The Pierce College Foundation (the Foundation) is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including Accounting Standards Codification Topic 958, Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for those differences.

Cash, Cash Equivalents and Investments

The amounts shown in the financial statements in College funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, certain funds invested with Charles Schwab, and deposits with the Washington State Local Government Investments Pool (LGIP). Cash equivalents are short term, highly liquid investments convertible to known amounts of cash without change in value or risk of loss.

Pierce College

Notes to the Financial Statements (Continued)

June 30, 2017

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, cash equivalents and investments and securities as authorized by RCW 39.60.50.

Receivables

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. Accounts receivable are shown net of estimated uncollectible receivables.

Prepaid Items

Expenditures for prepaid airline tickets paid for in the current year and benefiting more than one accounting period are allocated among accounting periods.

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 acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of \$1,000,000 or more, buildings and improvements with a unit cost of \$100,000 or more, library collections with a total cost of \$5,000 or more and all other assets with a unit cost of \$5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 5 to 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 there is a reduction in the service utility of those assets. Impaired assets are reported at the lower of cost or fair value. At June 30, 2017, no assets had been written down.

Unearned Revenues

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. The College has recorded summer and fall quarter tuition and fees as unearned revenues.

Income Taxes

The College, as an agency of the state of Washington, is not subject to federal income tax pursuant to Section 115 of the Internal Revenue Code, except for tax on unrelated business income and certain federal excise taxes.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

The Internal Revenue Service has determined that the Pierce College Foundation qualifies as an exempt organization under Internal Revenue Code Section 501(c)(3) and as such are exempt from taxation 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. In FY17, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB68 (Accounting and Financial Reporting for Pensions)*. The reporting requirements are similar to GASB68 but use current fiscal yearend as the measurement date for reporting the pension liabilities for GASB73 reporting.

Deferred Outflows of Resources 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 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.

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.

See Note 13 for additional information regarding deferred outflows and deferred inflows of resources.

Pierce College

Notes to the Financial Statements (Continued)

June 30, 2017

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 Institutional Financial Aid. The institutional financial aid funds are established for the explicit purpose of providing institutional financial aid as prescribed by RCW 28B.15.820.

Unrestricted. These represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College and may be used at the discretion of the governing board to meet current expenses for any purpose. When an expense is uncured that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

Classification of Revenues and Expenses

The College has classified its revenues and expenses as either operating or non-operating 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 which includes Running Start revenue and various grants for funding student tuition and operations.

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

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

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, and loss of disposal, in any.

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, 2017 are \$6,408,370.

Pierce College

Notes to the Financial Statements (Continued)

June 30, 2017

State Appropriations

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

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 is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position.

2. Accounting and Reporting Changes

Reporting Changes

Effective for fiscal year 2017 reporting, the College adopted the following new standards issues by the Governmental Accounting Standards Board (GASB):

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. GASB Statement No. 73 addresses three separate subjects, two of which were effective for fiscal year 2016 and one of which is effective for fiscal year 2017 reporting. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement No. 68.

The State Board Retirement Plan (SBRP) is a privately administered defined contribution plan with a supplemental defined benefit plan component. SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is part of the college system.

As a result, ending unrestricted net position for the College for the year ended June 30, 2016 decreased by \$4,576,690. It would not be practical for the College to determine the amounts of all applicable deferred outflows of resources and deferred inflows of resources related to SBRP. Therefore, the restatement is attributable completely to a reduction in Net Pension Liability. This decrease resulted in the restatement of unrestricted net position to a balance of \$164,815,880 for the year ended June 30, 2016.

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

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

Prior Period Adjustment

Beginning net position was restated by \$4,576,690 in FY 2016 as a result of implementing GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68.*

The following is a summary of the restatement for adoption of GASB 73, Net Pension Liability.

Description	June 30, 2016 as originally stated	Prior Period Adjustment	June 30, 2016 as restated
Net investment in capital assets	\$ 151,441,790		\$151,441,790
Restricted for expendable purposes:			
Institutional financial aid	1,596,852		1,596,852
Unrestricted	16,353,928	(4,576,690)	11,777,238
Total net position	\$ 169,392,570		\$ 164,815,880

Accounting Standard Impacting the Future

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which will be in effect for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employer through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The College's participation in OPEB is described in Note 11, and does not currently impact the College's financial statements. As a result of implementing this Statement, the College will be required to recognize its proportionate share of the state's actuarially determine OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. This Statement will have a significant impact on the College's financial statements.

3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Washington State Treasurer's 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, which approximates amortized cost. The LGIP measures its investments at amortized cost in accordance with guidance set forth by GASB, as amended by Statements No. 72 and No. 79, and the investments are limited to high quality obligations with limited and average maturities, which minimizes both credit and market risk.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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/lcip/cafr/LcipCafr.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/>.

As of June 30, 2017, the carrying amount of the College's change funds, petty cash, and bank demand deposit accounts with financial institutions was \$21,942,575 as represented in the table below.

Cash and Cash Equivalents

	2017
Cash	\$ 14,222,339
Cash equivalents	7,720,236
Cash and cash equivalents	<u>\$ 21,942,575</u>

Restricted cash for internally held retainage was \$76,113 at June 30, 2017.

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. 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). The majority of the College's demand deposits are with the Key Bank.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

Investments

Fair Value Hierarchy

Fair value measurement determination is based on the assumptions that market participants would use in pricing the asset. Fair value is described as an exit price. As such, the fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) the College's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs) as a basis for considering market participant assumptions in fair value measurements. The fair value hierarchy prioritizes the inputs discussed above as follows:

Level 1 inputs (quoted market prices) - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access at the measurement date (for example prices derived from NYSE, NASDAQ and the Chicago Board of Trade). Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. If a level 1 input is available for a particular investment, it must be used to value that investment.

Level 2 inputs (observable inputs) - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed on market data obtained from sources independent of the College (e.g. matrix pricing, yield curves and indices).

Level 3 inputs - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Unobservable inputs are those that reflect the College's own assumptions about the assumptions that market participants would use in pricing the asset developed, based on the best information available in the circumstances (e.g. investment manager pricing for private placements, private equities and hedge funds).

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All of the College's investments fall within the hierarchy of Level 1.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

College Investments by Type

Investments are classified as cash equivalents and short-term or long-term investments. The carrying amount of College invested assets includes cash equivalents and long-term investments as represented below.

College Investments by Type

College investments	Fair value	Less than 1 year	1-5 years	6-10 years	More than 10 years
Cash Equivalents					
Money Market Funds	\$ 1,268,940	\$ 1,268,940	\$ -	\$ -	\$ -
Local Government Investment Pool	6,451,296	6,451,296	-	-	-
Total cash equivalents	7,720,236				
Short-term investments					
Agency Securities	2,793,478	2,793,478	-	-	-
CMO & Asset Backed Securities	44,976	44,976	-	-	-
Total short-term investments	2,838,454				
Long-term investments					
Agency Securities	2,543,444	-	2,543,444	-	-
Mortgage Pools	8,492,746	-	-	669,511	7,823,235
CMO & Asset Backed Securities	3,414,760	-	465,860	394,039	2,554,861
Total long-term investments	14,450,950				
Total college investments	\$ 25,009,640				

Interest Rate Risk—Investments

The College manages exposure to fair value losses arising from increasing interest rates by segmenting investments into short-term, intermediate-term and long-term pools.

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

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

possession of an outside party. At June 30, 2017, \$18,558,344 of the College's operating fund investments, held by Key Banc and Charles Schwab as agent for the College are exposed to custodial credit risk as follows.

Investments Exposed to Custodial Credit Risk

Outside party	Fair value
Key Banc	\$ 1,995,330
Charles Schwab	16,563,014
Total investment exposed to custodial risk	<u>\$ 18,558,344</u>

Investment Expenses

Investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2017 were \$62,563.

4. Accounts Receivable

Accounts receivable for the year ended June 30, 2017 were comprised of the following balances:

Accounts Receivable

Student tuition and fees	\$ 698,007
Due from the federal government	326,106
Due from the office of the state treasurer	984,354
Due from other state agencies	387,264
Auxiliary enterprises	12,784
Due from other governments	2,891,542
Other	4,805
Subtotal accounts receivable	5,304,862
Less allowance for doubtful accounts	(66,952)
Accounts receivable, net	<u>\$ 5,237,910</u>

Pierce College
Notes to the Financial Statements (Continued)
June 30, 2017

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows:

	Beginning balance	Additions	Retirements	Ending balance
Capital assets, non-depreciable				
Land	\$ 726,552	\$ 0	\$ 0	\$ 726,552
Construction in progress	0	4,845	0	4,845
Total capital assets, non-depreciable	726,552	4,845	0	731,397
Capital assets, depreciable				
Buildings	200,889,187	1,738,080	0	202,627,267
Other improvements and infrastructure	2,960,257	0	0	2,960,257
Equipment	5,545,240	491,722	(160,157)	5,876,805
Library resources	885,746	123,302	(171,240)	837,808
Total capital assets, depreciable	210,280,430	2,353,104	(331,397)	212,302,137
Less accumulated depreciation				
Buildings	48,887,606	4,241,150	0	53,128,756
Other improvements and infrastructure	1,271,887	134,194	0	1,406,081
Equipment	3,618,447	705,094	(158,764)	4,164,777
Library resources	417,252	125,963	(171,240)	371,975
Total accumulated depreciation	54,195,192	5,206,401	(330,004)	59,071,589
Total capital assets, depreciable, net	156,085,238	(2,853,297)	(1,393)	153,230,548
Capital assets, net	\$ 156,811,790	\$ (2,848,452)	\$ (1,393)	\$ 153,961,945

The current year depreciation expense was \$5,206,401. The College has commitments of \$831,132 for various capital improvement projects that include renovations and repairs of existing buildings

Pierce College
Notes to the Financial Statements (Continued)
June 30, 2017

6. Unearned Revenue

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

Unearned Revenue

Summer & Fall quarter tuition & fees	\$2,617,868
Total unearned revenue	\$2,617,868

7. Lease Obligations

The College is obligated under various operating leases for the use of equipment. All operating leases are with parties outside state government.

Future commitments for non-cancellable operating leases having remaining terms in excess of one year as of June 30, 2017 were as follows:

Operating Leases

Year	Future Payments
2018	\$3,139
2019	3,139
Total minimum lease payments	\$6,278

In the current fiscal year, Pierce College incurred expenses of \$128,454 for office copier contingent rentals on a cost-per-copy basis.

8. Compensated Absences

The accrued leave liability balance as of June 30, 2017 is \$4,775,214. The components of this liability include vacation and sick leave earned and unused for exempt professionals, civil service employees and faculty on annual appointments. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an estimate of one-fourth the total balance on the payroll records.

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

For reporting purposes, all annual and sick leave is shown as a non-current liability. Compensatory time is categorized as a current liability since it must be used before other leave.

Compensated Absences

Accrued annual leave	\$1,975,111
Accrued sick leave	2,800,103
Total compensated absences	\$4,775,214

9. Certificates of Participation Payable

In April 2006, the College obtained financing in order to renovate and expand the Pierce College Fort Steilacoom Health Education Center (HEC) Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$5,150,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2004. The interest rate charged is 4.452%.

In June 2007, the College obtained financing in order to build the Pierce College Puyallup Health Education Center (HEP) Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of \$4,690,000. Students assessed themselves, on a quarterly basis, a mandatory fee to service the debt starting in 2004. The interest rate charged is 4.419%.

In October 2015 and March 2016, the state of Washington refunded the outstanding amounts of the COPs above totaling \$6,610,000 (Pierce College portion) with new bond issuances totaling 5,595,000 and a premium of 962,759. The refunded bonds had an average interest rate and coupon rate of 4.436%; the new bonds have an average coupon rate of 2.128%. These refundings will save the college \$622,282 over the life of the COPs.

Student fees related to these COP(s) are accounted for in dedicated accounts, which are used to pay principal and interest, not coming out of the general operating budget.

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

Pierce College
Notes to the Financial Statements (Continued)
June 30, 2017

10. Annual Debt Service Requirements

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

Fiscal year	Principal	Interest	Total
2018	\$ 430,000	\$ 247,700	\$ 677,700
2019	450,000	228,250	678,250
2020	470,000	205,750	675,750
2021	490,000	182,250	672,250
2022	520,000	157,750	677,750
2023-2027	2,635,000	374,250	3,009,250
Total	\$ 4,995,000	\$ 1,395,950	\$ 6,390,950

11. Schedule of Long Term Liabilities

	Balance outstanding 06/30/2016	Additions	Reductions	Balance outstanding 06/30/2017	Current Portion
Certificates of Participation	\$ 5,370,000	\$ 0	\$ 375,000	\$ 4,995,000	\$ 430,000
Compensated Absences	4,721,818	1,542,237	1,488,841	4,775,214	-
Net Pension Liability	10,356,863	9,826,970	3,441,120	16,742,713	-
Total	\$ 20,448,681	\$ 11,369,207	\$ 5,304,961	\$ 26,512,927	\$ 430,000

Pierce College
Notes to the Financial Statements (Continued)
June 30, 2017

12. Pension Liability

Pension liabilities reported as of June 30, 2017 consists of the following:

Pension Liability by Plan

PERS 1	\$ 5,756,305
PERS 2/3	6,478,141
TRS 1	588,545
TRS 2/3	243,658
SBRP	3,676,064
Total	\$ 16,742,713

13. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a defined contribution single employer pension plan with a supplemental payment when required. SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

For FY 2017, the payroll for the College's employees is \$12,750,091 for PERS, \$885,301 for TRS, and \$21,397,011 for SBRP. Total covered payroll is \$35,032,403.

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 respected on the same basis as they are reported by the plans.

Pierce College
Notes to the Financial Statements (Continued)
June 30, 2017

The following table represents the aggregate pension amounts for all plans for the College, for fiscal year 2017:

Aggregate Pension Amounts – All plans

Pension liabilities	\$ 16,742,713
Deferred outflows of resources related to pensions	3,235,629
Deferred inflows of resources related to pensions	(1,349,801)
Pension expense	1,944,036

Department of Retirement Services

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The Governor appoints the director of the DRS.

The DRS administered systems that the College offers its employees are comprised of 4 defined benefit pension plans and two defined benefit/defined contribution plans. Below are the DRS plans that the College offers its employees:

Public Employees Retirement System (PERS)

Plan 1 – defined benefit

Plan 2 – defined benefit

Plan 3 – defined benefit/defined contribution

Teachers' Retirement System (TRS)

Plan 1 – defined benefit

Plan 2 – defined benefit

Plan 3 – defined benefit/defined contribution

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administrato/in/annualreport/>.

Higher Education

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

College Participation in Plans Administered by the Department of Retirement Systems

PERS

Plan Description. The Legislature established the PERS Plan in 1947. 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

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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 ten 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.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. This is reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC. Plan 1 members may elect to receive an optional 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.

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 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.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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.

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.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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>.

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

	FY2015		FY2016		FY2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.0%	9.21%	6.0%	9.21%	6.0%	11.18%
Plan 2	4.92%	9.21%	6.12%	9.21%	6.12%	11.18%
Plan 3	5.0-15.0%	9.21%	5.0-15.0%	9.21%	5.0-15.0%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	10.39%	6.00%	13.13%
Plan 2	4.96%	10.39%	5.95%	10.39%	5.95%	13.13%
Plan 3	5.0-15.0%	10.39%	5.0-15.0%	10.39%	5.0-15.0%	13.13%

The College's actual retirement contributions to the above plans for the fiscal years ended June 30, 2015, 2016, and 2017 were:

	FY2015		FY2016		FY2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	23,096	35,452	20,780	38,745	13,830	25,771
Plan 2	405,677	759,394	533,065	973,745	551,028	1,006,618
Plan 3	184,598	283,892	187,696	352,949	212,683	392,749
TRS						
Plan 1	553	957	-	-	-	-
Plan 2	4,737	9,923	7,629	16,770	8,871	19,576
Plan 3	28,517	48,325	47,325	92,420	49,428	96,624

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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. For the year ended June 30, 2016, 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	2.19%
PERS Plan 2/3	2.47%
TRS Plan 1	2.09%
TRS Plan 2/3	2.51%

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

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate 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%

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.

Actuarial Assumptions and Methods

The total pension liability was determined by an actuarial valuation as of June 30, 2016 with the results rolled forward to the June 30, 2016 measurement date 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%

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA 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, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Sensitivity of the Net Pension Liability to Changes in the 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 contributions 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.

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.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	\$ 6,941,525	\$ 5,756,305	\$ 4,736,350
PERS Plan 2/3	11,927,423	6,478,141	(3,372,246)
TRS Plan 1	723,501	588,545	472,300
TRS Plan 2/3	551,431	243,658	(283,057)

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

Pension Expense

Pension expense is included as part of the “Employee Benefits” expense in the statement of revenues, expenses and changes in net position. The table below shows the components of each of the pension plans expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	\$ 336,680	\$ 883,751	\$ 37,793	\$ 66,436	\$ 1,324,660
Amortization of change in proportionate liability	112,735	66,927	269,964	18,569	468,195
Total Pension Expense	\$ 449,415	\$ 950,678	\$ 307,757	\$ 85,005	\$ 1,792,855

Changes in Proportionate Shares of Pension Liabilities

The changes to the College’s proportionate share of pension liabilities from 2015 to 2016 for each retirement plan are listed below:

Year ended June 30	2015	2016
PERS Plan 1	0.105141%	0.107184%
PERS Plan 2/3	0.125517%	0.128664%
TRS Plan 1	0.009304%	0.017238%
TRS Plan 2/3	0.009179%	0.017743%

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.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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

At June 30, 2017 the College reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

Washington State Public Employees Retirement System (PERS Plan 1)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	\$144,935	-
Changes of Assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions to pension plans after measurement date	\$ 624,641	-
Total outflows and inflows of resources	\$ 769,576	\$ -

Washington State Public Employees Retirement System (PERS Plan 2/3)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 344,956	\$ 213,854
Difference between expected and actual earnings of pension plan investments	792,738	-
Changes of Assumptions	66,957	-
Changes in College's proportionate share of pension liabilities	194,867	66,753
Contributions to pension plans after measurement date	786,412	-
Total outflows and inflows of resources	\$ 2,185,929	\$ 280,607

Pierce College
Notes to the Financial Statements (Continued)
June 30, 2017

Washington State Teachers Retirement System (TRS Plan 1)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	-
Difference between expected and actual earnings of pension plan investments	\$ 18,668	-
Changes of Assumptions	-	-
Changes in College's proportionate share of pension liabilities	-	-
Contributions to pension plans after measurement date	\$ 57,136	-
Total outflows and inflows of resources	\$ 75,804	\$ -

Washington State Teachers Retirement System (TRS Plan 2/3)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 18,432	\$ 10,811
Difference between expected and actual earnings of pension plan investments	39,223	-
Changes of Assumptions	2,481	-
Changes in College's proportionate share of pension liabilities	82,762	6,576
Contributions to pension plans after measurement date	61,422	-
Total outflows and inflows of resources	\$ 204,320	\$ 17,387

The \$1,529,611 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2018.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
2018	(35,686)	71,402	(4,825)	17,850	48,741
2019	(35,686)	39,548	(4,825)	17,850	16,887
2020	133,107	626,044	17,464	49,124	825,739
2021	83,200	381,916	10,853	34,877	510,846
2022	-	-	-	5,811	5,811
	\$ 144,935	\$ 1,118,910	\$ 18,667	\$ 125,512	\$ 1,408,024

**College Participation in Plan Administered by the State Board for Community and Technical Colleges
State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plan**

Plan Description. The State Board Retirement Plan is a privately administered single-employer defined contribution plan with a supplemental defined benefit plan component, which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. The State Board for Community and Technical Colleges makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.

Pierce College participates in this plan as authorized by chapter 28B.10 RCW, the plan covers faculty and other positions as designated by each participating employer.

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

As of July 1, 2011, the State Board Supplemental Retirement Plan was closed to new entrants.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the system as a total in the amount of \$902,000. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling \$107,094. As of June 30, 2017, the Community and Technical College system accounted for \$13,280,150 of the fund balance.

Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is the one-twelfth of 2 percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of fifty percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

would receive from their defined contribution Retirement Plan benefit in the first month of retirement had they invested all employer and member contributions equally between a fixed income and variable income annuity investment.

Plan members have the option to retire early with reduced benefits.

Plan Membership

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

Number of Participating Members
State Board Retirement Plan – Pierce College

Inactive Members (or Beneficiaries) Currently Receiving Benefits	7
Inactive Member Entitled to But Not Yet Receiving Benefits	0
<u>Active Members</u>	<u>272</u>
Total Members	279

Actuarial Assumptions and Methods

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

- Salary increases 3.50 – 4.25%
- Investment rate of return 4.25 – 6.25%

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

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

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

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

Discount Rate

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

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following table presents the College's total pension liability, calculated using the discount rate of 3.58 percent, as well as what the College's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
State Board Retirement Plan	\$ 4,223,277	\$ 3,676,064	\$ 3,222,870

Pension Expense

For the year ended June 30, 2017, the College reported \$151,181 for pension expense in the State Board Supplemental Retirement Plans.

Changes in Proportionate Shares of Pension Liabilities

The College's proportionate share of pension liabilities for fiscal year ending June 30, 2017 was 3.867506%. 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 College's, actuarially determined.

Change in Total Pension Liability

The following table presents the College's proportionate share of the change in total pension liability of State Board Supplemental Retirement Plans at June 30, 2017, the latest measurement date for all plans:

Change in Total Pension Liability

Total Pension Liability	Amount
Service cost	\$ 209,503
Interest	135,904
Changes of benefit terms	-
Differences between expected and actual experience	(979,871)
Changes in assumptions	(231,277)
Benefit payments	(34,885)
Other	-
Net Change in Total Pension Liability	(900,626)
Total Pension Liability - Beginning	4,576,690
Total Pension Liability - Ending	\$ 3,676,064

Pierce College
Notes to the Financial Statements (Continued)
June 30, 2017

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
State Board Retirement Plan (SBRP)**

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 850,967
Changes of Assumptions	-	200,840
Contributions to pension plans after measurement date	-	-
Total outflows and inflows of resources	\$ -	\$ 1,051,807

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

State Board Retirement Plan

2018	(159,380)
2019	(159,380)
2020	(159,380)
2021	(159,380)
2022	(159,380)
Thereafter	(254,907)

Defined Contribution Plans

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to Note 18.B for PERS Plan descriptions.

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

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

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

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 18.B for TRS Plan descriptions.

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

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

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

State Board Retirement Plan

As authorized by chapter 28B.10 RCW, 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

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

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 SBCTC is authorized to amend benefit provisions including contribution rates 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 100% matched by the College. Employee and employer contributions for the year ended June 30, 2017 were each \$1,851,475 and \$1,850,646, respectively.

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 GASB45 actuarially accrued liability (AAL) is \$26,499,262, with an annual required contribution (ARC) of \$2,387,638. The ARC represents the amortization of the liability for FY 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately \$512,294. The College's net OPEB obligation at June 30, 2017 was approximately \$6,984,714. This amount is not included in the College's financial statements.

The College paid \$7,195,570 for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

14. 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 College included \$54,168 and \$414,426 for compensated absences and pension expense with institutional support for the purpose of this table. The following table lists operating expenses by program for the year ending June 30, 2017.

Operating Expenses by Program
Expenses by Functional Classification

Instruction	\$ 28,343,434
Academic support services	8,999,685
Student services	10,496,713
Institutional support	12,516,782
Operations and maintenance of plant	8,259,816
Scholarships and other student financial aid	14,323,511
Auxiliary enterprises	2,611,908
Depreciation	5,206,401
Total operating expenses	\$ 90,758,250

15. Joint Venture

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to ongoing control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The College participates in the following joint venture:

INVISTA Performance Solutions (IPS) – The College is a participant with Clover Park Technical College, and Tacoma Community College in IPS, a joint venture established by a memorandum of understanding to operate as a single point of contact for regional business to access workforce development services. Their mission is to help companies gain a competitive advantage in the global economy by increasing the skills of their workforce. They offer high quality training and learning solutions to meet and exceed client expectations. IPS is also a member of Global Corporate College and actively works with 45 colleges across the United States and internationally to serve companies with an expanded footprint. IPS has a successful history of delivering high-quality facilitation, coaching, courses, and seminars that are personalized to the performance goals of each business they serve.

IPS is a nine member governing body, which includes three voting members. The College appoints three members, to which one is a voting member. The College does not have access to IPS assets, nor is it obligated for its debts, but the College does have an ongoing financial interest in IPS in that it has rights to revenues in excess of Tacoma Community College's allocated percentage of IPS's net revenue fund the reserve fund. For

Pierce College

Notes to the Financial Statements (Continued)

June 30, 2017

the fiscal year ended June 30, 2017, the change in net position and total net position are not available. IPS does not have separately issued financial statements available. Tacoma Community College is the fiscal agent responsible for the general administration of IPS and accounts for all its financial activity.

During the fiscal year ended June 30, 2017, IPS did not distribute and funds to the College.

In February 2017, the governing body of *INVISTA Performance Solutions (IPS)* voted to move general administration and responsibility as the fiscal agent from Tacoma Community College to Pierce College. This will be effective for the fiscal year beginning July 01, 2017.

As a result of this change separately issued financial statement for IPS will be available for the fiscal year ending June 30, 2018.

16. Risk Management

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.

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 accounts a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2016 through June 30, 2017, were \$224,030. Cash reserves for unemployment compensation for all employees at June 30, 2017, were \$573,980.

17. Commitments and Contingencies

Capital Commitments

Pierce maintains a facility master development plan for Fort Steilacoom and Puyallup, developed with input from campus constituents and approved by the Board of Trustees. Every two years Pierce may submit requests for capital projects to the SBCTC for funding by the legislature. These requests are submitted in priority order, based on Pierce's Facilities Master Development Plans. In addition, State Minor Capital Improvement funds are allocated by the legislature and designated for use by the SBCTC. Once awarded to Pierce these funds are used to address campus improvement priorities identified in the Facilities Master Development Plans and by Pierce's Executive Team and facilities director. The state also provides funds for capital repairs, based on how each facility scores on a system wide facilities condition survey.

When funds provided by the state are insufficient, the Board reviews and approves requests for spending from district reserves, technology fee or Services and Activities (S&A) fee monies to support capital projects.

Pierce College
Notes to the Financial Statements (Continued)

June 30, 2017

Authorized expenditures for capital commitments unexpended as of June 30, 2017 were \$838,997. Of these, \$495,155 were authorized emergency repair funds for a sanitary sewer pump station. The total anticipated cost of the replacement of this station is estimated at \$1,500,000. Funding may come from both local funds and future capital appropriations.

Contingencies

The College is involved in a number of other legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, the outcome of these legal proceedings and claims are not expected to have a material effect on the financial position of the College. Therefore, an estimated liability has not been recorded.

The various state and federal programs administered by the College for fiscal year 2017 and prior years are subject to examination by the state and federal grantor agencies. At the present time, amounts, if any, which may be due to state or federal grantors have not been determined but the College believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the College. Therefore, an estimated loss has not been recorded.

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans

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

*Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016
College's proportion of the net pension liability	0.108664%	0.105141%	0.107184%
College's proportionate share of the net pension liability	\$5,474,000	\$5,499,852	\$ 5,756,305
College employers' covered-employee payroll	\$449,142	\$392,830	\$346,659
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	1393.48%	1586.53%	1660.51%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

*Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016
College's proportion of the net pension liability	0.128456%	0.125517%	0.128664%
College's proportionate share of the net pension liability	\$2,596,560	\$4,484,795	\$6,478,141
College employers' covered-employee payroll	\$11,012,149	\$11,333,757	\$11,875,974
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	22.91%	21.86%	54.55%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans

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

*Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016
College's proportion of the net pension liability	0.009872%	0.009304%	0.017238%
College's proportionate share of the net pension liability	\$291,170	\$294,764	\$588,545
College employers' covered-employee payroll	\$9,233	\$9,210	\$1,313
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	3161.45%	22449.66%	44824.45%
Plan's fiduciary net position as a percentage of the total pension liability	68.77%	65.70%	62.07%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

*Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016
College's proportion of the net pension liability	0.010150%	0.009179%	0.017743%
College's proportionate share of the net pension liability	\$32,784	\$77,452	\$246,658
College employers' covered-employee payroll	\$391,275	\$563,986	\$853,917
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	5.81%	9.07%	28.53%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%	92.48%	88.72%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions
Public Employee's 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	\$ 41,366	\$ 41,208	\$ 158	\$ 449,142	9.17%
2015	36,180	35,452	728	392,830	9.02%
2016	38,756	38,745	11	346,659	11.18%
2017	25,771	25,771	-	230,507	11.18%
2018					
2019					
2020					
2021					
2022					
2023					

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions
Public Employee's 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	\$ 1,014,219	\$ 1,013,460	\$ 759	\$ 11,012,149	9.20%
2015	1,043,286	1,043,286	-	11,333,757	9.21%
2016	1,327,734	1,326,694	1,040	11,875,974	11.17%
2017	1,399,689	1,399,367	323	12,519,584	11.18%
2018					
2019					
2020					
2021					
2022					
2023					

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information

PENSION PLAN INFORMATION

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	\$ 959	\$ 959	-	\$ 9,233	10.39%
2015	957	957	-	9,210	10.39%
2016	172	-	172	1,313	0.00%
2017	-	-	-	-	-
2018					
2019					
2020					
2021					
2022					
2023					

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information

PENSION PLAN INFORMATION

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	\$ 40,653	\$ 39,391	\$ 1,262	\$ 391,275	10.07%
2015	58,598	58,248	350	563,986	10.33%
2016	112,119	109,190	2,929	853,917	12.79%
2017	116,200	116,240	40	885,301	13.13%
2018					
2019					
2020					
2021					
2022					
2023					

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information

PENSION PLAN INFORMATION

State Board Supplemental Defined Benefit Plans

Schedules of Changes in the Total Pension Liability and Related Ratios

*Schedule of Changes in Total Pension Liability and Related Ratios
Pierce College*

Fiscal Year Ended and Measurement Date June 30*

	<u>2017</u>
Total Pension Liability	
Service Cost	\$ 209,503
Interest	135,904
Changes of benefit terms	-
Differences between expected and actual experience	(979,871)
Changes in assumptions	(231,277)
Benefit Payments	(34,885)
Other	-
Net Change in Total Pension Liability	<u>(900,626)</u>
Total Pension Liability - Beginning	<u>4,576,690</u>
Total Pension Liability - Ending	<u>\$ 3,676,064</u>
 College's Proportion of the Pension Liability	 3.867506%
Covered-employee payroll	\$ 21,397,011
Total Pension Liability as a percentage of covered employee payroll	17.180269%

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

State Board Supplemental Defined Benefit Plans

Notes to Required Supplementary Information

The State Board Supplemental Retirement Plans are financed on a pay-as-you-go basis. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. No assets are accumulated in trusts or equivalent arrangements.

Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, salary growth, and the variable income investment return.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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