



# Washington State Auditor's Office

Government that works for citizens

## **Financial Statements and Federal Single Audit Report**

# **Pierce County Public Transportation Benefit Area Authority (Pierce Transit)**

**For the period January 1, 2014 through December 31, 2015**

**Published July 25, 2016**

**Report No. 1017038**





## Washington State Auditor's Office

July 25, 2016

Board of Commissioners  
Pierce Transit  
Lakewood, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Pierce Transit's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Pierce Transit  
Pierce County  
January 1, 2015 through December 31, 2015**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Pierce Transit are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Transit Authority.

#### Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Transit Authority’s compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.500	Federal Transit Cluster – Federal Transit Capital Investment Grants
20.507	Federal Transit Cluster – Federal Transit Formula Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Transit Authority qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**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**

**Pierce Transit  
Pierce County  
January 1, 2014 through December 31, 2015**

Board of Commissioners  
Pierce Transit  
Tacoma, 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 Pierce Transit, Pierce County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements, and have issued our report thereon dated June 22, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Transit Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the Transit Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit Authority'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 Transit Authority'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.

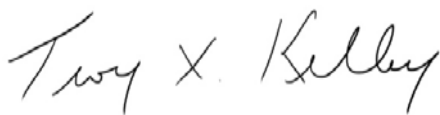
## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Transit Authority's financial statements are free from material misstatement, we performed tests of the Transit Authority'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 Transit Authority'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 Transit Authority'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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

June 22, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**Pierce Transit  
Pierce County  
January 1, 2015 through December 31, 2015**

Board of Commissioners  
Pierce Transit  
Tacoma, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the Pierce Transit, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Transit Authority's major federal programs for the year ended December 31, 2015. The Transit Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Transit Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of

compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Transit Authority's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Transit Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

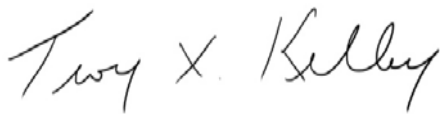
Management of the Transit Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Transit Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Transit Authority's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

June 22, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Pierce Transit Pierce County January 1, 2014 through December 31, 2015**

Board of Commissioners  
Pierce Transit  
Tacoma, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Pierce Transit, Pierce County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 15.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Transit Authority'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 Transit Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pierce Transit, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2015, the Transit Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 on pages 16 through 24 and pension plan information on pages 53 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the

basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

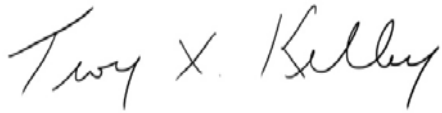
### ***Supplementary and Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2016 on our consideration of the Transit Authority'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 Transit Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

June 22, 2016

## **FINANCIAL SECTION**

**Pierce Transit  
Pierce County  
January 1, 2014 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015 and 2014

### **BASIC FINANCIAL STATEMENTS**

Comparative Statement of Net Position – 2015 and 2014

Comparative Statement of Revenues, Expenses and Changes in Net Position – 2015 and 2014

Comparative Statement of Cash Flows – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Employer Contributions PERS 1 – 2015

Schedule of Employer Contributions PERS 2/3 – 2015

Schedule of Employer Contributions TERS – 2015

Schedule of Proportionate Share of the Net Pension Liability PERS 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 – 2015

Schedule of Proportionate Share of the Net Pension Liability TERS – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards and Notes – 2015

**Pierce Transit  
Management's Discussion and Analysis  
Years Ended December 31, 2015 and 2014**

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Following is management's discussion and analysis (MD&A) of Pierce Transit's financial activities for the years ended December 31, 2015 and 2014. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

**Financial Highlights**

- Pierce Transit's assets and deferred outflows exceeded its liabilities and deferred inflows on December 31, 2015 by \$190.9 million (net position) compared to \$236.1 million in 2014 and \$227.4 million in 2013. Investments in capital assets increased by \$1.4 million, \$.2 million and \$7.4 million in 2015, 2014 and 2013 respectively. Unrestricted net position decreased by \$46.6 million in 2015 and increased by \$8.4 million in 2014 and by \$12.1 million in 2013. The decrease in unrestricted net position was due to the implementation of GASB 68 in 2015 which restated 2015 beginning net position by \$47.8 million and increase in investment of capital assets of \$1.4 million.
- The deferred outflows related to the pension plans represent employer pension contributions made during the fiscal year. Contributions made after the measurement date but before the end of the fiscal year are recorded as a deferred outflow of resources in accordance with GASB Statements 68 and 71. See Note 5 in the Notes to the Financial Statements.
- The deferred inflows related to the pension plans represent the net difference between projected and actual investment earnings on the pension plan investments. In 2015, the deferred inflow for all pension plans totaled \$7.1 million.
- Net revenue for 2015, before contributions, was \$.2 million, compared to \$.9 million for 2014 and \$1.8 million in 2013. The 2015 decrease is due to an increase in operating and depreciation expenses. The decrease between 2014 and 2013 was due to an increase in regional and local transit service

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Pierce Transit's basic financial statements. The notes to the financial statements contain more detail on the information presented in the financial statements.

Pierce Transit's financial statements report information about the Agency using accounting methods similar to those used by private sector companies. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. The Comparative Statement of Net Position presents information on Pierce Transit's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether Pierce Transit's financial position is improving or deteriorating.

The Comparative Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Agency's net position changed during the current and prior fiscal years. All changes to net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

**Pierce Transit**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2015 and 2014**

The Comparative Statement of Cash Flows presents information on Pierce Transit's cash receipts, cash payments, and net changes in cash and cash equivalents for the most recent two fiscal years. Generally Accepted Accounting Principles require that cash flows be classified into one of four categories:

- Cash flows from operating activities
- Cash flows from non-capital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities

Pierce Transit's financial statements can be found on page 24 to 27 of this report.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided with the financial statements. The Notes to the Financial Statements can be found on page 28 to 44 of this report.

**Financial Statement Analysis**

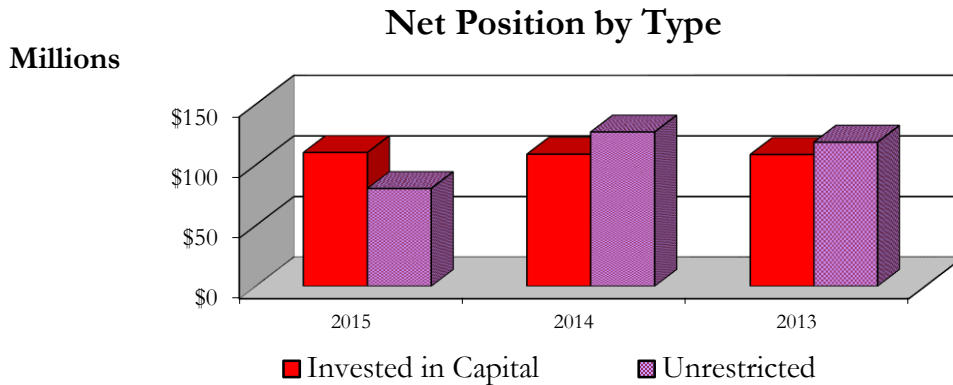
As noted earlier, net position may serve as a useful indication of the Agency's financial position. Total net position exceeds liabilities by \$190.9 million, \$236.1 million and \$227.4 million in 2015, 2014 and 2013 respectively.

**Summary Statement for Net Position**  
**For the years ending December 31, 2015, 2014 and 2013**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Assets:</b>			
Current Assets	\$ 148,573,278	\$ 144,939,720	\$ 131,433,577
Non-Current Assets	110,277,027	108,863,153	108,630,726
Deferred Outflows	6,160,588	-	-
<b>Total Assets and Deferred Outflows</b>	<b>\$ 265,010,893</b>	<b>\$ 253,802,873</b>	<b>\$ 240,064,303</b>
<b>Liabilities:</b>			
Current Liabilities	\$ 18,575,760	\$ 15,916,758	\$ 11,111,172
Non-Current Liabilities	48,447,281	1,831,511	1,552,869
Deferred Inflows	7,122,846		
<b>Total Liabilities</b>	<b>74,145,887</b>	<b>17,748,269</b>	<b>12,664,041</b>
<b>Net position:</b>			
Net Investment in Capital Assets	110,277,027	108,863,153	108,630,726
Unrestricted Net Position	80,587,979	127,191,451	118,769,537
Total Net Position	190,865,006	236,054,604	227,400,262
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 265,010,893</b>	<b>\$ 253,802,873</b>	<b>\$ 240,064,303</b>

**Pierce Transit  
Management's Discussion and Analysis  
Years Ended December 31, 2015 and 2014**

A large majority of Pierce Transit's 2015 capital assets (\$110.3 million) reflect its investment in capital assets (e.g. revenue vehicles, passenger facilities, and shop equipment). The Agency uses these capital assets to provide transportation to the community. These are committed assets and this portion of the net position balance is not available for future spending. Pierce Transit implemented GASB 68 in 2015 which restated 2015 beginning net position by \$47.8 million. A portion (\$25.9 million) of the remaining net position balance of \$80.1 million has been restricted or designated by Board action (e.g., capital, workers' compensation and liability self-insurance programs) or by bond covenants. The remainder of \$54.7 million is available to support future obligations for transportation operations.



**Comparative Statement of Revenue, Expense and Change in Net Position  
For the years ended December 31, 2015, 2014 & 2013**

	2015	2014	2013
Operating Revenue:			
Passenger Fares	\$ 12,628,413	\$ 12,212,748	\$ 12,266,180
Advertising	782,601	710,527	952,540
Regional Transit Service	36,207,706	36,262,906	33,431,542
Non-Operating Revenue:			
Subsidies	80,735,884	77,542,137	73,898,968
Other Revenue	1,799,189	4,847,634	4,248,092
<b>Total Revenue</b>	<b>132,153,793</b>	<b>131,575,952</b>	<b>124,797,322</b>
Operating Expense	115,119,040	114,860,656	107,114,336
Non-Operating Expense	530,168	1,159,934	1,117,008
Depreciation	16,292,407	14,683,193	14,746,142
<b>Total Expense</b>	<b>131,941,615</b>	<b>130,703,783</b>	<b>122,977,486</b>
Net Position before Contributions	212,178	872,169	1,819,836
Capital Grants	2,397,798	7,782,173	5,855,179
*Change in Beginning Net Position, restated GASB 68 Implementation	(47,799,574)	-	-
<b>Change in Net Position</b>	<b>\$ (45,189,598)</b>	<b>\$ 8,654,342</b>	<b>\$ 7,675,015</b>

**Pierce Transit**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2015 and 2014**

A description of operating & non-operating revenue follows:

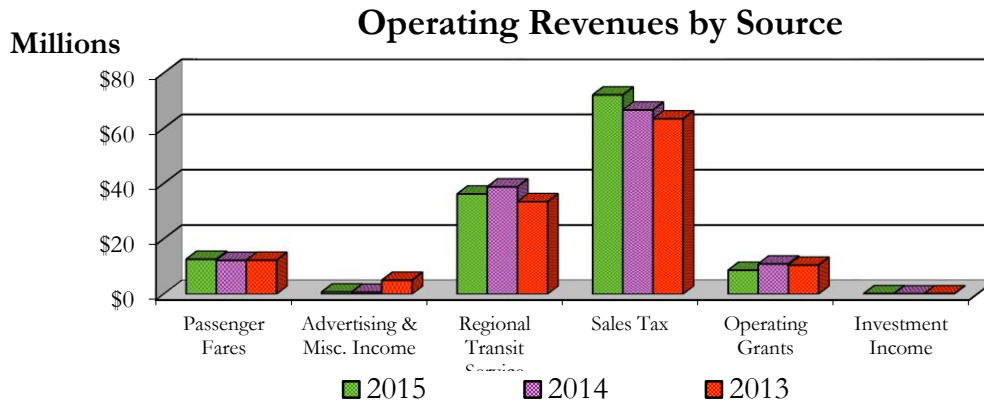
<b>Operating Revenue</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Passenger Fares	\$ 12,628,413	\$ 12,212,748	\$ 12,266,180
Advertising	782,601	710,527	952,540
Regional Transit Service	36,207,706	36,262,906	33,431,542
<b>Total Operating Revenue</b>	<b>49,618,720</b>	<b>49,186,181</b>	<b>46,650,262</b>
<b>Non-Operating Revenue</b>			
Operating Subsidies:			
Sales Tax	72,076,026	66,612,814	63,407,486
Operating Grants	8,659,858	10,929,323	10,491,482
Other Non-Operating Revenue:			
Investment Revenue	190,114	115,634	151,610
Gain on Sale of Asset	278,983	1,414,746	-
Miscellaneous Revenue	1,330,091	3,317,254	4,096,480
<b>Total Non-Operating Revenue</b>	<b>82,535,072</b>	<b>82,389,771</b>	<b>78,147,058</b>
<b>Total Revenue</b>	<b>\$ 132,153,792</b>	<b>\$ 131,575,952</b>	<b>\$ 124,797,320</b>

**Operating Revenue**

- Pierce Transit's passenger fares consist of revenues from the sale of passes and tickets as well as cash fares collected on-board revenue vehicles. Pierce Transit has partnered with six other Central Puget Sound transit agencies on a regional fare collection system (ORCA) using smart card technology. Customers can purchase fare media from any of the six partners, regardless of where the media is used.
- Fare revenues increased to \$12.6 million in 2015. Fare revenues in 2014 and 2013 were \$12.2 million and \$12.3 million respectively.
- Advertising revenues were \$.8 million in 2015, \$.7 million in 2014 and .9 million in 2013. These fluctuations were due to the timing of contractual guarantees and advertising partnerships.
- Regional transit service is the fixed route express service provided for Sound Transit, Puget Sound's Regional Transit Authority. An inter-local agreement between Pierce Transit and Sound Transit has been established for the operation of this service. The agreement is for a period of two years. The current operating agreement ends on December 31, 2016. Revenues generated from this regional transit service were \$36.2 million in 2015, decreasing .1% due to the low cost of fuel in 2015. Regional transit service revenues were \$36.3 million and \$33.4 million in 2014 and 2013, respectively. These increases were a result of a change in the number of service hours as well as the rate Pierce Transit charges for providing this service.

**Pierce Transit  
Management's Discussion and Analysis  
Years Ended December 31, 2015 and 2014**

- Sales tax, accounting for 54.8% of Pierce Transit's total revenue (excluding capital), increased by \$5.5 million, an increase of 8.2% over 2014. The increases in 2013 through 2015 continue to be due to the increase in retail sales and a decrease in unemployment as the economy continues to slowly recover from the recession. Sales tax revenue was \$72.1 million in 2015, as compared to \$66.6 million in 2014 and \$63.4 million in 2013.
- The majority of operating grant revenue is received from the Federal Transit Administration (FTA). Operating grants received in 2015 totaled \$8.7 million compared to \$10.9 million in 2014 and \$10.5 million in 2013. The changes in grant revenues are because operating grant contracts are awarded on an annual basis and vary from year to year.
- Investment revenue increased 64% from 2014 earnings. 2015 investment earnings were \$.2 million compared to \$.1 million in 2014 and \$.2 million in 2013. The increase is due to increasing interest rates in 2015 as the economy continues to rebound from the recession.



### Operating Expenses

Total 2015 operating expenses, excluding capital, totaled \$131.4 million increasing 1.4% from 2014 levels. Operating expenses for 2014 and 2013 were \$129.5 million and \$121.92 million respectively. The increase between 2015 and 2014 is due to wage and benefit costs and the increase of depreciation expense on assets. The increase between 2014 and 2013 is due to wage and benefit costs related to service hour increases and the increased cost of employer paid benefits.

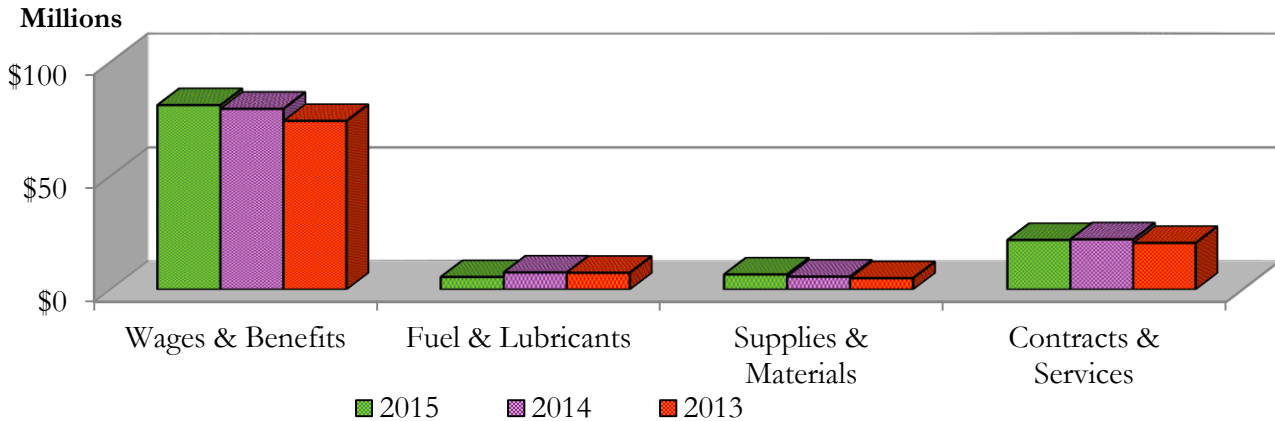
<b>Operating Expenses:</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Wages & Benefits	\$ 81,104,494	\$ 79,508,733	\$ 74,160,441
Fuel & Lubricants	5,518,422	7,529,537	7,409,160
Supplies & Materials	6,658,430	5,706,244	5,011,098
Contracts & Services	21,837,693	22,116,142	20,533,637
Depreciation & Amortization	16,292,407	14,683,193	14,746,142
<b>Total Operating Expenses</b>	<b>131,411,446</b>	<b>129,543,849</b>	<b>121,860,478</b>

**Pierce Transit**  
**Management's Discussion and Analysis**  
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**Non-Operating Expenses:**

Items Previously Deferred	9,995	20,380	224,061
Grant Exchange Funds	520,173	1,139,554	882,644
<b>Total Non-Operating Expenses</b>	<u>530,168</u>	<u>1,159,934</u>	<u>1,106,705</u>
<b>Total Expenses</b>	<u>\$ 131,941,614</u>	<u>\$ 130,703,783</u>	<u>\$ 122,967,183</u>

**Operating Expenses by Type**



Wages and benefits for 2015 of \$81.1 million make up 70.2% of operating expenses (exclusive of depreciation) and increased 2% over 2014 levels. The increase between 2015 and 2014 is due to an increase in service hours requiring additional operators. Wages and benefits for 2014 and 2013 were \$79.5 million and \$74.2 million respectively and increased 7.2% between 2014 and 2013. The increase between 2014 and 2013 was due to an increase in service hours and the increase in employer paid benefits.

Total operating expenses, exclusive of depreciation and capital, are most directly impacted by the number of service hours Pierce Transit operates. Service hours include drive time while in service, deadhead and layover. Following is a table representing the number of service hours by type of service for 2015, 2014 and 2013:

<b>Service Hours:</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Fixed Route Pierce Transit	432,755	429,535	412,704
Fixed Route Sound Transit	321,355	318,636	283,037
Specialized Transportation	186,770	184,902	182,492
Vanpool	143,234	140,256	144,384
<b>Total</b>	<u>1,084,114</u>	<u>1,073,329</u>	<u>1,022,617</u>

**Capital Assets**

Capital assets include revenue vehicles, support vehicles, projects in progress, land, buildings, shop equipment, passenger facilities, and other assets having a life of more than one year with an acquisition value of more than \$5,000. Pierce Transit's investment in capital assets as of December 31, 2015 totaled \$110.3 million, net of accumulated depreciation. This compares to a 2014 net investment in capital assets of \$108.8 million and a 2013 net investment in capital assets of \$108.6 million. 2015 net capital increased by 2%, or \$1.4 million. This is the

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result of the increase of \$7.8 million in assets and \$6.4 million in accumulated depreciation for 2015. Net 2014 capital assets increased by .1%, or \$.2 million and decreased by 3.9% or \$4.5 million for 2013.

Capital contributions in 2015 totaled \$2.4 million. Capital grants funded 14% of Pierce Transit's capital acquisitions in 2015. The Federal Transit Administration provides the majority of this funding. For a more detailed discussion on capital assets see footnote 1.

Capital acquisitions during 2015 totaled \$17.8 million and included the following major capital assets:

- \$5.5 million for Bus Replacement
- \$1.5 million for property improvements and building improvements
- \$2.0 million for a SHUTTLE, Support and Vanpool Vehicles
- \$3.1 million for technology projects and administrative equipment
- \$2.0 million on camera on buses
- \$3.7 million on CAD/AVL and Radio System

### **Debt Administration**

Pierce Transit has adopted a debt policy which governs debt issuance, the use of debt, types of debt and debt limitations. Pierce Transit has no outstanding debt as of December 31, 2015.

Pierce Transit's authorized debt limit without a vote of the people is .375% of the value of the taxable property within its boundaries. The estimated non-voted debt capacity is \$146,282,683. Pierce Transit's maximum debt capacity (voted and non-voted) is 1.25% of assessed valuation, or \$487,173,006. This estimate is based on the assessed value of the cities and towns of Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Pacific, Puyallup, Ruston, Steilacoom, Tacoma, and University Place, which are served by Pierce Transit. This estimate does not include any of the assessed valuation from the unincorporated areas of Pierce County within Pierce Transit's jurisdiction.

### **Reserve Policies**

Pierce Transit's Board of Commissioners has adopted reserve policies in order to ensure that financial resources are managed in a prudent manner. These policies address the basic principles needed to promote sound accounting, auditing, and financial practices. A summary of these policies follows:

- Operating Reserve: Pierce Transit will maintain the Operating Reserve at a minimum of two months of Agency operating expenditures. The Operating Reserve will be maintained at a level to provide sufficient working capital, to provide an adequate cash balance to finance cash flow requirements, to offset unanticipated downturns in revenues and to provide funds for emergency expenditure requirements.

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- Insurance Reserve: The Insurance Reserve will be set at a level to adequately protect the Agency from self-insurance risks.
- Capital Reserve: The minimum amount of the Capital Reserve will be set at a level equal to ten percent of the six-year average annual capital expenditures and fifty percent of the average annual grant funding programmed in the Six-Year Financial Plan. The capital reserve has been set at a level to enable the Agency to respond to urgent unanticipated capital expenditure requirements as well as to protect Pierce Transit from the uncertainty of Federal and State grant funding.
- Pierce Transit complied with its reserve policies during 2015.

## **Factors Affecting Financial Condition**

### **Local Economy**

- Sales tax revenue was 54% of Pierce Transit's total operating revenues in 2015, compared to projected sales tax revenues of 52% in 2016. Excluding contracted regional transit service, which does not fund local Pierce Transit service, sales tax revenue was 75% of total operating revenues in 2015, compared to 76% of total projected operating revenues in 2016.
- Because Pierce Transit relies heavily on sales tax to fund local service, local and national economic conditions are a significant influence on Pierce Transit's operating revenues. Retail sales in Pierce County are predicted to grow about 5.1% in 2016. Reflecting the growth in the local economy, Pierce Transit 2016 Budget includes an increase of 5.1% in sales tax revenues in 2016.
- Factors contributing to retail sales and personal income growth include:
  - the amount of personal debt
  - the overall growth in the local economy
  - the unemployment rate
- The continued economic recovery has allowed households to reduce their personal debt obligations, giving households more disposal income to spur retail sales growth. The decline in energy and transportation costs also contributes to the projected 2016 growth in retail sales.
- The main contributors to the recovery in Pierce County's labor market continue to be health care, education, finance and professional services, retail and transportation. The Port of Tacoma, which entered into a consortium with three shipping lines (the "Grand Alliance") was a major factor in the improvement in the Pierce County's transportation industry. Likewise, the expansion of several large health centers and hospitals, the revitalization of downtown Tacoma and improving retail sales all helped to boost Pierce County's labor market.
- Pierce County's unemployment rate averaged 6.8% in 2015. Unemployment is expected to decline slightly in 2016 to about 6%.
- Given these factors, Pierce County's economy is to grow modestly in 2016.

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**Long Term Financial Outlook**

- Pierce Transit recognizes that its heavy reliance on sales tax revenues makes it more susceptible to economic fluctuations than most government agencies. In response, Pierce Transit has in place reserve policies to insulate it from short term revenue downturns and unanticipated expenditures. The operating reserve policy sets minimum operating reserves equal to two months' operating expenses. This amounts to nearly \$22 million in 2016.
- Increases in sales tax revenues allow for a modest service increase in 2016 with service levels increasing from 431,087 budgeted hours in 2015 to 464,000 budgeted hours in 2016. The 2016 service levels are sustainable over the Six-Year Financial Plan.

**Comparative Statement of Net Position**

December 31, 2015 and 2014

**CURRENT ASSETS**

	2015*	2014
Cash	\$ 2,967,834	\$ 5,870,317
Investments	119,683,582	112,587,063
Accounts Receivable	179,901	230,244
Interest Receivable	10,523	-
Sales Tax Receivable	12,822,742	11,787,426
Due From Other Governments	9,805,948	11,354,279
Prepaid Expenses	274,149	258,400
Inventories	2,828,599	2,851,991

**TOTAL CURRENT ASSETS**

148,573,278 144,939,720

**NON-CURRENT ASSETS**

## Capital Assets

Land	18,075,051	18,075,051
Work in Progress	16,614,533	13,942,587
Structures & Improvements	71,204,253	70,738,163
Site Improvements	50,570,667	50,570,667
Machinery & Equipment	143,138,978	138,496,095
Less: Accumulated Depreciation	(189,326,455)	(182,959,410)

Total Capital Assets, Net of Depreciation

110,277,027 108,863,153

**TOTAL NON-CURRENT ASSETS**

110,277,027 108,863,153

**TOTAL ASSETS**

\$ 258,850,305 \$ 253,802,873

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Pension Contributions

6,160,588 -

**TOTAL ASSET AND DEFERRED OUTFLOWS**

\$ 265,010,893 \$ 253,802,873

**CURRENT LIABILITIES**

Checks Payable	\$ 585,104	\$ 589,177
Accounts Payable	4,324,228	3,026,967
Retainage Payable	-	34,936
Unearned Revenue	308,102	236,597
Wages and Benefits Payable	2,552,567	2,462,763
Employee Leave Payable	4,557,192	4,393,083
Due to Other Governments	5,063,701	3,835,268
Provision for Uninsured Claims	1,184,866	1,337,967

**TOTAL CURRENT LIABILITIES**

18,575,760 15,916,758

**NON CURRENT LIABILITIES**

Employee Leave Payable	1,862,752	1,831,511
Net Pension Liability	46,584,529	-

**TOTAL LONG-TERM LIABILITIES**

48,447,281 1,831,511

**DEFERRED INFLOWS OF RESOURCES**

Deferred Pension	7,122,846	-
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**TOTAL DEFERRED INFLOWS OF RESOURCES**

7,122,846 -

**TOTAL LIABILITIES AND DEFERRED INFLOWS**

\$ 74,145,887 \$ 17,748,269

**NET POSITION**

Investment in Capital Assets	\$ 110,277,027	\$ 108,863,153
Unrestricted Net Position, Restated	80,587,979 *	127,191,451

**TOTAL NET POSITION, as restated**

190,865,006 236,054,604

**TOTAL LIABILITIES, DEFERRED INFLOWS AND**

NET POSTION, as restated

\$ 265,010,893 \$ 253,802,873

See accompanying notes to the financial statements.

Pierce Transit

# **Comparative Statement of Revenues, Expenses and Changes in Net Position**

Years ended December 31, 2015 and 2014

<b>OPERATING REVENUE</b>	<b>2015*</b>	<b>2014</b>
Passenger Fares	\$ 12,628,413	\$ 12,212,748
Advertising	782,601	710,527
Regional Transit Service	36,207,706	36,262,906
<b>TOTAL OPERATING REVENUE</b>	<b>49,618,720</b>	<b>49,186,181</b>
<b>OPERATING EXPENSES</b>		
Operations	69,255,832	69,133,747
Maintenance	20,739,687	20,838,476
Non-Vehicle Maintenance	5,318,904	4,894,633
General & Administration	19,804,617	19,993,800
Depreciation & Amortization	16,292,407	14,683,193
<b>TOTAL OPERATING EXPENSES</b>	<b>131,411,447</b>	<b>129,543,849</b>
<b>OPERATING REVENUE (LOSS)</b>	<b>(81,792,727)</b>	<b>(80,357,668)</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Operating Subsidies:		
Sales Tax	72,076,026	66,612,814
Operating Grants	8,659,858	10,929,323
Other:		
Expense of Items Previously Deferred	(9,995)	(20,380)
Interest Revenue	190,114	115,634
Grant Exchange Funds	(520,173)	(1,139,554)
Miscellaneous Non-Operating Revenue	1,330,092	3,317,254
Gain (Loss) on Disposal of Assets	278,983	1,414,746
<b>NET NON-OPERATING REVENUE</b>	<b>82,004,905</b>	<b>81,229,837</b>
<b>NET POSITION</b>	<b>212,178</b>	<b>872,169</b>
Capital Contributions	2,397,798	7,782,173
<b>CHANGE IN NET POSITION</b>	<b>2,609,976</b>	<b>8,654,342</b>
<b>NET POSITION-BEGINNING</b>	<b>236,054,604</b>	<b>227,400,262</b>
Change in Beginning Net Position, restated for GASB 68	(47,799,574) *	
<b>NET POSITION-ENDING, as restated</b>	<b>\$ 190,865,006</b>	<b>\$ 236,054,604</b>

See accompanying notes to the financial statements.

\*Net position restated for GASB 68 implementation

**Comparative Statement of Cash Flows**

Years ended December 31, 2015 and 2014

**INCREASE(DECREASE)IN CASH AND CASH EQUIVALENTS:****CASH FLOWS FROM OPERATING ACTIVITIES:**

	2015	2014
Cash Received From Customers	\$ 53,004,191	\$ 52,796,966
Cash Payments to Suppliers for Goods & Services	(34,152,745)	(35,673,646)
Cash Payments to Employees for Services	(80,819,340)	(77,744,959)
Miscellaneous Non-Operating Income	1,330,092	3,317,254
<b>Net Cash Used By Operating Activities</b>	<b>(60,637,802)</b>	<b>(57,304,385)</b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Sales Tax Received	71,040,710	66,216,801
Operating Grants Received	7,483,322	11,245,365
Grant Exchange Funds	(520,173)	(1,139,554)
<b>Net Cash Provided By Noncapital Financing Activities</b>	<b>78,003,859</b>	<b>76,322,612</b>

**CASH FLOWS FROM CAPITAL AND RELATED****FINANCING ACTIVITIES:**

Acquisition and Construction of Capital Assets	(16,028,391)	(16,328,404)
Capital Grants and Contributions	2,397,798	7,782,173
Principal Paid on Debt	-	-
Interest Paid on Debt	-	-
Proceeds From Sale of Equipment	278,983	2,746,727
<b>Net Cash Used By Capital and Related Financing Activity</b>	<b>(13,351,610)</b>	<b>(5,799,504)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of Investment Securities	(92,468,111)	(87,316,658)
Proceeds from Maturities of Investment Securities	85,371,590	71,823,100
Interest on Investments	179,591	115,634
<b>Net Cash Used By Investing Activities</b>	<b>(6,916,930)</b>	<b>(15,377,924)</b>

Net Increase (Decrease) in Cash and Cash Equivalents	(2,902,483)	(2,159,201)
Cash and Cash Equivalents at Beginning of Year	5,870,317	8,029,518
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 2,967,834</b>	<b>\$ 5,870,317</b>

See accompanying notes to the financial statements.

**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (81,792,727)	\$ (80,357,668)
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**ADJUSTMENTS TO RECONCILE OPERATING TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Depreciation and Amortization	16,292,407	14,683,193
Miscellaneous Non-Operating Income	1,330,092	3,317,254

**CHANGE IN ASSETS AND LIABILITIES FROM OPERATIONS:**

(Increase) Decrease in Receivables	50,343	2,058,169
(Increase) Decrease in Inventories	23,392	(320,801)
(Increase) Decrease in Prepaid Expenses	(15,749)	17,489
(Increase) Decrease in Due from Other Governments	2,035,190	(846,653)
Increase (Decrease) in Checks Payable	46,474	140,279
Increase (Decrease) in Accounts Payable	(41,215)	(197,559)

See accompanying notes to the financial statements.

Increase (Decrease) in Unearned Revenue	71,505	35,290
Increase (Decrease) in Wages and Benefits Payable	1,247,412	1,763,774
Increase (Decrease) in Due to Other Governments	1,228,433	2,363,979
Increase (Decrease) in Provision for Uninsured Claims	(151,101)	38,869
Net Pension Liability - Related Deferred Inflows and Outflows	(962,258)	-
<b>TOTAL ADJUSTMENTS</b>	<b>21,154,925</b>	<b>23,053,283</b>
<b>Net Cash Used By Operating Activities</b>	<b>\$ (60,637,802)</b>	<b>\$ (57,304,385)</b>

See accompanying notes to the financial statements.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Pierce County Public Transportation Benefit Area Corporation, hereinafter Pierce Transit (PTBA), was authorized to begin operation of a public transportation system in 1980. On January 1, 1980, Pierce Transit assumed the operations of the City of Tacoma Transit System.

The accounting policies of Pierce Transit (the Agency) conform to generally accepted accounting principles applicable to governmental units. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

**Entity** - Pierce Transit is a municipal corporation formed under the authority of Chapter 36.57A of the Revised Code of Washington. Pierce Transit operates fixed route, specialized transportation (SHUTTLE), and vanpool transportation services to Pierce County, within Pierce Transit's service area. In addition, rideshare matching services and commute trip reduction assistance is provided to local and regional employers.

The Pierce Transit Board of Commissioners is responsible for governance of the Agency. In 2012, a Public Transportation Improvement Conference (PTIC) changed Pierce Transit's service and taxing area. Pierce Transit went from serving nineteen jurisdictions to serving fourteen jurisdictions. As a result, the composition of the Board of Commissioners changed. The ten member Board consists of two members of the Tacoma City Council and two members of Pierce County government. The cities of Lakewood, Puyallup, and University Place each have one commissioner. The cities of Edgewood, Fife and Milton have one Commissioner, elected amongst the three cities. The remaining towns and cities have one Commissioner, elected amongst the six cities. A non-voting union representative is appointed by Amalgamated Transit Union Local 758.

Pierce Transit is governed by an appointed Board of Commissioners whose members are elected by the jurisdictions they represent, is legally separate from other entities, and is fiscally independent of other state and local government entities. The criteria, set forth in the Government Accounting Standards Board (GASB) Statement 14, indicate that Pierce Transit is a primary government for reporting purposes and that there are no additional entities or funds for which the Agency has reporting responsibilities.

Pierce Transit has an undivided interest in a non-equity joint venture, jointly governed with seven other agencies for the provision of regional fare collection (ORCA) services. Pierce Transit's undivided interests in the assets, liabilities and operations of the ORCA regional fare collection system are consolidated within these financial statements on a proportionate basis.

**Basis of Accounting** - Pierce Transit is a single proprietary fund. Proprietary funds are accounted for on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. Revenues and expenses are categorized as operating or non-operating. Operating revenues and expenses are those directly associated with the provision of transportation service. Non-operating revenues and expenses are those secondary to the provision of transportation service.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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**New Pronouncements and Reinstatements of Net Position** - In 2015, Pierce Transit adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB 68*. GASB 68 requires entities providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net liability or net pension asset, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position.

The change in accounting for pensions, as discussed in Note 5A, resulted in the following restatement of net position as of January 1, 2015:

Unrestricted net position, January 1, 2015	\$127,191,451
as previously reported	
GASB 68 adjustment to record net pension liability	
and related deferred outflows of resources	<u>(47,799,574)</u>
Restated net position January 1, 2015	<u>\$ 79,391,877</u>

**Budget and Spending Controls** - Pierce Transit uses a budget that serves a variety of functions including planning, control, and information. As a planning tool, the budget is used to quantify the financial implications of planned operations and evaluate fiscal alternatives. As a control document, the budget assists in the day-to-day financial operations by providing fiscal control for individual purchases. As an information source, the budget provides financial information about the Agency's expected fiscal position.

The modified accrual basis is used for budgeting. Under this method, operating revenues and expenses are budgeted on the accrual basis. Modified accrual budgeting is used for non-operating revenues and expenses, which include capital grant receipts and expenses, as well as debt service principal. Unencumbered operating appropriations lapse at year-end.

Capital expenses and grant reimbursements are budgeted on a project basis. Projects are budgeted in their entirety when approved, regardless of anticipated expenditure dates. Each year thereafter, the remaining portion of the project, as well as related grant reimbursements are carried over to the following year.

Pierce Transit adopts an annual budget in December of the preceding fiscal year following analysis by staff and the Board of Commissioners. The budget is based on Agency-wide strategic priorities and divisional programs and objectives.

A schedule of budgeted versus actual revenues and expenses for the periods ended December 31, 2015 and 2014, is as follows:

Pierce Transit  
Notes to Financial Statements  
Years Ended December 31, 2015 and 2014

**SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL**  
**Year Ended December 31, 2015**

	AMENDED BUDGET	ACTUAL	VARIANCE
Passenger Fares	\$ 12,483,534	\$ 12,628,413	\$ 144,879
Advertising	763,000	782,601	19,601
Regional Transit Service	36,494,014	36,207,706	(286,308)
Interest Revenue	131,700	190,114	58,414
Sales Tax	69,476,194	72,076,026	2,599,832
Operating Grants	8,128,321	8,659,858	531,537
Capital Contributions	5,676,704	2,397,798	(3,278,906)
Miscellaneous Revenues	6,051,207	1,330,092	(4,721,115)
Gain (Loss) on Disposal of Assets	-	278,983	278,983
<b>TOTAL*</b>	<b>\$ 139,204,674</b>	<b>\$ 134,551,591</b>	<b>\$ (4,653,083)</b>

**SCHEDULE OF EXPENSES BUDGETED VERSUS ACTUAL**  
**Year Ended December 31, 2015**

	AMENDED BUDGET	ACTUAL	VARIANCE
Personnel	\$ 86,619,972	\$ 81,104,494	\$ 5,515,478
Fuel and Lubricants	8,178,638	5,518,422	2,660,216
Supplies and Materials	6,646,235	6,658,429	(12,194)
Contracts and Services	26,394,686	21,837,695	4,556,991
Depreciation and Amortization	-	16,292,407	(16,292,407)
Expense of Items Previously Deferred	-	9,995	(9,995)
Capital Acquisitions	38,479,440	17,767,302	20,712,138
Grant Exchange Funds	860,301	520,173	340,128
<b>TOTAL*</b>	<b>\$ 167,179,272</b>	<b>\$ 149,708,917</b>	<b>\$ 17,470,355</b>

\*Expenses in excess of revenues, if any, were funded by reserves. See accompanying notes to the financial statements.

Pierce Transit  
Notes to Financial Statements  
Years Ended December 31, 2015 and 2014

**SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL**  
**Year Ended December 31, 2014**

	AMENDED BUDGET	ACTUAL	VARIANCE
Passenger Fares	\$ 12,429,612	\$ 12,212,748	\$ (216,864)
Advertising	725,000	710,527	(14,473)
Regional Transit Service	37,882,481	36,262,906	(1,619,575)
Interest Revenue	182,494	115,634	(66,860)
Sales Tax	63,348,980	66,612,814	3,263,834
Operating Grants	9,990,243	10,929,323	939,080
Capital Contributions	14,784,380	7,782,173	(7,002,207)
Miscellaneous Revenues	5,786,085	3,317,254	(2,468,831)
Gain (Loss) on Disposal of Assets	-	1,414,746	1,414,746
<b>TOTAL*</b>	<b>\$ 145,129,275</b>	<b>\$ 139,358,125</b>	<b>\$ (5,771,150)</b>

**SCHEDULE OF EXPENSES BUDGETED VERSUS ACTUAL**  
**Year Ended December 31, 2014**

	AMENDED BUDGET	ACTUAL	VARIANCE
Personnel	\$ 81,486,507	\$ 79,508,733	\$ 1,977,774
Fuel and Lubricants	7,942,909	7,529,537	413,372
Supplies and Materials	6,401,568	5,706,244	695,324
Contracts and Services	26,107,209	22,116,142	3,991,067
Depreciation and Amortization	-	14,683,193	(14,683,193)
Expense of Items Previously Deferred	-	20,380	(20,380)
Capital Acquisitions	45,772,286	16,267,985	29,504,301
Grant Exchange Funds	860,300	1,139,554	(279,254)
<b>TOTAL*</b>	<b>\$ 168,570,779</b>	<b>\$ 146,971,768</b>	<b>\$ 21,599,011</b>

\*Expenses in excess of revenues, if any, were funded by reserves. See accompanying notes to the financial statements.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2015 and 2014**

Following is a reconciliation of the revenues and expenses shown on the Budget vs. Actual Schedule and the Comparative Statement of Revenues, Expenses and Changes in Net Position:

**REVENUES FROM THE COMPARATIVE STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET POSITION:**

	<b>2015</b>	<b>2014</b>
Passenger Fares	\$ 12,628,413	\$ 12,212,748
Advertising	782,601	710,527
Regional Transit Service	36,207,706	36,262,906
Interest Revenue	190,114	115,634
Misc. Non-Operating Revenue	1,330,092	3,317,254
Operating Subsidies	80,735,884	77,542,137
Gain (Loss) on Disposal of Assets	278,983	1,414,746
<b>TOTAL</b>	<b>\$ 132,153,793</b>	<b>\$ 131,575,952</b>

**Revenues From the Budget vs. Actual Schedule:**

Capital Contributions	2,397,798	7,782,173
<b>TOTAL</b>	<b>2,397,798</b>	<b>7,782,173</b>
<b>GRAND TOTAL</b>	<b>\$ 134,551,591</b>	<b>\$ 139,358,125</b>

**EXPENSES FROM THE COMPARATIVE STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET POSITION:**

	<b>2015</b>	<b>2014</b>
Operations	\$ 69,255,832	\$ 69,133,747
Maintenance	20,739,687	20,838,476
Non-Vehicle Maintenance	5,318,904	4,894,633
General & Administration	19,804,617	19,993,800
Depreciation and Amortization	16,292,407	14,683,193
Expense of Items Previously Deferred	9,995	20,380
Grant Exchange Funds	520,173	1,139,554
<b>TOTAL</b>	<b>\$ 131,941,615</b>	<b>\$ 130,703,783</b>

**Expenses From the Budget vs. Actual Schedule**

Capital Acquisitions	17,767,302	16,267,985
<b>GRAND TOTAL</b>	<b>\$ 149,708,917</b>	<b>\$ 146,971,768</b>

**Encumbrances** - Pierce Transit encumbers all expenses for management information. Encumbrances do not, however, constitute a legal reduction of appropriations. Accounts encumbered but not expended by the end of the budget year become an encumbrance of the following year's appropriations. Encumbrances outstanding on December 31, 2015 total \$13,638,359 compared to \$14,794,952 on December 31, 2014. The majority of the encumbrances for 2015 result from capital projects in progress including shuttle vehicle

**Pierce Transit**  
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purchases, bus replacement, radio equipment, and technology improvements. Encumbrances are not shown on the financial statements.

**Cash and Cash Equivalents** - For purposes of the Comparative Statement of Cash Flows, Pierce Transit considers all highly liquid investments and deposits (including restricted assets) with a maturity period of three months or less when purchased to be cash equivalents.

**Investments** - Investments are carried at fair value based on quoted market prices.

**Inventories** - Inventory consists of fuel, lube and oil, antifreeze, transmission fluid, and repair parts held for consumption. Purchases are recorded as increases to inventory. Expenses are recorded as the materials are used. Inventory is valued on the moving, weighted average cost method.

**Restricted Assets** - Proceeds from bond issues and monies set aside for future payment of capital, debt service, and insurance claims are classified as restricted assets when their use is limited by bond covenants, grant restrictions, or resolutions. Interest earnings on investment of these monies are also restricted.

**Capital Assets** - Property, plant, and equipment are stated as historical cost or at fair market value as of the date contributed. Replacements that improve or extend property life are capitalized. Intangible assets are capitalized in accordance with GASB Statement 51.

Assets are capitalized if they have individual values of at least \$5,000 and the useful life extends over more than one fiscal year.

Pierce Transit capitalizes miscellaneous expenses incurred in the acquisition, construction, or completion of capital assets. Repairs and maintenance are expended as incurred.

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The Summary of Changes in Capital Assets for the years ended December 31, 2015 and 2014, respectively, follows:

**Summary of Changes in Capital Assets**  
**Year Ended December 31, 2015**

Description	Balance January 1, 2015	Additions	Retirements	Adjustments	Balance December 31, 2015
<b>Capital assets not being depreciated:</b>					
Land	\$ 18,075,051	\$ -	\$ -	\$ -	\$ 18,075,051
Work in Progress	13,942,587	17,767,302	(15,034,336)	(61,020)	16,614,533
Total capital assets not being depreciated	32,017,638	17,767,302	(15,034,336)	(61,020)	34,689,584
<b>Depreciable capital assets:</b>					
Structures	70,738,163	466,090	-	-	71,204,253
Site Improvements	50,570,667	-	-	-	50,570,667
Machinery & Equipment	138,496,095	14,568,246	(9,987,260)	61,897	143,138,978
Total depreciable capital assets at cost	259,804,925	15,034,336	(9,987,260)	61,897	264,913,898
<b>Total Capital Assets (gross)</b>	291,822,563	32,801,638	(25,021,596)	877	299,603,482
<b>Less accumulated depreciation for:</b>					
Structures	(56,132,036)	(3,401,758)	-	-	(59,533,794)
Site Improvements	(40,378,206)	(587,203)	-	-	(40,965,409)
Machinery & Equipment	(86,449,168)	(12,303,446)	9,987,260	(61,897)	(88,827,251)
Total accumulated depreciation	(182,959,410)	(16,292,407)	9,987,260	(61,897)	(189,326,454)
<b>Total Capital Assets (net)</b>	<u>\$108,863,153</u>	<u>\$ 16,509,231</u>	<u>(15,034,336)</u>	<u>\$ (61,020)</u>	<u>\$110,277,028</u>

\*Adjustments include items previously deferred and items reclassified as assets from work in progress

**Pierce Transit**  
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**Summary of Changes in Capital Assets**  
**Year Ended December 31, 2014**

<b>Description</b>	<b>Balance January 1, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Adjustments</b>	<b>Balance December 31, 2014</b>
<b>Capital assets not being depreciated:</b>					
Land	\$ 19,380,991	\$ -	\$ (1,305,940)	\$ -	\$ 18,075,051
Work in Progress	10,573,006	16,267,987		(12,898,406)	13,942,587
Total capital assets not being depreciated	29,953,997	16,267,987	(1,305,940)	(12,898,406)	32,017,638
<b>Depreciable capital assets:</b>					
Structures	70,460,279	277,884	-	-	70,738,163
Site Improvements	53,571,111	112,977	(3,113,421)	-	50,570,667
Machinery & Equipment	127,273,018	12,487,162	(1,264,085)	-	138,496,095
Total depreciable capital assets at cost	251,304,408	12,878,023	(4,377,506)	-	259,804,925
<b>Total Capital Assets (gross)</b>	<b>281,258,405</b>	<b>29,146,010</b>	<b>(5,683,446)</b>	<b>(12,898,406)</b>	<b>291,822,563</b>
<b>Less accumulated depreciation for:</b>					
Structures	(52,805,291)	(3,326,745)	-	-	(56,132,036)
Site Improvements	(43,161,613)	(303,971)	3,087,378	-	(40,378,206)
Machinery & Equipment	(76,660,775)	(11,052,478)	1,264,085	-	(86,449,168)
Total accumulated depreciation	(172,627,679)	(14,683,194)	4,351,463	-	(182,959,410)
<b>Total Capital Assets (net)</b>	<b>\$108,630,726</b>	<b>\$ 14,462,816</b>	<b>\$ (1,331,983)</b>	<b>\$ (12,898,406)</b>	<b>\$108,863,153</b>

\*Adjustments include items previously deferred and items reclassified as assets from work in progress

Work in progress as of 12/31/15 consists of the following projects:

Buildings & Site Improvements	\$ 4,906,433
Technology Projects	3,496,350
Equipment & Vehicles	8,211,750
Total Work in Progress	<u>\$ 16,614,533</u>

A number of projects were in process at the end of 2015. Commitments on capital projects as of December 31, 2015 totaled \$12,432,374 and are itemized as follows: buildings and site improvements \$390,784, vehicles

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\$8,786,338, and technology and equipment \$3,255,252. Projects underway as of December 31, 2015 included base facility improvements, various technology upgrades or replacements, radio communication equipment, and bus and SHUTTLE vehicles.

**Depreciation** - Depreciation is computed upon the straight-line method over established useful lives of individual assets. Individual useful lives are assigned to new assets as follows:

Land	Not Depreciated
Site Improvements	10 years
Buildings	10 to 20 years
Buses	6 to 12 years
Machinery, Equipment, and Furniture	3 to 5 years
Other Vehicles	5 years

Assets acquired as used are assigned a useful life of one-half the new life. Pierce Transit does not use salvage values in the calculation of depreciation.

Costs incurred in project planning and design are deferred until projects are approved or abandoned. At that time, the related costs are transferred to the asset accounts or charged to expense as appropriate. Plant and equipment, which are incomplete, unclassified, or otherwise not in service, and therefore not subject to depreciation, are deferred until they are placed in service.

**Unearned Revenue** - Revenues are recorded when earned. Unearned revenue as of December 31, 2015 and 2014 was \$308,102 and \$236,597, respectively.

**Vacation and Sick Leave** - Employees accrue vacation by reason of tenure at annual rates ranging from 12 to 31 days per year. Employees are not allowed to accumulate more than 2 years of vacation leave accrual at any point in time. Total vacation accruals are listed as follows:

	<b>2015</b>	<b>2014</b>
Vacation-Current	\$ 2,853,068	\$ 2,789,202
Vacation-Non-Current	317,008	309,911
<b>Total Vacation Leave Liability</b>	<b>\$ 3,170,076</b>	<b>\$ 3,099,113</b>

Employees accumulate sick leave at the rate of 8 hours per month with no maximum accumulation specified. Total sick leave accruals as of December 31, 2015 and 2014 were \$6,419,942 and \$6,631,573 respectively. Sick leave is recorded as an expense at the time of payment, which occurs upon usage or termination. Fifty percent of the value is paid upon retirement or death of the employee, 20% is paid upon termination for any other reason. The estimated liability for these sick leaves payouts is as follows:

	<b>2015</b>	<b>2014</b>
Current Liability based on usage or terminations	\$ 1,704,123	\$ 1,603,881
Non-current Liability based on expected future payoffs	1,545,743	1,521,600
<b>Total Sick Leave Liability</b>	<b>\$ 3,249,866</b>	<b>\$ 3,125,481</b>

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The portion of the accrued vacation and sick leave benefits estimated to be paid more than 12 months from year-end is recorded as a long-term liability. A reconciliation of current and long-term employee leave payable follows:

	<b>2015</b>	<b>2014</b>
Balance beginning of year	\$ 4,393,083	\$ 3,979,862
Employee leave earned	3,462,495	3,931,647
Employee leave paid	(3,298,386)	(3,518,426)
<b>Current Employee Leave Payable</b>	<b>\$ 4,557,192</b>	<b>\$ 4,393,083</b>

	<b>2015</b>	<b>2014</b>
Balance beginning of year	\$ 1,831,511	\$ 1,552,870
Employee leave earned	2,055,034	1,745,501
Employee leave paid	(2,023,794)	(1,466,860)
<b>Compensated Absences</b>	<b>\$ 1,862,751</b>	<b>\$ 1,831,511</b>

## **2. CASH AND INVESTMENTS**

Cash and investments are classified in the accompanying financial statements as of December 31, 2015 and 2014, respectively as follows:

<b>Composition of Cash and Cash Equivalents:</b>	<b>2015</b>	<b>2014</b>
Demand Deposits	\$ 2,967,833	\$ 5,870,317
Investments having original maturities of less than 3 months	-	-
<b>Total Cash and Cash Equivalents</b>	<b>\$ 2,967,833</b>	<b>\$ 5,870,317</b>

All bank deposits are entirely insured by the Federal Deposit Insurance Corporation and by the Washington Public Deposit Protection Commission.

The investment practices of Pierce Transit are governed by an investment policy adopted by the Board of Commissioners. The policy addresses interest rate risk, credit risk, and concentration of credit risk. Allowable investments are limited as follows:

- U.S. government obligations.
- U.S. government agency obligations.
- Certificates of deposit issued by commercial banks and thrift institutes that are public depositories of the State of Washington.
- Repurchase agreements collateralized by liquid, marketable securities having a fair value of at least 102% of the repurchase price.
- Banker's acceptance issued by any qualified depository in the State of Washington or by the 30 largest foreign banks and the 30 largest domestic banks as listed by the American Banking Association.
- Washington State Local Government Investment Pool. The Washington State Investment Board regulates pool investments. The fair value of the shares in the investment pool is the same as the value of the pool shares.
- Money market accounts insured by the FDIC.

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During 2015 and 2014, Pierce Transit's portfolio complied with the investment policies discussed above. Management intends to hold time deposits and securities until maturity. Investments are stated at fair value on the balance sheet. Changes in fair value are included as revenue in the financial statements. The fair value of securities is based on quoted market prices. The fair value of the position in the Washington Local Government Investment Pool is the same as the value of the pool shares. No investment losses occurred during 2015 or 2014.

**Disclosures Relating to Interest Rate Risk** - Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity of its fair value to changes in market interest rates. Pierce Transit's investment policy is designed to manage the exposure to interest rate risk through diversification and by purchasing a combination of shorter and longer term investments that mature evenly over time. Pierce Transit's policy does not allow any investments over two years in maturity. Pierce Transit's weighted average maturity for December 31, 2015 and 2014 was 55 days and 9 days, respectively.

Information of the sensitivity of fair values of investments to interest rate fluctuations is provided by the following table showing maturities of all investments held by Pierce Transit as of December 31, 2015 and 2014.

<b>Investment Type</b>	Fair Value	<b>2015 Investment Maturities (in months)</b>				
		0-3	4-6	6-12	12-24	Total
Local Government						
Investment Pool	\$ 107,594,385	\$ 107,594,385	\$ -	\$ -	\$ -	\$ 107,594,385
U. S. Agencies	12,089,198	-	-	-	\$ 12,089,198	12,089,198
	<u>\$ 119,683,583</u>	<u>\$ 107,594,385</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,089,198</u>	<u>\$ 119,683,583</u>
<b>Investment Type</b>	Fair Value	<b>2014 Investment Maturities (in months)</b>				
		0-3	4-6	6-12	12-24	Total
Local Government						
Investment Pool	\$ 109,632,903	\$ 109,632,903	\$ -	\$ -	\$ -	\$ 109,632,903
U. S. Agencies	2,954,160	-	2,954,160	-	-	2,954,160
	<u>\$ 112,587,063</u>	<u>\$ 109,632,903</u>	<u>\$ 2,954,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,587,063</u>

**Disclosures Relating to Credit Risk** - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31. As of December 31, 2015, ten percent of Pierce Transit's investments are in one of the following U.S. Agencies: Federal Home Loan Banks (FHLB) and Federal National Mortgage Association (FNMA). All the U.S. Agencies held by Pierce Transit have an AAA rating from Standard & Poor's and Aaa from Moody's.

**Concentration of Credit Risk** - Pierce Transit's investment policy requires diversification of investments across security types, financial institutions, and maturities as follows:

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- No more than 50% of the Agency's total portfolio may be invested in a single type of security.
- No more than 50% of the Agency's total portfolio may be purchased from a single financial institution with the exception of the Washington State Local Government Investment Pool.
- No more than 25% of the Agency's total portfolio may be invested in any given issue with a specific maturity. Investment maturities may not exceed two years.

**Custodial Credit Risk** - Custodial credit risk for investments generally applies to direct investments in marketable securities. With the exception of the Washington State Local Government Investment Pool, Pierce Transit's marketable securities are insured, registered, or held by Pierce Transit or its agent in Pierce Transit's name. Pierce Transit's overnight repurchase agreements are collateralized by liquid, marketable securities having a market value of at least 102% of the repurchase price. Custodial credit risk does not apply to Pierce Transit's indirect investment in securities through the use of the local government investment pool.

### **3. RECEIVABLES**

Amounts due to Pierce Transit for years ended December 31, 2015 and 2014 (net of uncollectible) are detailed as follows:

#### **RECEIVABLES**

	<u>2015</u>	<u>2014</u>
Accounts Receivable	\$ 179,901	\$ 230,244
Interest Receivable	10,523	-
Sales Tax Receivable	12,822,742	11,787,426
<b>Due from Other Governments:</b>		
Federal Operating Assistance	337,833	1,892,199
Other Operating Partnerships	838,703	697,135
Fuel Tax Refund & CNG Credit	762,373	804,175
Regional Transit Service Revenues	7,501,601	6,905,655
Capital Grants	365,439	505,623
Other Capital Partnerships	-	549,492
<b>Total Receivables</b>	<u>\$22,819,115</u>	<u>\$23,371,949</u>

### **4. NET POSITION**

Pierce Transit's Board of Commissioners has established reserve policies for Pierce Transit's capital and insurance programs. The net position amount designated for insurance is set at a level to adequately protect the Agency from self-insurance risks. The amount designated for capital is set at a level equal to ten percent of the six year average annual capital expenses plus fifty percent of the average annual grant funding programmed in the six year financial plan. Funds designated for capital are intended to fund currently approved capital projects and to replace capital equipment and facilities as they wear out. The Board of Commissioners as a part of the budget process reviews the level of the self-insurance and capital designations annually.

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Net position is increased when revenues are greater than expenses and decreased when expenses exceed revenues. Pierce Transit restated the 2015 beginning net position by \$47,799,574 to implement GASB 68.

	<u>2015</u>	<u>2014</u>
Operating	\$ 54,706,401	\$ 107,020,803
Self-Insurance	586,300	429,949
Capital Replacement/Expansion	<u>25,295,278</u>	<u>19,740,699</u>
<b>Total Unrestricted Net Position</b>	80,587,979	127,191,451
Net invested in Capital Assets	<u>110,277,027</u>	<u>108,863,153</u>
	<u>\$ 190,865,006</u>	<u>\$ 236,054,604</u>

## 5. EMPLOYEE BENEFITS

**A. RETIREMENT** - 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 state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement System and the Tacoma Employees Retirement System. 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.

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

<b>Aggregate Pension Amounts – All Plans</b>	
Net Pension liabilities	\$ 260,778,859
Pension assets	\$ 214,194,330
Deferred outflows of resources	\$ 6,160,588
Deferred inflows of resources	\$ 7,122,846
Pension expense/expenditures	\$ 5,235,011

Substantially all Pierce Transit's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems. Tacoma Transit employees electing to remain in the Tacoma Employee's Retirement System (TERS) when Pierce Transit took over operations of Tacoma Transit in 1980 are covered by TERS which is a defined benefit plan. Seven employees are enrolled in TERS. The Public Employees Retirement Systems (PERS) covers all other employees.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

The Tacoma Employees' Retirement System (TERS), a pension trust fund of the City of Tacoma, Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information. The TERS CAFR may be obtained by writing to:

Tacoma Employees Retirement System  
Tacoma Public Utilities, Administration Building  
3628 South 35<sup>th</sup> Street  
Tacoma, WA 98409

Or the TERS CAFR may be downloaded at [www.cityoftacoma.org/retirement](http://www.cityoftacoma.org/retirement).

**Public Employees' Retirement System (PERS)** - PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 1 Contribution Rate</b>	<b>Employer Rate</b>	<b>Employee Rate</b>
January - June 2015	9.21%	6.00%
July – December 2015	11.18%	6.00%

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Pierce Transit's actual contributions to the plan were \$56,130 for the year ended December 31, 2015 and \$2,351,519 for Plan1 UAAL.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 2/3 Contribution Rates</b>	<b>Employer Plan 2/3</b>	<b>Employee Plan 2</b>
January – June 2015	9.21%	4.92%
July – December 2015	11.18%	6.12%
Employee PERS Plan 3	-	Varies

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Pierce Transit's actual contributions to the plan were \$3,018,966 for the year ended December 31, 2015.

**Actuarial Assumptions** - The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation.
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%.

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.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

**Discount Rate** - The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

**Pierce Transit**  
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To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' 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 7.5 percent was used to determine the total liability.

**Long-Term Expected Rate of Return** - The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

**Estimated Rates of Return by Asset Class** - Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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%

**Sensitivity of NPL** - The table below presents Pierce Transit's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what Pierce Transit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Discount (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 30,510,010	\$ 25,059,502	\$ 20,372,565
PERS 2/3	\$ 63,002,243	\$ 21,546,213	\$ (10,195,116)

**Tacoma Employees Retirement System (TERS)** - The Tacoma Employees' Retirement System (TERS) is a cost-sharing, multiple employer defined benefit public employee pension plan. The plan covers the majority of the employees of the City of Tacoma, with the exception of police officers, firefighters and Tacoma Rail employees, who are covered by another plan. Other members include certain employees of Pierce Transit,

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South Sound 911 and the Tacoma Pierce County Health Department who established membership in TERS when these agencies were still City of Tacoma departments.

TERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's highest consecutive 24 month average final compensation (AFC) multiplied by the member's years of service, up to 60% of AFC. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 50 with at least 20 years of service, at age 57 with at least ten years of service, or at age 60, regardless of service credit. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include death and disability payments. TERS members were vested after the completion of five years of eligible service.

The TERS member contribution rate is established the Tacoma City Council. The TERS required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>TERS Contribution Rate</b>	<b>Employer</b>	<b>Employee</b>
	10.8%	9.2%

Pierce Transit's actual contributions to the plan were \$54,225 for the year ended December 31, 2015.

**Actuarial Assumptions** - The total pension liability (TPL) for each of the TERS plan was determined using the most recent actuarial valuation completed in 2014 with a valuation date of December 31, 2014. The actuarial assumptions used in the valuation were based on the results of the Milliman, Inc. Financial Reporting Valuation.

Additional assumptions for subsequent events and law changes are current as of the December 31, 2014 actuarial valuation report. The TPL measurement date and the valuation date are the same.

- Inflation: 3% total economic inflation.
- Salary increases: 4% salary increases, including inflation.
- Investment rate of return: 7.25%.

Mortality rates were based on the RP-2000 Mortality for Healthy and Disabled Annuitants Table, generational improvements per projection per Scale AA, published by the Society of Actuaries. 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.

**Discount Rate** - The discount rate used to measure the total pension liability for the TRS plan was 7.25 percent.

To determine that rate, an asset sufficiency test included an assumed 7.25 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Contributions from plan members and employers are assumed to continue being made at contractually required rates. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected

**Pierce Transit**  
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**Years Ended December 31, 2015 and 2014**

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future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.25 percent was used to determine the total liability.

**Long-Term Expected Rate of Return** - The long-term expected rate of return on the TERS pension plan investments of 7.25 percent was determined using a building-block-method. The Tacoma Employees Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. The long-term expected rate of return of 7.25 percent approximately equals the median of the simulated investment returns over a 30-year time horizon.

**Estimated Rates of Return by Asset Class** - Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014, are summarized in the table below. The inflation component used to create the table is 3.0 percent and represents most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return Arithmetic</b>
Global Equity	41.5%	6.02%
Investment Grade Fixed Income	15.0%	2.03%
Private Equity	10.0%	9.02%
High Yield Bonds	9.0%	4.49%
US Inflation-Indexed Bonds	5.0%	1.41%
Emerging Market Debt	5.0%	5.05%
Master Limited Partnerships	4.0%	4.46%
Private Real Estate	2.5%	3.72%
Public Real Estate	2.0%	6.38%
Timber	2.0%	3.84%
Infrastructure	2.0%	5.88%
Agriculture	2.0%	4.38%

**Sensitivity of NPL** - The table below presents Pierce Transit's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what Pierce Transit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25 percent) or 1-percentage point higher (8.25 percent) than the current rate.

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
TERS	\$ 364,508	\$ (21,186)	\$ (345,807)

**Pension Plan Fiduciary Net Position** - Detailed information about the DR and TERS pension plans fiduciary net position is available in the separately issued DRS and TERS financial reports.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2015 and 2014**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - Pierce Transit's reported a total pension liability of \$46,605,715 for its proportionate share of the net pension liabilities as follows:

Plan	Liability (or Asset)
PERS 1*	\$ 25,059,502
PERS 2/3*	21,546,213
TERS **	(21,186)
<b>TOTAL</b>	<b>\$ 46,584,529</b>

\*As of June 30

\*\*As of December 31

At June 30 Pierce Transit's proportionate share of the collective PERS net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.460653%	.479064%	.018411%
PERS 2/3	.577971%	.603019%	.025048%

At December 31 Pierce Transit's proportionate share of the collective TERS net pension liabilities was as follows:

	Proportionate Share 12/31/14	Change in Proportion
TERS	.152541%	N/A

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Non-employer Allocations.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense** - For the year ended December 31, 2015, Pierce Transit recognized pension expense as follows:

Plans	Pension Expense
PERS 1	\$ 2,488,335
PERS 2/3	2,748,538
TERS	(1,862)
<b>TOTAL ALL PLANS</b>	<b>\$ 5,235,011</b>

**Pierce Transit**  
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**Deferred Outflows of Resources and Deferred Inflows of Resources** - At December 31, 2015, Pierce Transit's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1/UAAL</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,371,028
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	1,278,424	-
<b>Total PERS 1/UAAL</b>	<b>\$ 1,278,424</b>	<b>\$ 1,371,028</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 2,290,369	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	5,751,818
Changes of assumptions	34,716	-
Changes in proportion and differences between contributions and proportionate share of contributions	805,957	-
Contributions subsequent to the measurement date	1,695,035	-
<b>Total PERS 2/3</b>	<b>\$ 4,826,077</b>	<b>\$ 5,751,818</b>

<b>TERS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,862	-
Contributions subsequent to the measurement date	54,225	-
<b>Total TERS</b>	<b>\$ 56,087</b>	<b>\$ -</b>
<b>TOTAL ALL PLANS</b>	<b>\$ 6,160,588</b>	<b>\$ 7,122,846</b>

Deferred outflows of resources related to pensions resulting from Pierce Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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<b>Year ended December 31:</b>	<b>PERS 1</b>
2016	N/A
2017	N/A
2018	N/A
2019	N/A
2020	N/A
Thereafter	N/A

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2016	\$ 237,046
2017	\$ 237,046
2018	\$ 237,046
2019	\$ 94,819
2020	\$ -
Thereafter	\$ -

<b>Year ended December 31:</b>	<b>TERS</b>
2016	\$ (6,996)
2017	\$ (6,996)
2018	\$ (6,996)
2019	\$ (6,996)
2020	\$ (1,378)
Thereafter	\$ -

Pierce Transit does not provide any post employment benefits for early retirement, post-retirement, or either voluntary or involuntary terminations.

**Deferred Compensation Plan** - Pierce Transit offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Plans are offered and administered through Great West Life & Annuity Insurance Company and ICMA Retirement Corporation. Pierce Transit contributes from 1% to 5.5% of the annual salary of all participating employees. In 2015, Pierce Transit contributed \$1,802,702 and employees contributed \$2,989,548. Pierce Transit and its employees contributed \$1,708,723 and \$2,727,282 respectively to this plan in 2014. The plan is available to all employees on a voluntary basis and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Beginning in fiscal year 1998, existing assets in the plan are held in a qualified custodial account. The custodian holds the Plan's assets for the exclusive benefit of participants and beneficiaries. The Plan's assets are not the legal property of Pierce Transit and are not subject to claims of the Agency's creditors. Therefore, deferred compensation funds are not shown on the balance sheet.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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## **6. COMMITMENTS AND CONTINGENCIES**

**Grants** -Pierce Transit has received several federal grants for specific purposes that are subject to review and audit. Such audits could lead to requests for reimbursements for expenses disallowed under the terms of the grants. In the opinion of management, such disallowances, if any, will be immaterial and will not have any significant effect on the financial position of Pierce Transit.

**Regional Fare Collection System (ORCA)** - Since 1996, seven regional transit agencies have been developing a regional smart card fare payment system. Participating agencies include Pierce Transit, King County Metro, Sound Transit, Everett Transit, Washington State Ferries, Kitsap Transit and Community Transit. A smart card is an intelligent fare card that stores information including fare type and stored value in either cash or transit passes. The smart card system has been named One Regional Card for All (ORCA) and simplifies and establishes a common, non-cash fare system throughout the region. The original agreement, signed in April 2003, established the respective roles and responsibilities of the Agencies in the development and operating phases of the ORCA system. The system was phased in beginning in April 2009 and an amended agreement establishing the design, implementation, operation and maintenance of the ORCA was signed. This amended agreement further defines and establishes a framework for the operating phase of the system. The participating agencies have committed to utilizing the system for a minimum of 10 years and funding proportionate shares of regionally shared costs.

The system is governed by a Joint Board consisting of one representative from each participating agency. The funds collected through the sale of ORCA fare media to the public by participating agencies is remitted to Sound Transit acting as fiscal agent under the terms of the interlocal agreement. Fare revenue is apportioned by the fiscal agent and remitted to the participating agency that provided the transit service.

Pierce Transit's financial statements reflect its portion of ORCA fare revenues and expenses. ORCA fare revenue as of December 31, 2015 was \$4,457,682 with operating expenses of \$297,675. In 2014, ORCA revenue totaled \$3,961,513 and operating expense of \$326,209. Pierce Transit's share of funds held by the fiscal agent as of December 31, 2015, and 2014 reported within Pierce Transit's financial statements, amounted to \$327,725 and \$338,382 respectively. Other than the funds held by the fiscal agent Pierce Transit has no equity interest. The ORCA financial statements are audited by KPMG LLP, Suite 2900, 1918 8<sup>th</sup> Ave, Seattle, WA.

**Combined Communications Network** - In January 2015, Pierce Transit entered into an agreement with Pierce County to provide the maintenance, operation and governance of a joint venture to be called the Pierce Transit – Pierce County Combined Communications Network (CNN) of shared radio and microwave systems to carry voice and data traffic.

## **7. INSURANCE**

Pierce Transit became a full member of the Washington State Transit Insurance Pool (WSTIP) as of January 1, 2010 and retains first-dollar coverage for auto/general up to \$20 million per occurrence. As a member of the Pool, the Agency is able to take advantage of collective retentions, competitive re-insurance rates and an exchange of best practices that help to reduce liability exposure. In addition to auto/general liability, WSTIP policies include property coverage of up to \$1 billion (\$25,000 deductible) per occurrence, crime coverage of up to \$1 million (\$10,000 deductible) per loss, cyber-liability coverage up to \$20 million,

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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and public officials' liability coverage of up to \$20 million (\$5,000 deductible) per occurrence. Pierce Transit continues to insure pollution/underground storage tank liability through an independent broker, with coverage up to \$1 million (\$10,000 deductible) per occurrence. Pierce Transit had no settlements exceeding insurance coverage in 2014 or 2013.

Pierce Transit continues to be self-insured for unemployment compensation and workers' compensation (industrial insurance), with excess workers' compensation (EWC) retained consistent with statutory requirements. Self-insurance assets have been set aside for these workers' compensation claims, which are administered by a third-party administrator.

On December 31, 2015, the self-insurance assets totaled \$1,887,991 of which a liability of \$1,184,866 is recorded for workers' compensation and unemployment compensation claims for which it may be ultimately liable, including a provision for claims incurred but not yet reported. As of December 31, 2014, Pierce Transit's self-insurance assets totaled \$1,879,610 of which a liability of \$1,449,661 was recorded as a provision for liability claims. These liabilities are Pierce Transit's best estimate of claims based upon available information. No outstanding liabilities have been removed from the balance sheet due to the purchase of annuity contracts from third parties in the name of claimants. Claim settlements in the past three years have not exceeded insurance coverage.

A reconciliation of claims liabilities follows:

	<u>2015</u>	<u>2014</u>
Balance beginning of year	\$ 1,337,967	\$ 1,299,098
Provision for incurred claims	2,326,178	2,654,930
Payments made for claims	<u>(2,479,279)</u>	<u>(2,616,061)</u>
Claims liabilities year ended	<u>\$ 1,184,866</u>	<u>\$ 1,337,967</u>

Pierce Transit  
Required Supplemental Information  
Years Ended December 31, 2015 and 2014

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Schedule of Employer Contributions  
PERS1/UAAL  
As of December 31  
Last 10 Fiscal Years\*

	2015
Statutorily or contractually required contributions PERS 1	\$ 56,130
Statutorily or contractually required contributions PERS 1 UAAL	<u>2,351,519</u>
<b>Total PERS 1/UAAL</b>	<b>\$ 2,409,664</b>
 Contributions in relation to the statutorily or contractually required contributions	 <u>\$ 2,407,649</u>
 Contribution Deficiency (excess)	 <u>\$ -</u>
 Covered employer payroll	 <u>\$ 557,457</u>
 Contribution as a percentage of covered employee payroll	 <u>431.9%</u>

\*This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

Plan was closed to new entrants on September 30, 1977.

**Pierce Transit  
Required Supplemental Information  
Years Ended December 31, 2015 and 2014**

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**Schedule of Employer Contributions  
PERS 2/3  
As of December 31  
Last 10 Fiscal Years\***

	<b>2015</b>
Statutorily or contractual required contributions	\$ 3,025,923
Contributions in relation to the statutorily or contractual required contributions	\$ 3,025,923
Contribution Deficiency (excess)	\$ -
Covered employer payroll	\$ 52,817,995
Contribution as a percentage of covered employee payroll	5.7%

\*This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

**Pierce Transit**  
**Required Supplemental Information**  
**Years Ended December 31, 2015 and 2014**

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**Schedule of Employer Contributions**  
**TERS**  
**As of December 31**  
**Last 10 Fiscal Years\***

	<b>2015</b>
Statutorily or contractually required contributions	<u>\$ 54,225</u>
Contributions in relation to the statutorily or contractually required contributions	<u>\$ 54,225</u>
Contribution Deficiency (excess)	<u>\$ -</u>
Covered employer payroll	<u>\$ 502,081</u>
Contribution as a percentage of covered employee payroll	<u>10.8%</u>

\*This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

**Pierce Transit**  
**Required Supplemental Information**  
**Years Ended December 31, 2015 and 2014**

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**Schedule of Proportionate Share of Net Pension Liability**  
**PERS 1/UAAL**  
**As of June 30**  
**Last 10 Fiscal Years\***

	<b>2015</b>
Employer proportion of net pension liability (asset)	<u>0.479064%</u>
Employer proportion share of net pension liability	<u>\$ 25,059,502</u>
Employer covered employee payroll	<u>\$ 557,457</u>
Employer proportionate share of the net pension liability as a percentage of covered employee payroll	<u>4495.32%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>59.10%</u>

\*This schedule is intended to present information for 10 years.  
Additional years will be displayed as they become available.

This plan was closed to new entrants on September 30, 1977.

**Pierce Transit**  
**Required Supplemental Information**  
**Years Ended December 31, 2015 and 2014**

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**Schedule of Proportionate Share of Net Pension Liability**  
**PERS 2/3**  
**As of June 30**  
**Last 10 Fiscal Years\***

	<b>2015</b>
Employer proportion of net pension liability (asset)	<u>0.630019%</u>
Employer proportion share of net pension liability	<u>\$ 21,546,213</u>
Employer covered employee payroll	<u>\$ 52,817,995</u>
Employer proportionate share of the net pension liability as a percentage of covered employee payroll	<u>40.79%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>89.20%</u>

\*This schedule is intended to present information for 10 years.  
Additional years will be displayed as they become available.

**Pierce Transit**  
**Required Supplemental Information**  
**Years Ended December 31, 2015 and 2014**

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**Schedule of Proportionate Share of Net Pension Liability**  
**TERS**  
**As of December 31**  
**Last 10 Fiscal Years\***

	<u><b>2015</b></u>
Employer proportion of net pension liability (asset)	<u>-0.001525%</u>
Employer proportion share of net pension liability	<u>\$ (21,186)</u>
Employer covered employee payroll	<u>\$ 502,081</u>
Employer proportionate share of the net pension liability as a percentage of covered employee payroll	<u><u>-4.22%</u></u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>100.71%</u></u>

\*This schedule is intended to present information for 10 years.  
Additional years will be displayed as they become available.

**PIERCE COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY  
D.B.A. PIERCE TRANSIT**

Schedule 16

**Schedule of Expenditures of Federal Award  
For the Year Ended December 31, 2015**

GRANTOR	2 FEDERAL PROGRAM NAME	3 FEDERAL CFDA NO.	4 OTHER ID NO.	5 EXPENDITURES	
				FROM PASS- THROUGH AWARD	FROM DIRECT AWARDS
Federal Transit	Federal Transit Capital Investment Grants	20.500	WA04-0101	462,767	462,767
	Subtotal Federal Transit Capital Investment Grant			<b>462,767</b>	<b>462,767</b>
Federal Transit	Federal Transit Formula Grant	20.507	WA03-0221	333,974	333,974
Federal Transit	Federal Transit Formula Grant	20.507	WA04-0070	73,185	73,185
Federal Transit	Federal Transit Formula Grant	20.507	WA95-X052	14,118	14,118
Federal Transit	Federal Transit Formula Grant	20.507	WA95-X074	22,996	22,996
Federal Transit	Federal Transit Formula Grant	20.507	WA95-X080	542,758	542,758
Federal Transit	Federal Transit Formula Grant	20.507	WA95-X584	5,795,126	5,795,126
	Subtotal Federal Transit Formula Grant			<b>6,782,157</b>	<b>6,782,157</b>
<b>TOTAL</b>			<b>TOTALS</b>	<b>7,244,924</b>	<b>7,244,924</b>

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule

Note 1 - Basis of Accounting

The Schedule is prepared on the same basis of accounting as Transit's financial statements. Pierce Transit uses the accrual method of accounting.

Note 2 - Program Costs

The amounts shown as current year expenses represent only Pierce Transit's grant portion of the program costs. Entire program costs, including Pierce Transit's grant portion, may be more than shown.

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>