



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

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

For the period January 1, 2016 through December 31, 2017

Published June 21, 2018

Republished July 22, 2019

Report No. 1021563





**Office of the Washington State Auditor
Pat McCarthy**

July 22, 2019

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,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Audit Findings and Responses.....	6
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.....	9
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	12
Independent Auditor's Report on Financial Statements.....	15
Financial Section.....	19
Corrective Action Plan for Findings Reported Under Uniform Guidance	66
About the State Auditor's Office.....	67

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Pierce Transit **January 1, 2017 through December 31, 2017**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of 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 identified 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
97.075	Rail and Transit Security Grant Program

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

See finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Pierce Transit

January 1, 2017 through December 31, 2017

2017-001 The Authority did not have adequate internal controls in place to ensure accurate financial reporting on the Schedule of Expenditures of Federal Awards.

Background

Authority management is responsible for designing, implementing and maintaining internal controls to ensure financial statements and accompanying schedules are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting.

All local governments in Washington that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of the annual financial reports. Title 2 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires grantees to identify, in their accounts, all federal program awards received and spent and to report on the SEFA all federal awards spent in the year incurred.

Our audit identified a deficiency in internal controls that adversely affected the Authority's ability to produce a reliable SEFA. Because of its effect on the Authority's financial reporting, we consider this a significant deficiency.

Description of Condition

During fiscal year 2017, the Authority incurred expenses related to Americans with Disabilities Act (ADA) Services under the Federal Transit Cluster grant, totaling \$443,803. These expenses were approved by the granting agency in 2017 but were not reported on the 2017 SEFA as required under Uniform Guidance.

Cause of Condition

Staff charged with preparation and review of the SEFA did not fully understand the grant accrual process for ADA Services expensed under the Federal Transit Cluster grant. The Authority relied on reporting methods used in prior years to report expenses on the SEFA, which resulted in an error.

Effect of Condition

Inaccurate financial reports limit access to financial information by the Authority officials, the public, state and federal agencies and other interested parties. As a result of the control deficiencies:

- Federal Transit Formula Grant (CFDA 20.507) was understated by \$443,803
- Federal guidelines require audit of 20 percent of federal expenditures for entities that meet low-risk status. With the increase in reportable federal expenditures, another program had to be audited to meet this requirement, increasing audit cost.

Recommendation

We recommend the Authority improve its process to ensure it accurately prepares the SEFA in accordance with Uniform Guidance.

Transit Authority's Response

The Finance department had several staff changes at the end of 2017. The ADA grant was approved in late 2017 and was not eligible for reimbursement until 2018. This grant was for 2017 operating expenses. With the staff changes and grant approval being late in the year it was not reported properly on the 2017 SEFA. The expenses were reported when reimbursement was received in 2018. To correct this issue the expenses were removed from the 2018 SEFA and the 2017 SEFA was corrected. To eliminate future issues, we have scheduled year end meetings between finance and the grant administrator to review the status of all secured grants to ensure all expenditures are reported properly on the SEFA. Pierce Transit has implemented a new finance system which will record grant information and is another tool to ensure accurate reporting

Auditor's Remarks

We appreciate the actions taken by the Transit Authority staff during the audit. Authority staff were very helpful during the audit process. We will review these changes during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.1.3, Internal Control.

**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
January 1, 2016 through December 31, 2017**

Board of Commissioners
Pierce Transit
Lakewood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Pierce Transit, as of and for the year ended December 31, 2017 and 2016, 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 15, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the 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 opinions 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001, that we consider to be significant deficiencies.

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*.

TRANSIT AUTHORITY'S RESPONSE TO FINDINGS

The Transit Authority's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Transit Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

June 15, 2018, except for the matters discussed in Schedule of Audit Findings and Responses 2017-001, for which the date is June 24, 2019.

**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
January 1, 2017 through December 31, 2017**

Board of Commissioners
Pierce Transit
Lakewood, Washington

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

We have audited the compliance of Pierce Transit, 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, 2017. 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, 2017.

Other Matters – Report Reissuance

This report, which replaces a previously issued report, has been reissued to report on the Federal Transit Cluster (20.500 – Federal Transit Capital Investment Grants and 20.507 – Federal Transit Formula Grants) as an additional major program.

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

Pat McCarthy

State Auditor

Olympia, WA

June 15, 2018, except for our report on the Federal Transit Cluster, for which the date is June 24, 2019.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pierce Transit January 1, 2016 through December 31, 2017

Board of Commissioners
Pierce Transit
Lakewood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pierce Transit, as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 opinions.

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, 2017 and 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 19 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 opinions 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 15, 2018, except for the matters discussed in Schedule of Audit Findings and Responses 2017-001, for which the date is June 24, 2019, 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

June 15, 2018, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is June 24, 2019.

FINANCIAL SECTION

Pierce Transit January 1, 2016 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2017 and 2016

Comparative Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016

Comparative Statement of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017 and 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – (PERS 1, PERS 2/3, TERS) – 2017 and 2016

Schedule of Employer Contributions – (PERS 1, PERS 2/3, TERS) – 2017 and 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

Following is management's discussion and analysis (MD&A) of Pierce Transit's financial activities for the years ended December 31, 2017 and 2016. 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, 2017 by \$181.4 million (net position) compared to \$190.4 million in 2016 and \$190.9 million in 2015. Investments in capital assets decreased by \$5.3 million in 2017, decreased \$6.5 million in 2016 and increased \$1.4 million in 2015. Pierce Transit's net financial position decreased in 2017 due to an increase in deferred inflows and decreased deferred outflows relating to pension liabilities. Net position remained stable between 2015 and 2016.
- Unrestricted net position decreased in 2017 by \$3.7 million. This decrease was due to the use of funds from reserves for operating and \$3 million dollar decrease in deferred outflows. Unrestricted net position increased by \$6.0 million in 2016 due to the increase in deferred outflows and the decrease in deferred inflows related to pensions. Unrestricted net position decreased by \$46.6 million in 2015, caused by the implementation of GASB 68 which restated 2015 beginning net position by \$47.8 million and increased investment of capital assets of \$1.4 million.
- In 2017, deferred outflows decreased to \$7.4 million. In 2016, deferred outflows increased to \$10.3 million as compared to \$6.2 million in 2015. The deferred outflows are related to employer pension contributions in accordance with GASB Statements 68 and 71. See Note 5 in the Notes to the Financial Statements.
- In 2017, the deferred inflow for all pension plans increased by \$6.2 million to \$7.3 million, a 517% increase over 2016. In 2016, the deferred inflow for all pension plans decreased 83.3% or \$1.2 million as compared to \$7.1 million in 2015. The deferred inflows related to the pension plans represent the net difference between projected and actual investment earnings on the pension plan investments.
- Net loss for 2017, before contributions, was \$10 million, compared to a net loss for 2016 of \$1.2 million, compared to net revenue of \$.2 million for 2015. The net loss in 2017 was caused by an increase in wages & benefit costs and other operating costs, along with a decrease in operating grants. The 2016 net loss over 2015 was due to an increase in operating expenses resulting from an increase in wage & benefit costs and an increase in service hours.

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
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

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, liabilities, and deferred inflows and outflows 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 changes to the Agency's net position during the current and prior fiscal years. All changes to net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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).

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 pages 24 to 26 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 27 to 52 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 is \$181.4 million, \$190.4 million and \$190.9 million in 2017, 2016 and 2015 respectively. The decrease from 2017 to 2016 was due to net loss of \$10 million before contributions.

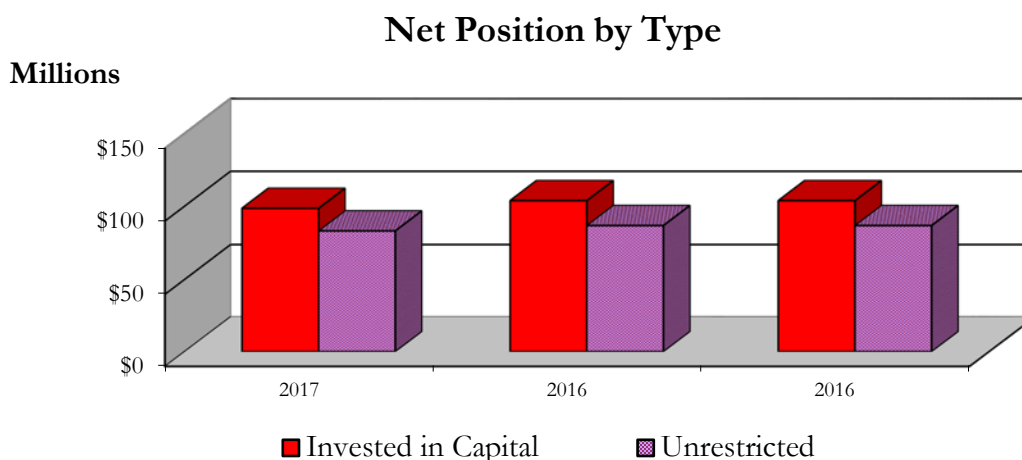
Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

Summary Statement for Net Position
For the years ending December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current Assets	\$ 150,666,354	\$ 157,234,077	\$ 148,573,278
Non-Current Assets	98,503,799	103,796,164	110,277,027
Total Assets	249,170,153	261,030,241	258,850,305
Deferred Outflows	7,360,239	10,274,959	6,160,588
Total Deferred Outflows	7,360,239	10,274,959	6,160,588
Total Assets and Deferred Outflows	<u>\$ 256,530,392</u>	<u>\$ 271,305,200</u>	<u>\$ 265,010,893</u>
Liabilities:			
Current Liabilities	\$ 21,020,028	\$ 21,155,497	\$ 18,575,760
Non-Current Liabilities	46,726,602	58,538,024	48,447,281
Total Liabilities	67,746,630	79,693,521	67,023,041
Deferred Inflows	7,345,339	1,190,037	7,122,846
Total Deferred Inflows	7,345,339	1,190,037	7,122,846
Total Liabilities and Deferred	<u>\$ 75,091,969</u>	<u>\$ 80,883,558</u>	<u>\$ 74,145,887</u>
Net position:			
Net Investment in Capital Assets	98,503,799	103,796,164	110,277,027
Unrestricted Net Position	82,934,624	86,625,478	80,587,979
Total Net Position	181,438,423	190,421,642	190,865,006
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 256,530,392</u>	<u>\$ 271,305,200</u>	<u>\$ 265,010,893</u>

A large majority of Pierce Transit's 2017 capital assets (\$98.5 million) reflect its investment in assets such as revenue vehicles, passenger facilities, technology, and shop equipment that are used to provide transportation to the community. These are committed assets and this portion of the net position balance is not available for future spending. A portion (\$64.1 million) of the remaining net position balance of \$82.9 million has been designated by Board action (e.g., capital, workers' compensation and liability self-insurance programs). The remainder of \$18.8 million is available to support future obligations for transportation operations. Pierce Transit implemented GASB 68 in 2015 which restated 2015 beginning net position by \$47.8 million.

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016



Comparative Statement of Revenue, Expense and Change in Net Position
For the years ended December 31, 2017, 2016 & 2015

	2017	2016	2015
Operating Revenue:			
Passenger Fares	\$ 12,137,563	\$ 11,912,836	\$ 12,628,413
Advertising	528,090	669,885	782,601
Regional Transit Service	42,357,818	40,421,292	36,207,706
Non-Operating Revenue:			
Subsidies	85,760,214	89,622,942	80,735,884
Other Revenue	3,212,909	3,691,514	1,799,189
Total Revenue	143,996,594	146,318,469	132,153,793
Operating Expense	134,859,369	127,945,787	115,119,040
Non-Operating Expense	481,185	2,254,943	530,168
Depreciation	18,692,559	17,289,674	16,292,407
Total Expense	154,033,113	147,490,404	131,941,615
Net Position before Contributions	(10,036,519)	(1,171,935)	212,178
Capital Contributions	1,053,300	728,571	2,397,798
*Change in Beginning Net Position, restated for GASB 68 Implementation	-	-	(47,799,574)
Change in Net Position	(8,983,219)	(443,364)	(45,189,598)
Net Position-Beginning	190,421,642	190,865,006	236,054,604
Net Position-Ending	\$ 181,438,423	\$ 190,421,642	\$ 190,865,006

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

	2017	2016	2015
Operating Revenue			
Passenger Fares	\$ 12,137,563	\$ 11,912,836	\$ 12,628,413
Advertising	528,090	669,885	782,601
Regional Transit Service	42,357,818	40,421,292	36,207,706
Total Operating Revenue	55,023,471	53,004,013	49,618,720
Non-Operating Revenue			
Operating Subsidies:			
Sales Tax	81,799,746	76,947,406	72,076,026
Operating Grants	3,960,468	12,675,536	8,659,858
Other Non-Operating Revenue:			
Investment Revenue	977,716	650,061	190,114
Gain on Sale of Asset	129,173	904,555	278,983
Miscellaneous Revenue	2,106,020	2,136,898	1,330,091
Total Non-Operating Revenue	88,973,123	93,314,456	82,535,072
Total Revenue	\$ 143,996,594	\$ 146,318,469	\$ 132,153,792

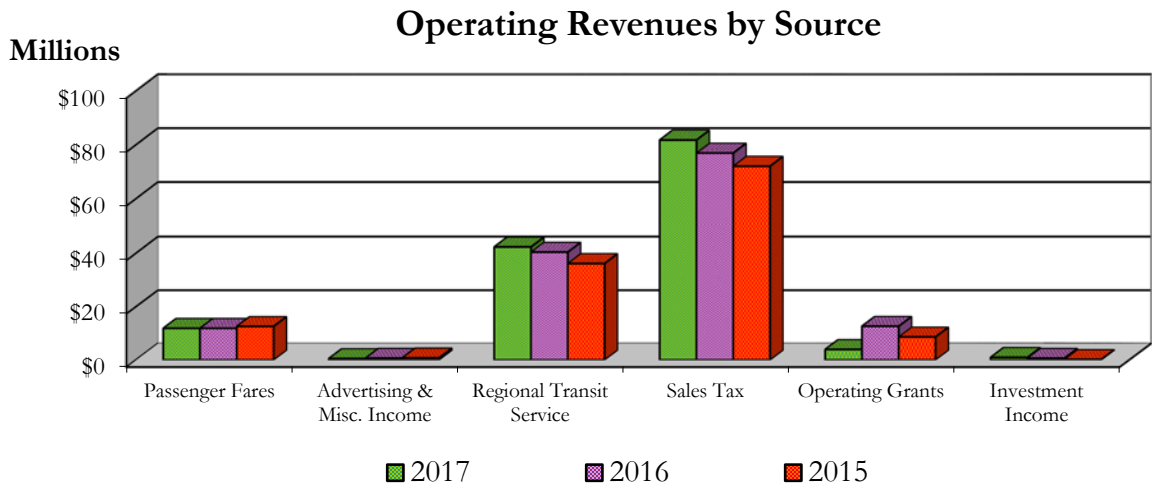
Operating Revenue

- 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 seven partners, regardless of where the media is used.
- Fare revenues were \$12.1 million in 2017. Fare revenues in 2016 and 2015 were \$11.9 million and \$12.6 million respectively. The reduction in revenue is due to decrease in ridership on all modes of Pierce Transit service in 2016. The Board of Commissioners' approved 2017 budget included a 45,000-service hour increase to provide additional routes and more frequent service. The increase was implemented in two phases, with 35,000 occurring in March 2017, and 10,000 in September 2017.
- Advertising revenues were .5 million in 2017 and .7 million in 2016. Revenue in 2015 was .8 million. Fluctuations are 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 establishes the operating parameters of this service. Included in the agreement is a method for determining and allocating Pierce Transit costs to provide this service. The agreement is for a period of three years. The

**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016**

current operating agreement ends on December 31, 2020. Revenues generated from this regional transit service were \$42.4 million in 2017, increasing 5.2% due to increases in the service hours Pierce Transit provides. Regional transit service revenues were \$40.4 million and \$36.2 million in 2016 and 2015, respectively.

- Sales tax, accounting for 57% of Pierce Transit's revenue increased by \$4.9 million, an increase of 6.3% over 2016. The increases in 2015 through 2017 are indicative of an improving local economy with increasing retail sales. Sales tax revenue was \$81.8 million in 2017, as compared to \$76.9 million in 2016 and \$72.1 million in 2015.
- In 2016 and 2015 the majority of operating grant revenue was received from the Federal Transit Administration (FTA) for preventive maintenance. In 2017, Pierce Transit reallocated the FTA grants to vehicle replacements (capital purchases). The remaining operating grants received were primarily from the State of Washington. Operating grants in 2017 totaled \$3.6 million compared to \$12.7 million in 2016 and \$8.7 million in 2015. Operating grant contracts are awarded annually and vary from year to year, based on funds availability and agency needs.
- Investment revenue increased 50% from 2016 earnings. 2017 investment earnings were \$1 million compared to \$.7 million in 2016 and \$.2 million in 2015. The increase is due to increasing interest rates.



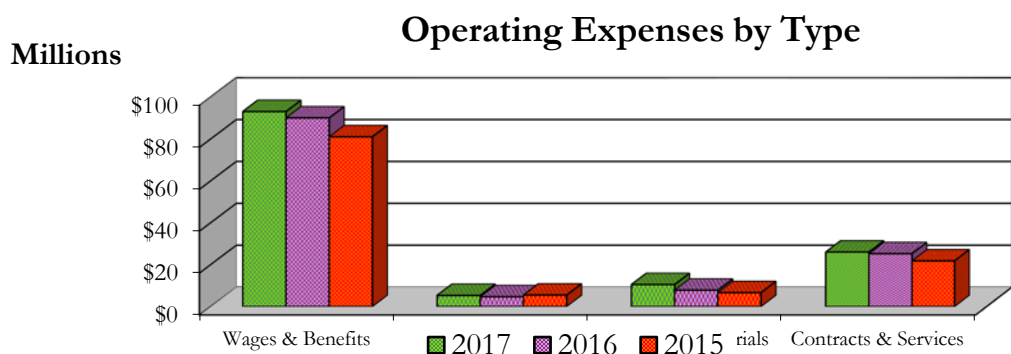
Operating Expenses

Operating expenses for 2017 totaled \$153.6 million increasing 3.2% from 2016 levels. Operating expenses for 2016 and 2015 were \$145.2 million and \$131.4 million respectively. The increase in 2017 was due to an increase in wages and benefits, and operating costs resulting from the service hour increases, as well as additional depreciation expenses. The increase between 2016 and 2015

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

was due to the labor contract settlement, hiring and training of new employees, employee wage and benefit increases, and additional depreciation expense.

Operating Expenses:	2017	2016	2015
Wages & Benefits	\$ 92,928,926	\$ 90,104,623	\$ 81,104,494
Fuel & Lubricants	5,341,710	4,721,708	5,518,422
Supplies & Materials	10,536,061	7,846,725	6,658,430
Contracts & Services	26,052,672	25,272,731	21,837,693
Depreciation & Amortization	18,692,559	17,289,674	16,292,407
Total Operating Expenses	153,551,928	145,235,461	131,411,446
Non-Operating Expenses:			
Items Previously Capitalized	84,873	365,535	9,995
Grant Exchange Funds	396,312	1,889,408	520,173
Total Non-Operating Expenses	481,185	2,254,943	530,168
Total Expenses	\$ 154,033,113	\$ 147,490,404	\$ 131,941,614



Wages and benefits for 2017 of \$92.9 million make 68.9% of operating expenses (exclusive of depreciation) an increase of 3.2% over 2016 levels. The increase between 2017 and 2016 is due to annual wages increases and increases in the cost of benefits. Wages and benefits for 2016 and 2015 were \$90.1 million and \$81.1 million respectively and increased 11% between 2016 and 2015. The increase between 2016 and 2015 is due to an increase in hiring, a retroactive labor agreement settlement, an increase in service hours, and increases in the cost of 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 2017, 2016 and 2015:

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

Service Hours:	2017	2016	2015
Fixed Route Pierce Transit	471,683	444,950	432,755
Fixed Route Sound Transit	339,523	334,484	321,355
Specialized Transportation	178,092	184,075	186,770
Vanpool	147,103	146,880	143,234
Total	1,136,401	1,089,653	1,084,114

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, 2017 totaled \$98.5 million, net of accumulated depreciation. This compares to a 2016 net investment in capital assets of \$103.8 million and a 2015 net investment in capital assets of \$110.3 million. 2017 net capital decreased by 5.1%, or \$5.3 million, due to \$14.7 million in accumulated depreciation offsetting an increase of \$9.4 million in assets.

Capital contributions in 2017 totaled \$1.1 million. Capital grants funded 7.7% of Pierce Transit's capital acquisitions in 2017. The Federal Transit Administration provides the majority of this funding. For a more detailed discussion on capital assets see footnote 1.

Capital acquisitions during 2017 totaled \$13.7 million and included the following major capital assets:

- \$4.4 million for bus expansion
- \$2.5 million for property and building improvements
- \$2.2 million for support and vanpool vehicles
- \$2.5 million for technology projects and administrative equipment
- \$2.1 million for 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 had no outstanding debt as of December 31, 2017.

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 \$179,436,391. Pierce Transit's maximum debt capacity (voted and non-voted) is 1.25% of assessed valuation, or \$594,330,773. The 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

**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016**

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.

Factors Affecting Financial Condition

Local Economy

- Sales tax revenue was 53% of Pierce Transit's total operating revenues in 2016, compared to projected sales tax revenues of 57% in 2017. Excluding contracted regional transit service, which does not fund local Pierce Transit service, sales tax revenue was 73% of total operating revenues in 2016, compared to 80% of total operating revenues in 2017.
- 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 4.3% in 2018. Reflecting the growth in the local economy as well as the growth in Pierce Transit's taxing district, Pierce Transit's 2018 Budget includes an increase of 6% over actual 2017 sales tax revenues.
- The continued economic recovery has been spurred by the growth in trade and service industries. The Puget Sound region as a whole has added jobs at a higher rate than the nation over the last several years. Positive projections in the housing and construction industries should also help spur growth in the local economy.
- New presidential policies and federal government legislation lend uncertainty to the economic climate. For example, trade restrictions may harm the Washington economy (which is heavily trade-dependent), while other policies and legislation, such as infrastructure investment may help the state and local economies.
- Pierce County's unemployment rate averaged 6% in 2017, down from 6.3% in 2016. Unemployment is expected to remain steady at 2017 levels in 2018.
- Given these factors, Pierce County's economy is expected to grow modestly in 2018.

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 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 \$24 million in 2018, plus an additional \$18 million in capital reserves.

**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016**

- Increases in revenues allow Pierce Transit to maintain the increased 2017 budgeted service hours at 500,310, while adding over \$15 million to capital projects for needed investments in infrastructure to continue the capital restoration program started after the recession. The service hour restoration and increased levels of capital spending are sustainable over the Six-Year Financial Plan.

Comparative Statement of Net Position

December 31, 2017 and 2016

	2017	2016
CURRENT ASSETS		
Cash	\$ 7,816,219	\$ 6,014,871
Investments	112,518,304	111,206,023
Accounts Receivable	212,581	248,765
Interest Receivable	82,243	23,207
Sales Tax Receivable	14,795,611	13,977,712
Due From Other Governments	11,448,335	22,179,752
Prepaid Expenses	288,214	245,460
Inventories	3,504,847	3,338,287
TOTAL CURRENT ASSETS	150,666,354	157,234,077
NON-CURRENT ASSETS		
Capital Assets Non-Depreciable		
Land	14,845,295	14,845,295
Work in Progress	10,991,758	12,275,750
Total Non-Depreciable Capital Assets	25,837,053	27,121,045
Capital Assets Depreciable		
Structures & Improvements	78,710,280	78,710,280
Site Improvements	45,100,543	45,100,543
Machinery & Equipment	168,248,005	157,547,940
Less: Accumulated Depreciation	(219,392,082)	(204,683,644)
Total Capital Assets Depreciable, Net of Depreciation	72,666,746	76,675,119
TOTAL NON-CURRENT ASSETS	98,503,799	103,796,164
TOTAL ASSETS	249,170,153	261,030,241
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pension	7,360,239	10,274,959
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,360,239	10,274,959
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 256,530,392	\$ 271,305,200
CURRENT LIABILITIES		
Checks Payable	\$ 433,261	\$ 566,448
Accounts Payable	4,012,223	3,199,299
Unearned Revenue	409,584	285,724
Wages and Benefits Payable	4,144,707	3,112,791
Employee Leave Payable	5,221,945	5,023,628
Due to Other Governments	4,986,433	7,880,635
Provision for Uninsured Claims	1,811,875	1,086,972
TOTAL CURRENT LIABILITIES	21,020,028	21,155,497
NON CURRENT LIABILITIES		
Compensated Absences	1,797,581	1,929,344
Net Pension Liability	44,929,021	56,608,680
TOTAL LONG-TERM LIABILITIES	46,726,602	58,538,024
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pension	7,345,339	1,190,037
TOTAL DEFERRED INFLOWS OF RESOURCES	7,345,339	1,190,037
NET POSITION		
Net Investment in Capital Assets	98,503,799	103,796,164
Unrestricted Net Position, Restated	82,934,624	86,625,478
TOTAL NET POSITION	\$ 181,438,423	\$ 190,421,642
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 256,530,392	\$ 271,305,200

See accompanying notes to the financial statements.

Pierce Transit

Comparative Statement of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2017 and 2016

OPERATING REVENUE	2017	2016
Passenger Fares	\$ 12,137,563	\$ 11,912,836
Advertising	528,090	669,885
Regional Transit Service	42,357,818	40,421,292
TOTAL OPERATING REVENUE	55,023,471	53,004,013
OPERATING EXPENSES		
Operations	77,968,018	76,697,537
Maintenance	24,938,382	22,220,634
Non-Vehicle Maintenance	7,027,236	7,365,708
General & Administration	24,925,733	21,661,908
Depreciation & Amortization	18,692,559	17,289,674
TOTAL OPERATING EXPENSES	153,551,928	145,235,461
OPERATING REVENUE (LOSS)	(98,528,457)	(92,231,448)
NON-OPERATING REVENUE (EXPENSE)		
Operating Subsidies:		
Sales Tax	81,799,746	76,947,406
Operational Grants	3,960,468	12,675,536
Other:		
Expense of Items Previously Capitalized	(84,873)	(365,535)
Interest Revenue	977,716	650,061
Grant Exchange Funds	(396,312)	(1,889,408)
Miscellaneous Non-Operating Revenue	2,106,020	2,136,898
Gain (Loss) on Disposal of Assets	129,173	904,555
NET NON-OPERATING REVENUE	88,491,938	91,059,513
NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(10,036,519)	(1,171,935)
Capital Contributions	1,053,300	728,571
CHANGE IN NET POSITION	(8,983,219)	(443,364)
NET POSITION-BEGINNING	190,421,642	190,865,006
NET POSITION-ENDING	\$ 181,438,423	\$ 190,421,642

See accompanying notes to financial statements

Comparative Statement of Cash Flows

Years ended December 31, 2017 and 2016

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

Cash Received From Customers	\$ 62,927,660	\$ 54,153,234
Cash Payments to Suppliers for Goods & Services	(41,028,951)	(37,719,173)
Cash Payments to Employees for Services	(91,610,355)	(89,021,698)
Miscellaneous Non-Operating Income	2,106,020	2,136,898
Net Cash Used By Operating Activities	(67,605,626)	(70,450,739)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Sales Tax Received	80,981,847	75,792,436
Operating Grants Received	1,154,380	1,549,684
Grant Exchange Funds	(396,312)	(1,889,408)
Net Cash Provided By Noncapital Financing Activities	81,739,915	75,452,712

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and Construction of Capital Assets	(13,311,963)	(12,690,295)
Capital Grants and Contributions	1,053,300	728,571
Proceeds From Sale of Equipment	129,173	904,555
Net Cash Used By Capital and Related Financing Activity	(12,129,490)	(11,057,169)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Investment Securities	(134,141,629)	(119,004,040)
Proceeds from Maturities of Investment Securities	132,829,348	127,481,600
Interest on Investments	1,108,830	624,673
Net Cash Used By Investing Activities	(203,451)	9,102,233

Net Increase (Decrease) in Cash and Cash Equivalents

1,801,368 3,047,037

Cash and Cash Equivalents at Beginning of Year

6,014,871 2,967,834

Cash and Cash Equivalents at End of Year**\$ 7,816,239 \$ 6,014,871**

See accompanying notes to the financial statements.

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

Operating Loss	\$ (98,528,457)	\$ (92,231,448)
----------------	-----------------	-----------------

ADJUSTMENTS TO RECONCILE OPERATING**TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Depreciation and Amortization	18,692,559	17,289,674
Miscellaneous Non-Operating Income	2,106,020	2,136,898

CHANGE IN ASSETS AND LIABILITIES FROM OPERATIONS:

(Increase) Decrease in Receivables	36,184	(68,864)
(Increase) Decrease in Inventories	(166,560)	(509,688)
(Increase) Decrease in Prepaid Expenses	(37,756)	28,688
(Increase) Decrease in Due from Other Governments	13,545,545	(1,576,471)
Increase (Decrease) in Checks Payable	(60,159)	(73,386)
Increase (Decrease) in Accounts Payable	440,884	774,271
Increase (Decrease) in Unearned Revenue	123,860	(22,378)
Increase (Decrease) in Wages and Benefits Payable	1,333,471	(7,991,670)
Increase (Decrease) in Due to Other Governments	(5,801,400)	2,816,934
Increase (Decrease) in Provision for Uninsured Claims	725,083	(97,894)
Net Pension Liability - Related Deferred Inflows and Outflows	(14,900)	9,074,595
TOTAL ADJUSTMENTS	30,922,831	21,780,709
Net Cash Used By Operating Activities	\$ (67,605,626)	\$ (70,450,739)

See accompanying notes to the financial statements.

Change in fair value for investments was a decrease of \$190,150

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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.

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. 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 has an undivided interest in a non-equity joint venture, jointly governed with six 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.

New Pronouncements and Restatement of 2015 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 – an amendment of GASB 68*. GASB 68 requires entities providing defined benefit pensions to their employees to recognize their

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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>

In 2017, Pierce Transit implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 establishes general principles for measuring fair value, which primarily applies to state and local governments.

Pierce Transit implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* in 2016. GASB Statement No. 79 establishes criteria for an external pool to qualify for making the election to measure investments at amortized costs for financial reporting purposes.

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 – Beginning in 2017, Investments other than the Local Government Investment Pool are carried at Fair Value in accordance with GASB No. 72. Prior to 2017, investments were carried at cost which approximated fair value.

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.

Capital Assets - Property, plant, and equipment are stated at acquisition 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. Any donated capital assets and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value.

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 expensed as incurred.

Individual useful lives are assigned to new assets as follows:

Land	Not Depreciated
Site Improvements	10 years
Buildings	10 to 20 years

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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.

Depreciation is computed upon the straight-line method over established useful lives of individual assets.

Costs incurred in project planning and design is deferred until projects are approved or abandoned. At that time, the related costs are transferred to an asset account 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. December 31, 2017 and 2016 unearned revenue was \$409,584 and \$285,724 respectively, and is made up of prepaid fare revenue.

Retirement - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.

2. 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
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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, 2017 and 2016, is as follows:

SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2017

	AMENDED BUDGET	ACTUAL	VARIANCE
Passenger Fares	\$ 13,687,329	\$ 12,137,563	\$ (1,549,766)
Advertising	800,000	528,090	(271,910)
Regional Transit Service	42,212,197	42,357,818	145,621
Interest Revenue	538,100	977,716	439,616
Sales Tax	81,217,200	81,799,746	582,546
Operating Grants	7,907,314	3,960,468	(3,946,846)
Capital Contributions	8,048,208	1,053,300	(6,994,908)
Miscellaneous Revenues	2,337,459	2,106,020	(231,439)
Gain (Loss) on Disposal of Assets	-	129,173	129,173
TOTAL*	\$ 156,747,807	\$ 145,049,894	\$ (11,697,913)

SCHEDULE OF EXPENSES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2017

	AMENDED BUDGET	ACTUAL	VARIANCE
Personnel	\$ 102,988,244	\$ 92,928,926	\$ 10,059,318
Fuel and Lubricants	6,801,591	5,341,710	1,459,881
Supplies and Materials	10,342,362	10,536,061	(193,699)
Contracts and Services	30,526,135	26,052,672	4,473,463
Depreciation and Amortization	-	18,692,559	(18,692,559)
Expense of Items Previously Capitalized	-	84,873	(84,873)
Capital Acquisitions	65,299,888	13,656,384	51,643,504
Grant Exchange Funds	780,258	396,312	383,946
TOTAL*	\$ 216,738,478	\$ 167,689,497	\$ 49,048,981

*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, 2017 and 2016

SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2016

	AMENDED BUDGET	ACTUAL	VARIANCE
Passenger Fares	\$ 14,527,774	\$ 11,912,836	\$ (2,614,938)
Advertising	763,000	669,885	(93,115)
Regional Transit Service	37,804,645	40,421,292	2,616,647
Interest Revenue	125,000	650,061	525,061
Sales Tax	74,106,092	76,947,406	2,841,314
Operating Grants	9,226,347	12,675,536	3,449,189
Capital Contributions	2,776,290	728,571	(2,047,719)
Miscellaneous Revenues	3,164,650	2,136,898	(1,027,752)
Gain (Loss) on Disposal of Assets	-	904,555	904,555
TOTAL*	\$ 142,493,798	\$ 147,047,040	\$ 4,553,242

SCHEDULE OF EXPENSES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2016

	AMENDED BUDGET	ACTUAL	VARIANCE
Personnel	\$ 91,823,601	\$ 90,104,623	\$ 1,718,978
Fuel and Lubricants	6,746,593	4,721,708	2,024,885
Supplies and Materials	6,431,668	7,846,725	(1,415,057)
Contracts and Services	29,952,290	25,272,731	4,679,559
Depreciation and Amortization	-	17,289,674	(17,289,674)
Expense of Items Previously Capitalized	-	365,535	(365,535)
Capital Acquisitions	29,318,329	14,404,102	14,914,227
Grant Exchange Funds	780,258	1,889,408	(1,109,150)
TOTAL*	\$ 165,052,739	\$ 161,894,506	\$ 3,158,233

*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, 2017 and 2016

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:**

	2017	2016
Passenger Fares	\$ 12,137,563	\$ 11,912,836
Advertising	528,090	669,885
Regional Transit Service	42,357,818	40,421,292
Interest Revenue	977,716	650,061
Misc. Non-Operating Revenue	2,106,020	2,136,898
Operating Subsidies	85,760,214	89,622,942
Gain (Loss) on Disposal of Assets	129,173	904,555
TOTAL	\$ 143,996,594	\$ 146,318,469

Revenues from the Budget vs. Actual Schedule:

Capital Contributions	1,053,300	728,571
TOTAL	1,053,300	728,571
GRAND TOTAL	\$ 145,049,894	\$ 147,047,040

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

	2017	2016
Operations	\$ 77,968,018	\$ 76,697,537
Maintenance	24,938,382	22,220,634
Non-Vehicle Maintenance	7,027,236	7,365,708
General & Administration	24,925,733	21,661,908
Depreciation and Amortization	18,692,559	17,289,674
Expense of Items Previously Capitalized	84,873	365,535
Grant Exchange Funds	396,312	1,889,408
TOTAL	\$ 154,033,113	\$ 147,490,404

Expenses from the Budget vs. Actual Schedule

Capital Acquisitions	13,656,384	14,404,102
GRAND TOTAL	\$ 167,689,497	\$ 161,894,506

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, 2017 total \$22,308,888 compared to \$9,513,062 on December 31, 2016. The majority of the encumbrances for 2017 result from capital

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

projects in progress including support vehicle, bus expansion, radio equipment, maintenance and repair of facilities and technology improvements. Encumbrances are not shown on the financial statements.

3. CHANGES IN CAPITAL ASSETS

The Summary of Changes in Capital Assets for the years ended December 31, 2017 and 2016, respectively, follows:

Summary of Changes in Capital Assets
Year Ended December 31, 2017

Description	Balance January 1, 2017	Additions	Retirements	Adjustments	Balance December 31, 2017
Capital assets not being depreciated:					
Land	\$ 14,845,295	\$ -	\$ -	\$ -	\$ 14,845,295
Work in Progress	12,275,749	13,656,384	-	(14,940,376)	10,991,757
Total capital assets not being depreciated	27,121,044	13,656,384	-	(14,940,376)	25,837,052
Depreciable capital assets:					
Structures	78,710,280	-	-	-	78,710,280
Site Improvements	45,100,543	-	-	-	45,100,543
Machinery & Equipment	157,547,941	-	(4,154,922)	14,854,987	168,248,005
Total depreciable capital assets at cost	281,358,764	-	(4,154,922)	14,854,987	292,058,828
Total Capital Assets (gross)	308,479,808	13,656,384	(4,154,922)	(85,389)	317,895,880
Less accumulated depreciation for:					
Structures	(63,494,920)	(3,041,524)	-	-	(66,536,444)
Site Improvements	(41,216,135)	(510,438)	-	-	(41,726,573)
Machinery & Equipment	(99,972,588)	(15,311,399)	4,154,922	-	(111,129,065)
Total accumulated depreciation	(204,683,643)	(18,863,361)	4,154,922	-	(219,392,082)
Total Capital Assets (net)	\$103,796,164	\$ (5,206,978)	\$ -	\$ (85,389)	\$ 98,503,798

*Adjustments include items previously capitalized and items reclassified as assets from work in progress.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Summary of Changes in Capital Assets
Year Ended December 31, 2016

Description	Balance January 1, 2016	Additions	Retirements	Adjustments	Balance December 31, 2016
Capital assets not being depreciated:					
Land	\$ 18,075,051	\$ -	\$ (3,229,756)	\$ -	\$ 14,845,295
Work in Progress	16,614,533	14,404,102	-	(18,742,886)	12,275,749
Total capital assets not being depreciated	34,689,584	14,404,102	(3,229,756)	(18,742,886)	27,121,044
Depreciable capital assets:					
Structures	71,204,253	-	-	7,506,027	78,710,280
Site Improvements	50,570,667	-	-	(5,470,124)	45,100,543
Machinery & Equipment	143,138,978	-	(1,932,485)	16,341,448	157,547,941
Total depreciable capital assets at cost	264,913,898	-	(1,932,485)	18,377,351	281,358,764
Total Capital Assets (gross)	299,603,482	14,404,102	(5,162,242)	(365,535)	308,479,808
Less accumulated depreciation for:					
Structures	(59,533,794)	(3,316,247)	-	(644,879)	(63,494,920)
Site Improvements	(40,965,409)	(408,726)	-	158,000	(41,216,135)
Machinery & Equipment	(88,827,251)	(13,564,701)	1,932,485	486,879	(99,972,588)
Total accumulated depreciation	(189,326,454)	(17,289,674)	1,932,485	-	(204,683,643)
Total Capital Assets (net)	\$110,277,028	\$ (2,885,572)	\$ (3,229,756)	\$ (365,535)	\$103,796,164

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Work in progress as of December 31, 2017 and December 31, 2016 consisted of the following projects:

	2017	2016
Buildings & Site Improvements	\$ 5,532,468	\$ 3,321,020
Technology Projects	1,389,193	2,973,848
Equipment & Vehicles	4,070,097	5,980,882
Total Work in Progress	<u>\$ 10,991,758</u>	<u>\$ 12,275,750</u>

Many projects were in process at the end of 2017. Commitments on capital projects as of December 31, 2017 totaled \$17,790,605 and are itemized as follows: buildings and site improvements \$825,061, vehicles and equipment \$14,796,051, and technology projects \$2,369,493. Projects underway as of December 31, 2016 included base facility improvements, various technology upgrades or replacements, radio communication equipment, and bus expansion.

4. COMPENSATED ABSENCES

Employees accrue vacation based on 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:

	2017	2016
Vacation-Current	\$ 3,221,896	\$ 3,130,136
Vacation-Non-Current	357,989	347,793
Total Vacation Leave Liability	<u>\$ 3,579,885</u>	<u>\$ 3,477,929</u>

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, 2017 and 2016 were \$7,186,948 and \$7,154,722 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:

	2017	2016
Current Liability based on usage or terminations	\$ 2,000,048	\$ 1,893,491
Non-current Liability based on expected future payoffs	1,439,593	1,581,552
Total Sick Leave Liability	<u>\$ 3,439,641</u>	<u>\$ 3,475,043</u>

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 leaves payable follows:

	2017	2016
Balance beginning of year	\$ 5,023,628	\$ 4,557,192
Employee leave earned	4,967,408	4,664,659
Employee leave paid	(4,769,091)	(4,198,223)
Current Employee Leave Payable	<u>\$ 5,221,945</u>	<u>\$ 5,023,628</u>

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

	2017	2016
Balance beginning of year	\$ 1,929,344	\$ 1,862,751
Employee leave earned	1,509,930	1,678,937
Employee leave paid	(1,641,693)	(1,612,344)
Compensated Absences	\$ 1,797,581	\$ 1,929,344

5. CASH AND INVESTMENTS

As of December 31, 2017, and December 31, 2016, Pierce Transit had the following cash, cash equivalents, and investments:

	2017	2016
Demand Deposits	\$ 7,816,219	\$ 6,014,871
Cash Equivalents	-	-
Local Government Investment Pool	87,188,025	90,109,905
U.S. Federal Agency Obligations (at cost)		21,096,117
U.S. Federal Agency Obligations (Level 2)	25,330,279	-
Total Cash, Equivalents, and Investments	\$ 120,334,523	\$ 117,220,893

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

Local Government Investment Pool- The LGIP is an investment trust fund of the State of Washington operated by the Office of the State Treasurer. The State Finance Committee provides statutory administrative oversight.

Eligible investments are limited only to those investments authorized by state law. The pool is subject to an annual audit by the Washington State Auditor's Office. The LGIP is an unrated, 2-a-7 like pool, as defined by GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Pools. Accordingly, participant balance in the LGIP are not subject to interest risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB Statement No. 40, Deposit and Investment Risk Disclosure-an amendment of GASB Statement 3, the balances are not subject to custodial risk. The credit risk of the LGIP is limited. Investments are limited by policy to obligations of the U.S. Government or its agencies, bankers' acceptances, commercial paper, certificates of deposit, obligations of the state of Washington, and repurchase agreements which must be rated AAA and be at least 102 percent of the value of the agreement. Investments or deposits held by the LGIP are all classified as category 1 risk-level investments. They are either insured or held by third-party custody provider in the LGIP's name.

Investments – Pierce Transit measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles as follows:

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Level 1: Quoted prices in active markets for identical assets

Level 2: Quoted market prices for similar assets or other observable inputs

Level 3: Unobservable inputs for an asset

As of December 31, 2017, Pierce Transit held \$25,330,279 in U.S. Federal agency bonds that were valued by a pricing service that uses a matrix pricing model (Level 2 inputs). 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 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.

During 2017 and 2016, Pierce Transit's portfolio complied with the investment policies discussed above. Beginning in 2017, investments other than the LGIP, which are amortized, are stated at fair value in accordance with GASB No. 72. In 2016, investments other than the LGIP were recorded at cost. Changes in fair value are included as a change in revenue in the financial statements. No investment losses occurred during 2017 or 2016.

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 short and long-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, 2017 and 2016 was 54 days and 56 days, respectively.

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, 2017, nineteen percent of Pierce Transit's investments are in one of the following U.S. Federal Agency bonds. All the U.S. Agencies held by Pierce Transit have an AAA rating from Standard & Poor's and Aaa from Moody's.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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

- 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 except for 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.

6. RECEIVABLES

Amounts due to Pierce Transit for years ended December 31, 2017 and 2016 (net of uncollectible) are detailed as follows:

Total Other Receivables:	2017	2016
Accounts Receivable	\$ 212,581	\$ 248,765
Interest Receivable	82,243	23,207
Sales Tax Receivable	14,795,611	13,977,712
Total Other Receivables	\$ 15,090,435	\$ 14,249,684
 Due from Other Governments:		
Federal Operating Assistance	-	10,101,023
Other Operating Partnerships	2,806,088	1,024,829
Fuel Tax Refund & CNG Credit	915,442	247,643
Regional Transit Service Revenues	7,681,846	10,769,338
Capital Grants	44,959	36,919
Total Due from Other Governments	11,448,335	22,179,752
Total Receivables	\$ 26,538,770	\$ 36,429,436

7. 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 will be maintained in an amount sufficient to fund the capital requirements identified in the Six-Year Plan plus an amount equal to three prior years of local depreciation, excluding buildings and structures. 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.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Net position is increased when revenues are greater than expenses and decreased when expenses exceed revenues.

	<u>2017</u>	<u>2016</u>
Operating	\$ 18,842,637	\$ 50,185,484
Self-Insurance	2,559,855	1,704,031
Capital Replacement/Expansion	<u>61,532,132</u>	<u>34,735,963</u>
Total Unrestricted Net Position	82,934,624	86,625,478
Net invested in Capital Assets	<u>98,503,799</u>	<u>103,796,164</u>
Total Net Position	<u><u>\$ 181,438,423</u></u>	<u><u>\$ 190,421,642</u></u>

8. PENSION BENEFITS

Retirement - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.

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 2017 and 2016:

Aggregate Pension Amounts – All Plans	2017	2016
Net Pension liabilities	\$44,929,021	\$ 56,608,680
Pension assets	\$ -	\$ -
Deferred outflows of resources	\$ 7,360,239	\$ 10,274,959
Deferred inflows of resources	\$ 7,345,339	\$ 1,190,037
Pension expense/expenditures	\$ 4,935,757	\$ 6,457,433

Substantially all of 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:

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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.

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 35th Street
Tacoma, WA 98409

Or the TERS CAFR may be downloaded at 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 2017 and 2016 were as follows:

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

PERS Plan 1 Contribution Rate	Employer Rate	Employee Rate
July – December 2017	12.70%	6.00%
January - June 2017	11.18%	6.00%
January – December 2016	11.18%	6.00%

Pierce Transit's actual contributions to the plan were \$3,095,083 for the year ended December 31, 2017. In 2016, contributions were \$2,819,885 for Plan 1.

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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 2017 and 2016 were as follows:

PERS Plan 2/3 Contribution Rates	Employer Plan 2/3	Employee Plan 2
July – December 2017	12.70%	7.38%
January – June 2017	11.18%	6.12%
January – December 2016	11.18%	6.12%
Employee PERS Plan 3	-	Varies

Pierce Transit's actual contributions to the plan were \$4,233,914 for the year ended December 31, 2017 and \$3,601,200 for 2016.

Actuarial Assumptions - The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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.

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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, 2017 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.

2017 and 2016 Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%

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%)
2017 PERS 1	\$ 28,282,458	\$ 23,216,765	\$ 18,828,790
2017 PERS 2/3	\$ 57,756,522	\$ 21,438,113	\$ (8,319,435)
2016 PERS 1	\$ 31,262,209	\$ 25,924,392	\$ 21,330,871
2016 PERS 2/3	\$ 56,115,271	\$ 30,477,887	\$ (15,865,500)

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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 2017 and 2016 were as follows:

TERS Contribution Rate	Employer	Employee
2017 and 2016	10.8%	9.2%

Pierce Transit's actual contributions to the plan were \$73,472 for the year ended December 31, 2017 and \$69,704 for year ended December 31, 2016.

Actuarial Assumptions - The total pension liability (TPL) for each of the TERS plan was determined using the most recent actuarial valuation completed in 2017 with a valuation date of January 1, 2017. 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 January 1, 2017 actuarial valuation report. The TPL measurement date and the valuation date are the same.

- Inflation: 2.75% total economic inflation.
- Salary increases: 2.125% salary increases, including inflation.
- Investment rate of return: 7.0%.

Mortality rates were based on the RP-2014 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 7.00 percent. To determine that rate, an asset sufficiency test included an assumed 7.00 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 future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.00 percent was used to determine the total liability.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Long-Term Expected Rate of Return - The long-term expected rate of return on the TERS pension plan investments of 7.0 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 7.0 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, 2016 are summarized in the table below. The inflation component used to create the table is 2.75 percent and represents most recent long-term estimate of broad economic inflation.

2017 and 2016 Asset Class	Target Allocation	2017 Long-Term Expected Real Rate of Return Arithmetic	2016 Long-Term Expected Real Rate of Return Arithmetic
Global Equity	41.5%	5.50%	6.02%
Investment Grade Fixed Income	15.0%	1.63%	2.03%
Private Equity	10.0%	9.04%	9.02%
High Yield Bonds	9.0%	5.00%	4.49%
US Inflation-Indexed Bonds	5.0%	1.21%	1.41%
Emerging Market Debt	5.0%	3.74%	5.05%
Master Limited Partnerships	4.0%	4.12%	4.46%
Private Real Estate	2.5%	3.56%	3.72%
Public Real Estate	2.0%	5.80%	6.38%
Timber	2.0%	3.79%	3.84%
Infrastructure	2.0%	5.03%	5.88%
Agriculture	2.0%	4.33%	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 7.00 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 (6.00 percent) or 1-percentage point higher (8.00 percent) than the current rate.

TERS	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
2017	\$861,472	\$ 274,143	\$ (215,787)
2016	\$ 640,088	\$ 206,402	\$ (158,810)

Pension Plan Fiduciary Net Position - Detailed information about the DRS 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, 2017 and 2016

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Pierce Transit's reported total pension liability is \$44,929,019 for 2017 and \$56,608,680 for 2016. It represents its proportionate share of the net pension liabilities as follows:

Plan	2017 Liability (or Asset)	2016 Liability (or Asset)
PERS 1*	\$ 23,216,765	\$ 25,924,391
PERS 2/3*	21,438,113	30,477,887
TERS **	274,143	206,402
TOTAL	\$ 44,929,021	\$ 56,608,680

*As of June 30

**As of December 31

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/16	Change in Proportion
PERS 1	.489281%	.482721%	.003344%
PERS 2/3	.617009%	.605330%	.001168%

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

	Proportionate Share 12/31/17	Proportionate Share 12/31/16	Change in Proportion
TERS	.27297%	.22088%	.052090%

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, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Plan Pension Expense	2017	2016
PERS 1	\$ 1,665,460	\$ 1,577,275
PERS 2/3	3,128,425	4,550,182
TERS	141,872	329,976
TOTAL ALL PLANS	\$ 4,935,757	\$ 6,457,433

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Deferred Outflows of Resources and Deferred Inflows of Resources – On December 31, 2017, Pierce Transit’s reported deferred outflows of resources and deferred inflows of resources related to pensions for 2017 is from the following sources:

2017 PERS 1	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(866,385)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	1,603,276	-
Total PERS 1	\$ 1,603,276	\$ (866,385)

2017 PERS 2/3	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,172,186	\$ (705,062)
Net difference between projected and actual investment earnings on pension plan investments	-	(5,714,885)
Changes of assumptions	227,713	-
Changes in proportion and differences between contributions and proportionate share of contributions	811,857	-
Contributions subsequent to the measurement date	2,320,529	-
Total PERS 2/3	\$ 5,532,285	\$ (6,419,948)

2017 TERS	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (59,006)
Net difference between projected and actual investment earnings on pension plan investments	124,755	-
Changes of assumptions	17,575	-
Changes in proportion and differences between contributions and proportionate share of contributions	8,874	-
Contributions subsequent to the measurement date	73,473	-
Total TERS	\$ 224,677	\$ (59,006)
TOTAL ALL PLANS	\$ 7,360,239	\$ 7,345,339

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

As of December 31, 2016, Pierce Transit's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016 PERS 1	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	652,735	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	1,362,160	-
Total PERS 1	\$ 2,014,895	\$ -

2016 PERS 2/3	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,622,926	\$ (1,006,125)
Net difference between projected and actual investment earnings on pension plan investments	3,729,614	-
Changes of assumptions	315,014	-
Changes in proportion and differences between contributions and proportionate share of contributions	641,830	-
Contributions subsequent to the measurement date	1,743,365	-
Total PERS 2/3	\$ 8,052,749	\$ (1,006,125)

2016 TERS	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 135,615	\$ (13,815)
Net difference between projected and actual investment earnings on pension plan investments		-
Changes of assumptions	1,996	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(170,097)
Contributions subsequent to the measurement date	69,704	-
Total TERS	\$ 207,315	\$ (183,912)
TOTAL ALL PLANS	\$ 10,274,959	\$ (1,190,037)

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31, 2017:	PERS 1
2018	\$(585,620)
2019	184,890
2020	(42,930)
2021	(422,724)
2022	N/A
Thereafter	

Year ended December 31, 2016:	PERS 1
2017	\$ (160,717)
2018	(160,717)
2019	599,467
2020	374,703
2021	N/A
Thereafter	

Year ended December 31, 2017:	PERS 2/3
2018	\$ (1,949,019)
2019	\$ 794,024
2020	\$ (424,045)
2021	\$ (2,230,312)
2022	\$ 261,374
Thereafter	\$ 399,787,

Year ended December 31, 2016:	PERS 2/3
2017	\$ 280,886
2018	\$ 280,886
2019	\$ 2,969,316
2020	\$ 1,772,169
2021	\$ -
Thereafter	\$ -

Year ended December 31, 2017:	TERS
2017	\$ 50,979
2018	50,979
2019	58,325
2020	(402)
2021	5,790
Thereafter	-

Year ended December 31, 2016:	TERS
2016	\$ (41,167)
2017	\$ (41,167)
2018	\$ (41,167)
2019	\$ (47,079)
2021	\$ 483
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 Empower Retirement Company and ICMA Retirement Corporation. Pierce Transit

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

contributes from 1% to 6% of the annual salary of all participating employees. In 2017, Pierce Transit contributed \$2,182,105 and employees contributed \$3,475,936. Pierce Transit and its employees contributed \$2,083,544 and \$3,217,594 respectively to this plan in 2016. 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.

9. COMMITMENTS

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) - Seven regional transit agencies participate in 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, 2017 was \$4,317,139 with operating expenses of \$351,924. In 2016, ORCA revenue totaled \$4,446,061 and operating expense were \$285,351. Pierce Transit's share of funds held by the fiscal agent as of December 31, 2017, and 2016 reported within Pierce Transit's financial statements, amounted to \$343,678 and \$334,517 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 8th Ave, Seattle, WA.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

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

10. INSURANCE

Pierce Transit became a full member of the Washington State Transit Insurance Pool (WSTIP) as of January 1, 2010 which provides 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 \$25 million, and public officials' liability coverage of up to \$25 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 2017 or 2016.

Pierce Transit continues to be self-insured for unemployment compensation and self-insured for \$1.1 million for 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, 2017, the self-insurance assets totaled \$4,451,894 of which a liability of \$1,811,875 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, 2016, Pierce Transit's self-insurance assets totaled \$2,928,332 of which a liability of \$1,086,972 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:

	2017	2016
Balance beginning of year	\$ 1,086,972	\$ 1,184,866
Provision for incurred claims	3,611,850	2,243,571
Payments made for claims	(2,886,947)	(2,341,465)
Claims liabilities year ended	<u>\$ 1,811,875</u>	<u>\$ 1,086,972</u>

11. RESERVE POLICIES

Pierce Transit's Board of Commissioners has adopted reserve policies 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:

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

- **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, and to offset unanticipated downturns in revenues and to provide funds for emergency expenditure requirements.
- **Insurance Reserve:** The Insurance Reserve will be set at a level to adequately protect the Agency from self-insurance risks.
- **Capital Reserve:** The capital reserve will be maintained at no less than 50% of the previous three years average annual asset depreciation at any time in the Six-Year Financial Plan. At the end of the Six-Year Plan Financial Plan, the capital reserve shall be at least 100% of the previous three years annual average asset depreciation. This reserve has been set at this level to enable Pierce Transit 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 2016 and 2017.

Schedule of Employer Contributions
PERS 1
As of December 30
Last 10 Fiscal Years*

	2016		2016		2015	
Statutorily or contractually required contributions PERS 1	\$	3,095,083	\$	2,775,078	\$	2,407,649
Total PERS 1	\$	3,095,083	\$	2,775,078	\$	2,407,649
Contributions in relation to the statutorily or contractually required contril	\$	3,095,083	\$	2,775,078	\$	2,407,649
Contribution Deficiency (excess)	\$	-	\$	-	\$	-
Covered employer payroll	\$	62,554,076	\$	59,829,190	\$	52,159,102
Contribution as a percentage of covered employee payroll		4.9%		4.6%		4.6%

*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.

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

	2017	2016	2015
Statutorily or contractual required contributions	<u>\$ 4,233,914</u>	<u>\$ 3,542,370</u>	<u>\$ 3,025,923</u>
Contributions in relation to the statutorily or contractual required contributions	<u>\$ 4,233,914</u>	<u>\$ 3,542,370</u>	<u>\$ 3,025,923</u>
Contribution Deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	<u>\$ 62,059,236</u>	<u>\$ 59,266,643</u>	<u>\$ 51,566,025</u>
Contribution as a percentage of covered employee payroll	<u>6.8%</u>	<u>6.0%</u>	<u>5.9%</u>

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

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

	2017		2016		2015	
Statutorily or contractually required contributions	\$	73,472	\$	69,704	\$	54,225
Contributions in relation to the statutorily or contractually required c	\$	73,472	\$	69,704	\$	54,225
Contribution Deficiency (excess)	\$	-	\$	-	\$	-
Covered employer payroll	\$	680,300	\$	645,406	\$	502,081
Contribution as a percentage of covered employee payroll		10.8%		10.8%		10.8%

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

Schedule of Proportionate Share of Net Pension Liability

PERS 1

As of June 30

Last 10 Fiscal Years*

	2017	2016	2015
Employer proportion of net pension liability (asset)	0.449281%	0.482721%	0.479064%
Employer proportion share of net pension liability	\$ 23,216,765	\$ 25,924,391	\$ 25,059,502
Employer covered employee payroll	\$ 60,959,719	\$ 57,083,737	\$ 52,159,102
Employer proportionate share of the net pension liability as a percentage of covered employee payroll	38.09%	45.41%	48.04%
Plan fiduciary net position as a percentage of the total pension lial	61.24%	57.03%	59.10%

*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.

Schedule of Proportionate Share of Net Pension Liability

PERS 2/3

As of June 30

Last 10 Fiscal Years*

	2017	2016	2015
Employer proportion of net pension liability (asset)	0.617009%	0.605330%	0.630019%
Employer proportion share of net pension liability	\$ 21,438,113	\$ 30,477,887	\$ 21,546,213
Employer covered employee payroll	\$ 60,435,521	\$ 56,544,917	\$ 51,566,025
Employer proportionate share of the net pension liability as a percentage of covered employee payroll	35.47%	53.90%	40.79%
	90.97%	85.82%	89.20%

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

Schedule of Proportionate Share of Net Pension Liability

TERS

As of December 31

Last 10 Fiscal Years*

	2017	2016	2015
Employer proportion of net pension liability (asset)	0.272970%	0.220880%	-0.001525%
Employer proportion share of net pension liability	\$ 274,143	\$ 206,402	\$ (21,186)
Employer covered employee payroll	\$ 680,300	\$ 645,406	\$ 502,081
Employer proportionate share of the net pension liability as a percentage of covered employee payroll	40.30%	31.98%	-4.22%
Plan fiduciary net position as a percentage of the total pension liability	93.91%	93.94%	100.71%

*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, 2017

GRANTOR	2 FEDERAL PROGRAM NAME	3 FEDERAL CFDA NO.	4 OTHER ID NO.	5 EXPENDITURES		
				PASS-THROUGH	FROM DIRECT AWARDS	TOTAL
US Dept of Homeland Security	Rail and Transit Security Grant Program	97.075	EMW-2015-RA-00036		\$ 326,397	\$ 326,397 1,2,3
Subtotal Federal Transit Security Grant					326,397	326,397
Federal Transit Administration	Federal Transit Formula Grant	20.507	WA-95-X080		70,746	70,746 1,2,3
Federal Transit Administration	Federal Transit Formula Grant	20.507	WA-2017-071		792,741	792,741 1,2,3
Federal Transit Administration	Federal Transit Formula Grant	20.507	WA-2016-057		35,225	35,225 1,2,3
Federal Transit Administration	Federal Transit Capital Investment Grant	20.500	WA-04-0070		47,016	47,016 1,2,3
Federal Transit Administration	Federal Transit Formula Grant	20.507	WA-2016-024		608,497	608,497 1,2,3
Federal Transit Administration	Federal Transit Formula Grant	20.507	WA-95-X074		644	644 1,2,3
Subtotal Federal Transit Formula Grant				-	1,554,869	1,554,869
TOTAL				TOTALS	-	\$ 1,881,266 \$ 1,881,266

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.

Note 3 - Indirect Costs

Pierce Transit has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER
UNIFORM GUIDANCE**

Gov Type Description

January 1, 2017 through December 31, 2017

This schedule presents the corrective action planned by the Transit Authority for findings reported in this report 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).

Finding ref number: 2017-001	Finding caption: The Authority did not have adequate internal controls in place to ensure accurate financial reporting on the Schedule of Expenditures of Federal Awards.
Name, address, and telephone of Transit Authority contact person: Brett Freshwaters 3701 96 th Street S.W. Lakewood, WA 98499 253 581 8120	
Corrective action the auditee plans to take in response to the finding: <i>Status of all secured grant awards will be reviewed as a part of the closing process with the grant coordinator and the finance department to ensure all grant expenditures are reported in the correct period on the Schedule of Expenditures of Federal Awards. Pierce Transit has implemented a new financial system which will record federal grant information and will be used as tool to ensure accurate reporting.</i>	
Anticipated date to complete the corrective action: June 1, 2019	

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	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov