Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Pierce College

For the period July 1, 2018 through June 30, 2019

Published September 22, 2022

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Office of the Washington State Auditor
Pat McCarthy

September 22, 2022

Board of Trustees
Pierce College
Lakewood, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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Pierce College
July 1, 2018 through June 30, 2019

Board of Trustees
Pierce College
Lakewood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Pierce College, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 14, 2022.

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

PURPOSE OF THIS REPORT

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

Pat McCarthy, State Auditor

Olympia, WA

September 14, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Pierce College
July 1, 2018 through June 30, 2019

Board of Trustees
Pierce College
Lakewood, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Pierce College, as of year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Pierce College, as of June 30, 2019, and the respective 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.

We did not audit the financial statements of the Pierce College Foundation (the Foundation), which represent 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of other auditors. The Financial Statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Pierce College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2022 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

September 14, 2022

FINANCIAL SECTION

Pierce College
July 1, 2018 through June 30, 2019

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PIERCE COLLEGE

possibilities. **realized.**

Management's Discussion and Analysis
Fiscal Year 2019

The following discussion and analysis provides an overview of the financial position and activities of Pierce College (the College) for the fiscal year ended June 30, 2019 (FY 2019). This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Pierce College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 15,725 students. The College confers applied baccalaureate degrees, associates degrees, certificates, and high school diplomas. Established in 1967, Pierce College's primary purpose is to create quality educational opportunities for a diverse community of learners to thrive in an evolving world.

The College has two primary colleges that serve Pierce County, Washington. The Fort Steilacoom campus is located in Lakewood, Washington, a community of about 62,000 residents, and the Puyallup campus located in Puyallup, Washington, a community of about 43,400 residents. The College also has an education center at Joint Base Lewis-McChord, and operations at facilities in Graham and Spanaway, Washington.

A five member Board of Trustees appointed by the governor of the state with the consent of the state Senate governs the College. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements

The financial statements presented in this report encompass the College and its discretely presented component unit, the Pierce College Foundation. The College's financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2019. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

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

Statement of Net Position

The Statement of Net Position provides information about the College's financial position and presents the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College as of the end of the fiscal year. A condensed comparison of the Statement of Net Position is as follows:

Pierce College
Condensed Statement of Net Position
June 30, 2019

	2019	2018
Assets		
Current Assets	$ 52,769,845	$ 34,170,703
Capital Assets, net	$ 148,258,636	$ 149,823,792
Other Assets, non-current	$ -	$ 15,215,981
Total Assets	$ 201,028,481	$ 198,309,729
Deferred Outflows of Resources	$ 6,836,743	$ 3,203,199
Liabilities		
Current Liabilities	$ 13,823,533	$ 13,227,179
Other Liabilities, non-current	$ 47,394,514	$ 50,385,661
Total Liabilities	$ 61,218,047	$ 63,612,840
Deferred Inflows of Resources	$ 15,136,285	$ 7,616,963
Net Position		
Net Investment in Capital Assets	$ 144,143,636	$ 145,267,792
Restricted, expendable	$ 1,443,959	$ 1,238,968
Unrestricted	$ (14,076,703)	$ (16,223,635)
Total Net Position, as restated	$ 131,510,892	$ 130,283,125

Current assets consist primarily of cash and various accounts receivables. The significant change in classification from non-current to current is due to an administrative decision to move out of investments and into a cash position ahead of the transition from the legacy software to ctcLink in fiscal year 2020. The liquidation of the investments increased cash by $17.0 million dollars.

Net capital assets decreased by $1.6 million from FY 2018 to FY 2019. The decrease is primarily the result of current depreciation expense of $5.1 million dollars and offset by ongoing improvements to buildings, infrastructure, and acquisitions of new equipment totaling $3.5 million dollars.

Non-current assets, formerly comprised primarily of long-term portions of certain investments, decreased by $15.2 million due to liquidation during the fiscal year. The net amount liquidated during the year was 17.0 million dollars, which appears as an increase to current assets.

Deferred outflows of resources and deferred inflows of resources represent deferrals in pension and postemployment benefits associated with the implementation of GASB Statement No. 68 in FY 2015, Statement No. 73 in FY 2017, and Statement No. 75 in FY 2018. The increase in deferred outflows reflect the College's proportionate share of an increase/decrease in the state-wide amounts reported by the Department of Retirement System (DRS) and Health Care Authority (HCA) due to differences between expected and actual experience related to the actuarial assumptions. The College saw an increase of $3.6 million in recorded pension and postemployment-related deferred outflows. The increase reflects the change in proportionate share.

Similarly, the increase of $7.5 million in deferred inflows reflects the increase in difference between actual and projected investment earnings on the state's pension plans and other post-employment benefits.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments. Capital assets and improvement variations occur due to the biennial funding approved by the legislature. The decrease in current liabilities of $0.6 million is primarily due to a reduction of short-term OPEB liabilities of $2.5 million and an increase in recognition in current portion of compensated absences that previously was included as long-term of $1.8 million.

Non-current liabilities primarily consist of the value of non-current portion of the compensated absences earned, but not yet used by employees, the long-term portion of Certificates of Participation debt, and pension and OPEB non-current liabilities. The $3.0 million decrease in non-current liabilities is comprised of decreases in pension liabilities of $1.1 million (net of plans) due to changes in proportionate share, and decreases in compensated absences previously classified as non-current and now included in the current portion of $1.8 million. The remainder of the decrease is due to the reduction in the outstanding long-term liability of the Certificates of Participation payables.

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

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

Restricted:

- ***Nonexpendable*** – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for spending but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation. As a result, the college is not reporting any balance in this category.

- ***Expendable*** – resources the College has a legal or contractual obligation to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are *capital project funds and amounts collected as a part of the building fee.*

Unrestricted **–** Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. The negative balance primarily reflects the impact of GASB Statement No. 75, and the $28.0 million dollar unfunded liability incurred under that standard.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2019. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

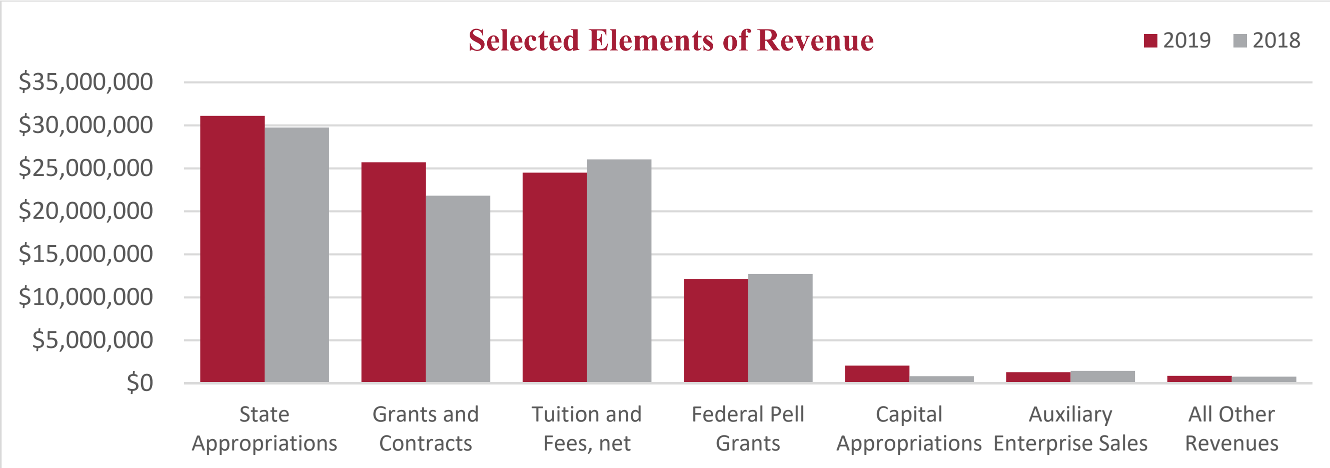
A condensed comparison of the College's revenues, expense and changes in net position for the years ended June 30, 2019 and 2018 is presented below.

Pierce College
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019 and 2018

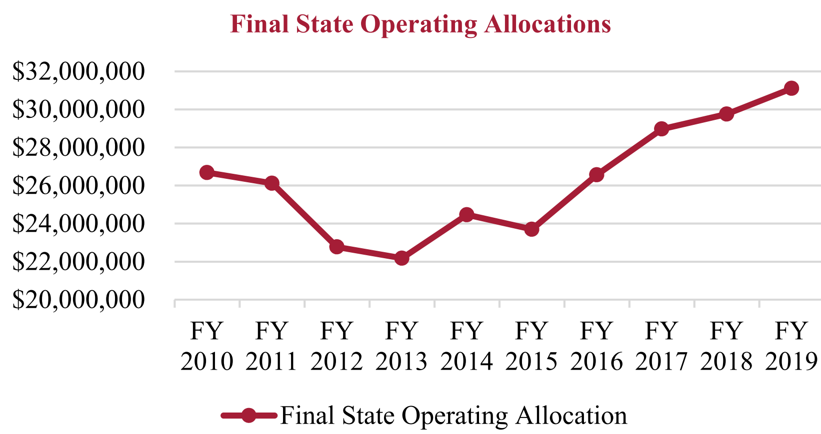
	2019	2018
Operating Revenues		
Student tuition and fees, net	24,493,095	26,029,195
Auxiliary enterprise sales	1,286,138	1,429,775
Grants and contracts	25,707,645	21,820,067
Other operating revenues	514,176	577,200
Total operating revenues	**52,001,053**	**49,856,237**
Non-Operating Revenues		
State appropriations	31,104,377	29,740,165
Federal Pell grant revenue	12,124,957	12,710,502
Other non-operating revenues	342,957	189,388
Total non-operating revenues	43,572,292	42,640,055
Total revenues	**95,573,345**	**92,496,292**
Operating Expenses		
Salaries and Benefits	60,329,734	58,422,570
Scholarships	13,860,742	14,755,760
Depreciation	5,109,977	5,082,601
Other operating expenses	14,357,639	13,113,610
Total operating expenses	**93,658,092**	**91,374,541**
Non-Operating Expenses		
Building fee remittance	2,031,349	2,153,488
Other non-operating expenses	701,410	745,624
Total non-operating expenses	**2,732,759**	**2,899,112**
Total expenses	96,390,851	94,273,653
Excess (deficiency) before capital contributions	**(817,506)**	**(1,777,361)**
Capital appropriations and contributions	**2,045,273**	**816,764**
Change in Net position	**1,227,767**	**(960,597)**
Net Position		
Net position, beginning of year	130,283,125	164,207,733
Prior period adjustments or Cumulative effect of a change in accounting principle	-	(32,964,011)
Net position, beginning of year, as restated	-	131,243,722
Net position, end of year	**131,510,892**	**130,283,125**

Revenues

The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. In FY 2018, the SBCTC allocated funds to each of the 34 colleges based on 3-year average FTE actuals. Additionally, the Supplemental Budget also reduces the general fund by the amount set aside specifically for Pension Stabilization. This method of allocation continues in FY2019.



Enrollments decreased slight in FY 2019, resulting in a decrease in tuition and fee revenue of $1.5 million in tuition and fees. The College Affordability Program enacted by the Legislature in 2015 is the main driver of tuition revenue per student. Since then, Pierce College has seen steady increases in appropriations, including a $1.3 million dollars in additional appropriations in fiscal year 2019, as shown on the adjacent chart.



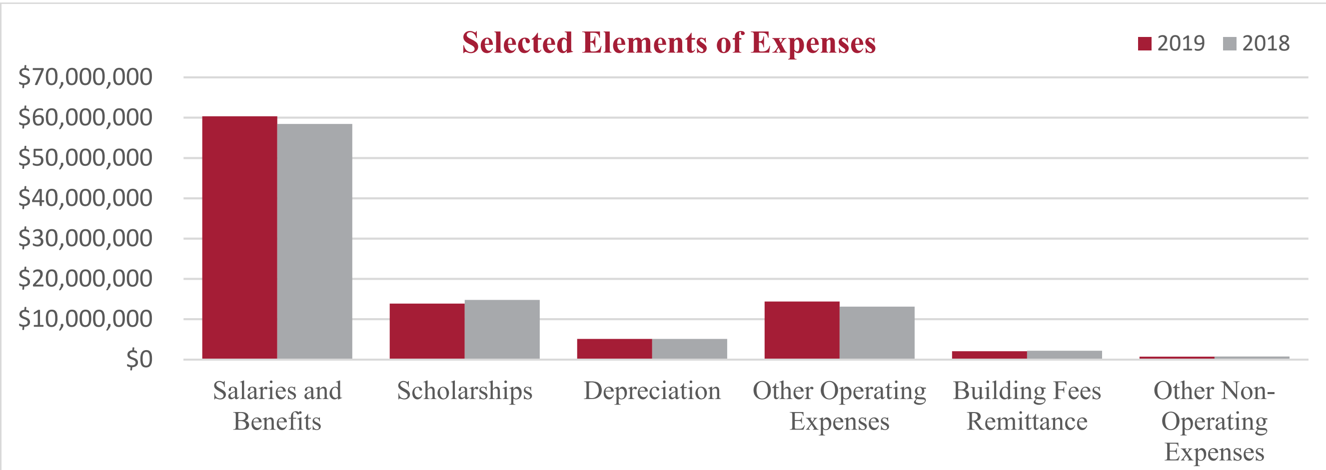
A corresponding decrease of $0.6 million in Pell Grant awards, which tracks closely with enrollment numbers, and due to some programs within the college being fee-only basis, as allowed by law.

In FY 2019, grant and contract revenues increased by $3.9 million. This was due to an 8.8% increase in the number of current enrollees in the Running Start program coupled with an increase in the reimbursement rates approved by the Office of the Superintendent of Public Instruction (OSPI). The College continues to serve students under the terms of contracted programs and contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses.

The College receives capital-spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenses from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenses that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

Expenses

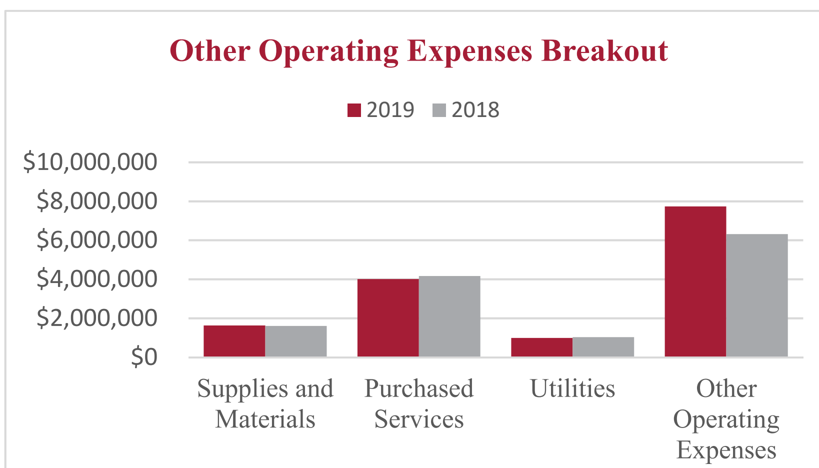
The College has continuously sought opportunities to identify savings and efficiencies, and invest these dollars in areas that show direct correlation to mission fulfillment. Total operational expenses for the college increased by 2.2 million over the prior year.



In FY 2019, salary and benefit costs increased $1.9 million. Part of this increase was a direct result of the salary increase appropriated by the Legislature. Salary and benefit costs increased as result of adding positions (classified, exempt, and faculty), increased costs for healthcare, cost of living adjustments, and having to compete in the job market in order to replace retiring exempt employees and/or faculty. Pension adjustments related to GASB Standards No. 68, No. 73, and No. 75 continue to impact benefit costs.

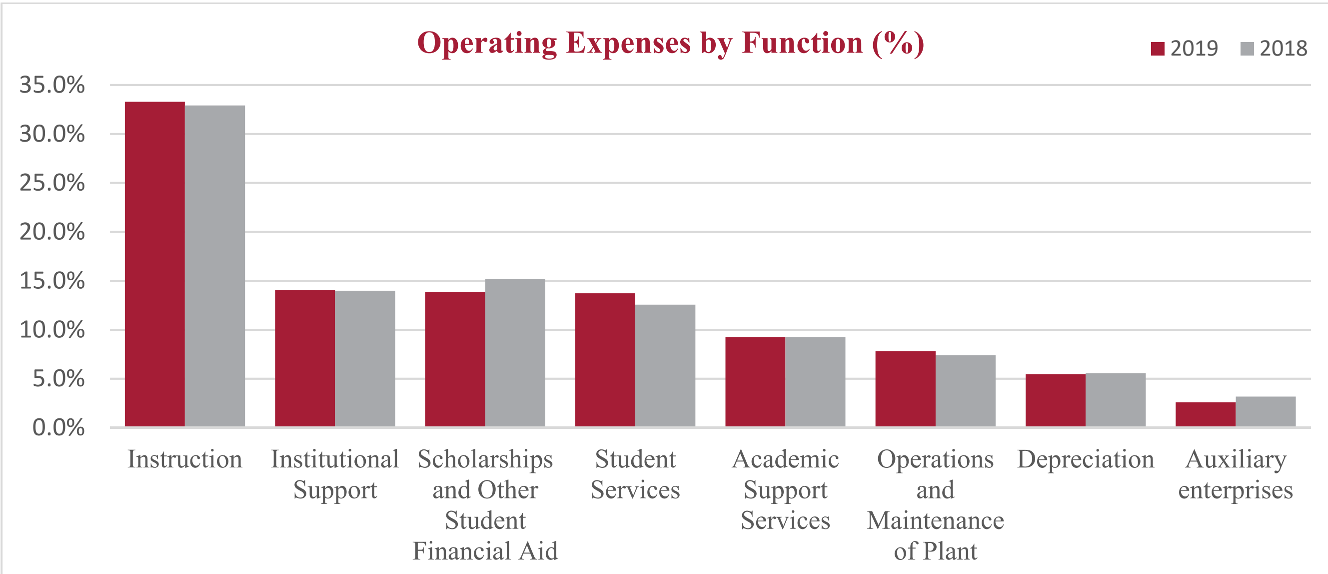
Scholarships, including financial aid, decreased by $0.9 million. Scholarships and financial aid tracks closely with the revenues received from tuition and fees. It is heavily dependent upon student enrollment, which declined slightly between academic years.

Other operating expense for the College increased by $1.2 million. Most of this increase came from 0.7 million in additional goods and services, other than utilities, purchased services, and supplies and materials; and 0.6 million in capital outlays. This offset by small reductions in other spending categories. The College was able to hold costs of utilities, supplies and materials, and purchased services at rates comparable, to amounts reported in the prior fiscal year.



Comparison of Selected Operating Expenses by Function

The chart below shows the amount, by percentage, for selected functional areas of operating expenses for FY 2019 and FY 2018.



The College maintained expenses proportionally in check for most operations, with marginal variances seen across functional units. Most areas saw minimal changes as a percentage of operations with the year-to-year declines seen in Scholarships and Other Student Financial Aid of $0.9 million dollars, reflecting enrollment declines. This was offset by increases to student services of nearly $1.4 million dollars and additional instruction expenses of $1.1 million dollars, accounting for the majority $2.2 million dollars in additional expenses incurred by the College during 2019.

Statement of Cash Flows

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

Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. The College has financed two projects through Certificates of Participation (COP), found in Note 10 of the Notes to the Financial Statements.

At June 30, 2019, the College had invested $148 million in capital assets, net of accumulated depreciation. This represents a decrease of $1.6 million from last year, as shown in the table below.

Asset Type	**June 30, 2019**	**June 30, 2018**	**Change**
Land	$ 726,552	$ 726,55	$ -
Construction in Progress	-	183,195	(183,195)
Buildings, net	141,686,531	145,217,379	(3,530,848)
Other Improvements and Infrastructure, net	3,293,070	1,420,249	1,872,821
Equipment, net	2,062,041	1,824,830	237,211
Library Resources, net	490,442	460,587	29,855
Total Capital Assets, Net	**$ 148,258,636**	**$ 149,832,792**	**$ (1,574,156)**

The decrease in net capital assets is attributable to the current depreciation expense of $5.1 million dollars, offset by ongoing improvements to buildings, infrastructure, and acquisitions of new equipment totaling $3.5 million dollars. Additional information on capital assets can be found in Note 5 of the Notes to the Financial Statements.

At June 30, 2019, the College had $4,115,000 in outstanding debt. This represents a *decrease* of $450,000 from last year, as shown in the table below:

Outstanding Debt	**June 30, 2019**	**June 30, 2018**	**Change**
Certificates of Participation (COP)	$ 4,115,000	$ 4,565,000	$ (450,000)

Additional information of notes payable, long term debt and debt service schedules can be found in Notes 6, 10, and 11 of the Notes to the Financial Statements.

Economic Factors That May Affect the Future

The 2019 legislative session was one of the most productive for higher education in many years. With passage of HB 2158 in May 2019, the state legislature created, for the first time, a dedicated revenue source for community and technical colleges. This, along with full funding from the state for faculty and staff wage increases, represented a significant investment in the two-year college system.

State support has rebounded slightly over the past few years in line with the strong economic recovery after the great recession. The College saw increases in recent appropriations offsetting the state mandated 5% tuition decrease in 2016. The current model for state appropriations support focuses on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Pierce College saw a slight dip in enrollments from the prior year and is watching to see if this will rebound or if longer-term adjustments will need to be made to account for changes in both appropriations and tuition revenues.

The College expects to continue to expand services through contractual and reimbursement program operations, such as Running Start. This includes expanding access through classes at local high schools to serve students who cannot attend the main campuses in Lakewood or Puyallup. Additionally, the College will be expanding its degree offerings at the Applied Bachelor of Science degree level in the fall of 2019. Additional revenues from the reimbursements in running start are expected to offset some tuition declines in more traditional student cohorts.

Currently Pierce is in a financially stable position, with sufficient cash flow and reserves to support its programs and services. The capital debt of the College is low, with no operating debt, and a stable, balanced operating budget of approximately $62.3 million, including $2.5 million from reserves. Overall reserves are sufficient to carry the college through at least 90 days of operations. Financial planning reflects available funds, realistic development of financial resources, and appropriate risk management to ensure the short and long-term solvency of the College, including anticipation of meeting all debt obligations.

PIERCE COLLEGE

possibilities. realized.

Statement of Net Position
June 30, 2019

Assets	
Current assets	
Cash and cash equivalents	$ 43,566,686
Restricted cash	1,443,959
Accounts receivable	7,745,522
Inventories	13,678
Total current assets	**52,769,845**
Non-Current Assets	
Non-depreciable capital assets	726,552
Capital assets, net of depreciation	147,532,084
Total non-current assets	**148,258,636**
Total assets	**201,028,481**
Deferred Outflows of Resources	
Deferred outflows related to pensions	3,606,416
Deferred outflows related to OPEB	3,230,327
Total deferred outflows of resources	**6,836,743**
Liabilities	
Current Liabilities	
Accounts payable	2,097,753
Accrued liabilities	6,852,758
Compensated absences, current portion	1,799,471
Deposits payable	2,000
Unearned revenue	1,985,171
Certificates of participation payable, current portion	470,000
Total pension liability, current portion	93,083
Total OPEB liability, current portion	523,298
Total current liabilities	**13,823,533**
Non-Current Liabilities	
Compensated absences	3,598,941
Certificates of participation payable	3,645,000
Net pension liability	7,735,411
Total pension liability	4,438,097
Total OPEB liability	27,977,064
Total non-current liabilities	**47,394,514**
Total liabilities	**61,218,047**
Deferred Inflows of Resources	
Deferred inflows related to pensions	4,050,359
Deferred inflows related to OPEB	11,085,926
Total deferred inflows of resources	**15,136,285**
Net Position	
Net Investment in Capital Assets	144,143,636
Restricted for	
Expendable	1,443,959
Unrestricted **(deficit)**	(14,076,703)
Total Net Position	**$ 131,510,892**

The footnote disclosures are an integral part of the financial statements

PIERCE COLLEGE

possibilities. realized.

Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2019

Operating Revenues	
Student tuition and fees, net of scholarship discounts and allowances	$ 24,493,095
Auxiliary enterprise sales	1,286,138
State and local grants and contracts	24,093,193
Federal grants and contracts	1,614,452
Other operating revenues	514,176
Total operating revenue	**52,001,053**
Operating Expenses	
Salaries and wages	44,596,217
Benefits	15,692,181
Scholarships and fellowships	13,860,742
Supplies and materials	1,627,817
Depreciation	5,109,976
Purchased services	4,007,408
Utilities	987,100
Other operating expenses	7,735,315
Total operating expenses	**93,658,092**
Operating income (loss)	**(41,657,039)**
Non-Operating Revenues (Expenses)	
State appropriations	31,104,377
Federal Pell grant revenue	12,124,957
Investment income, gains and losses	342,957
Building fee remittance	(2,031,349)
Innovation fund remittance	(473,160)
Interest on indebtedness	(228,250)
Net non-operating revenue (expenses)	**40,839,533**
Income or (loss) before other revenues, expenses, gains, or losses	(817,506)
Capital Contributions	
Capital appropriations	2,045,273
Increase (Decrease) in net position	1,227,767
Net Position	
Net position, beginning of year	**$ 130,283,125**
Net position, end of year	**$ 131,510,892**

The footnote disclosures are an integral part of the financial statements

PIERCE COLLEGE

possibilities. realized.

Statement of Cash Flows
For the year ended June 30, 2019

Cash flows from operating activities	
Student tuition and fees	$ 24,598,476
Grants and contracts	24,658,757
Payments to vendors	(4,795,230)
Payments for utilities	(1,056,339)
Payments to employees	(43,821,638)
Payments for benefits	(15,594,874)
Auxiliary enterprise sales	1,294,301
Payments for scholarships and fellowships	(13,860,742)
Other receipts (payments)	(8,772,227)
Net cash used by operating activities	**(37,349,516)**
Cash flows from noncapital financing activities	
State appropriations	31,113,265
Pell grants	12,124,957
Building fee remittance	(2,025,058)
Innovation fund remittance	(471,787)
Net cash provided by noncapital financing activities	**40,741,378**
Cash flows from capital and related financing activities	
Capital appropriations	1,476,395
Purchases of capital assets	(3,557,965)
Principal paid on capital debt	(450,000)
Interest paid	(228,250)
Net cash used by capital and related financing activities	**(2,759,820)**
Cash flows from investing activities	
Proceeds from sales and maturities of investments	16,998,227
Income of investments	342,957
Net cash provided by investing activities	**17,341,235**
Increase in cash and cash equivalents	**17,973,276**
Cash and cash equivalents at the beginning of the year	**27,037,370**
Cash and cash equivalents at the end of the year	$ **45,010,645**

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	**$ (41,657,039)**
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	5,109,976
Changes in assets and liabilities	
Receivables, net	(2,454,321)
Inventories	(13,678)
Other assets	48,833
Accounts payable	728,486
Accrued liabilities	618,280
Unearned revenue	(82,943)
Compensated absences	350,889
Deposits payable	2,000
Net cash used by operating activities	**$ (37,308,179)**

The footnote disclosures are an integral part of the financial statements

PIERCE COLLEGE

possibilities. realized.

Pierce College Foundation Statement of Financial Position
December 31, 2018

		2018
Assets		
Cash and cash equivalents		$ 337,264
Accounts receivable		114,442
Investments		557,107
Funds held by others		759,512
Prepaid expenses		3,504
Pledges receivable, net		148,559
Property and equipment, net		3,038,224
	Total Assets	**$ 4,958,612**
Liabilities and Net Assets		
Liabilities		
Accounts payable		$ 12,954
Due to Pierce College		58,466
Unearned rent revenue		97,008
Notes payable		2,710,224
	Total Liabilities	**2,878,652**
Net Assets		
Without donor restrictions		152,467
With donor restrictions		
Purpose or time restrictions		1,506,059
Perpetual in nature		421,434
	Total with Donor Restrictions	**1,927,493**
	Total Net Assets	**2,079,960**
	Total Liabilities and Net Assets	S **4,958,612**

PIERCE COLLEGE

possibilities. realized.

Pierce College Foundation Statement of Activities and Changes in Net Assets

For the year ended December 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	$ 60,026	$ 75,653	$ 135,679
Private grants	---	175,155	175,155
In-kind contributions	345,783	41,026	386,809
Special events, net of expense of $35,988	---	92,277	92,277
Contracts	---	380,181	380,181
Investment income (loss)	(49,752)	(39,171)	(88,923)
Rental Income	---	263,864	263,864
Net assets released from restrictions	902,859	(902,859)	---
Total Support and Revenue	**1,258,916**	**86,126**	**1,345,042**
Expenses			
Program Services	817,076	---	817,076
Management and general	237818	---	237,818
Fundraising	226,339	---	226,399
Total Expenses	**1,281,293**	**---**	**1,281,293**
Change in Net Assets	**(22,377)**	**86,126**	**63,749**
Net Assets, Beginning	**174,844**	**1,841,367**	**2,016,211**
Net Assets, Ending	**$ 152,467**	**$ 1,927,493**	**$ 2,079,960**

PIERCE COLLEGE

possibilities. realized.

Pierce College Foundation Statement of Functional Expenses
For the year ended December 31, 2018

	2018			
	Program Services	Management and General	Fundraising	Fundraising
In-kind salaries, payroll taxes and benefits	$ 56,515	$ 140,625	$ 122,011	$ 319,151
Scholarships	222,725	---	---	222,725
Interest and finance charges	133,858	---	---	133,858
Program enhancements	91,660	---	---	91,660
Reimbursements	74,477	9,222	---	83,699
Capital campaign	---	---	78,523	78,523
Depreciation	63,983	---	---	63,983
In-kind materials and supplies	9,070	22,569	19,581	51,220
Consulting and other professional services	31,980	17,618	---	49,598
Utilities	47,883	---	---	47,883
Student housing	28,640	---	---	28,640
Other	6,398	21,364	---	27,762
Property taxes	23,435	---	---	23,435
Insurance	---	17,271	---	17,271
In-kind occupancy	2,911	7,243	6,284	16,438
Supplies	9,352	1,906	---	11,258
Endowments	7,172	---	---	7,172
Special projects	5,492	---	---	5,492
Donor hosting	1,525	---	---	1,525
Total Functional Expenses	**$ $817,076**	**$ $237,818**	**$ $226,399**	**$ $1,281,293**

PIERCE COLLEGE

possibilities. **realized.**

Pierce College Foundation Statement of Cash Flows
For the years ended December 31, 2018

		2018
Cash Flows from Operating Activities		
Cash received from customers, contributions, and Pierce College	$	957,678
Cash paid to suppliers and Pierce College		(636,648)
Interest and dividends received		34,525
Interest paid		(131,504)
Net Cash Provided by Operating Activities		**224,051**
Cash Flows from Investing Activities		
Purchases of investments		(431,300)
Proceeds from redemption of investments		712,466
Endowment proceeds received by Greater Tacoma Community Foundation (GTCF)		(147,824)
Net Cash Provided by Investing Activities		**133,342**
Cash Flows from Financing Activities		
Proceeds from note payable		---
Payments of note payable		(254,704)
Contributions to funds held in perpetuity		500
Net Cash Used by Financing Activities		**(254,204)**
Net Increase in Cash		**103,189**
Cash and Cash Equivalents, Beginning		***234,075***
Cash and Cash Equivalents, Ending	**$**	**337,264**

		2018
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	$	63,749
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation		63,983
Amortization on loan fees		2,354
Net realized and unrealized loss (gain) on investments		114,991
Donated investments		---
Contributions to be held into perpetuity		(500)
Change in discount and allowance of pledges receivable		(2,392)
(Increase) in		
Accounts receivable		(83,219)
Pledges receivable		(31,668)
Prepaid expenses		(3,504)
Increase (decrease) in		
Accounts payable		9,964
Due to Pierce College		53,535
Unearned rent revenue		36,758
Net Cash Provided by Operating Activities	$	224,051

PIERCE COLLEGE

possibilities. **realized.**

Notes to the Financial Statements
June 30, 2019
The footnote disclosures are an integral part of the financial statements

Note 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

Pierce College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College has two colleges: Pierce College Fort Steilacoom and Pierce College Puyallup, and an education center located at Joint Base Lewis–McChord. The College confers applied baccalaureate degrees, associates degrees, certificates, and high school diplomas. A five-member Board of Trustees, appointed by the Governor and confirmed by the state Senate, governs the College, which is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report. These notes form an integral part of the financial statements.

Discretely Presented Component Unit

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

The Pierce College Administrative Services Office performs accounting services to the Foundation, and coordinates the annual independent audit. The Administrative Services Office also provides the foundation with advice concerning the conduct of fundraising campaigns, classification of donations and provides reports to the Foundation Board on a regular basis.

A discrete presentation of the Foundation's financial statements is included in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The presentation of the financial statements does not eliminate the intra-entity transactions and balances between the College and the Foundation. During the fiscal year ended June 30, 2019, the Foundation distributed approximately $321,634 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements is available from the Foundation's Administrative Offices at 1601 39th Avenue SE, Puyallup, WA 98374.

Joint Venture

INVISTA Performance Solutions (IPS) is a Limited Liability Partnership collaboration of three Pierce County Community and Technical Colleges: Clover Park Technical College, Pierce College District, and Tacoma Community College.

The College reports joint venture disclosures in Note 17.

Basis of Presentation

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

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows. For the financial statements, intra-agency receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

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

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand (petty cash), cash on deposit in banks, deposits with the Washington State Local Government Investment Pool (LGIP), and certain funds invested with Charles

Schwab. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash and cash equivalents at fair value. Investments in the state's Local Government Investment Pool (LGIP), a qualified external investment pool, are reported at amortized cost, which approximates fair value. All other investments are reported at fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated for general operating needs of the Colleges. The internal investment pool is comprised of cash, cash equivalents, certificates of deposit, U.S. Treasuries and U.S. Agency securities as authorized by RCW 39.60.50.

Accounts Receivable

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

Inventories

Inventories, consisting primarily of merchandise for resale in the college bookstore and course-related supplies, are valued at cost using the first in, first out (FIFO) method.

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

The college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2019, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. Unearned revenues also include tuition and fees paid with financial aid funds. The College has recorded summer quarter tuition and fees, housing deposits and advanced grant proceeds as unearned revenues.

Tax Exemption

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

Pension Liability

For purposes of measuring the net pension liability in accordance with GASB Statement No 68, *Accounting and Financial Reporting for Pensions*, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS), and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Beginning fiscal year 2017, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets* that are not within the Scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The reporting requirements are similar to GASB 68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

Other Post-Employment Benefits (OPEB) Liability

In fiscal year 2018, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB)*. This Statement requires the College to recognize its proportionate share of the state's actuarially determined total OPEB liability with a one-year lag measurement date similar to GASB Statement No. 68.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period.

Deferred outflows related to pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed period of time. Deferred inflows related to pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized in the same manner as deferred outflows.

Deferred outflows and inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the college's proportionate share of pension liabilities. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. Employer transactions to pension plans made subsequent to the measurement date are also deferred and reduce pension liabilities in the subsequent year.

The portion of differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, and changes in the college's proportionate share of total OPEB liability that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Differences between projected and actual earning on OPEB plan investments that are not recognized in OPEB expense should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective total OPEB liability should be recorded as deferred outflows of resources related to OPEB.

Net Position

The College's net position is classified as follows:

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

- *Restricted for Expendable* – These include resources the College is obligated, legally or contractually, to spend in accordance with restrictions imposed by third parties. The expendable balances for the College include institutional financial aid funds established for the explicit purpose of providing institutional financial aid as prescribed by RCW 28B.15.820, as well as retainage for capital projects

- *Unrestricted* – These represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. Unrestricted resources are available for transactions relating to the educational or general operations of the College. The Governing Board may use, at their discretion, these resources to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources. When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources and then towards restricted resources.

Classification of Revenues and Expenses

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues* – This includes activities that are directly related to the principal operations of the College, such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) federal, state and local grants and contracts that primarily support the operational/educational activities of the colleges. Examples include a contract with OSPI to offer Running Start and/or Technical High School. The college also receives Adult Basic Education grants that support the primary educational mission of the college.

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

- *Non-operating Revenues* – This includes activities that are not directly related to the ongoing operations of the College, such as gifts and contributions, state appropriations, investment income and Pell Grants received from the federal government.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2019 are $7,338,057.

State Appropriations

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

Building and Innovation Fee Remittance

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

Note 2 – Accounting and Reporting Changes

Accounting and Reporting Changes

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations,* to addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The effective date of this Statement is fiscal year 2019. The College implemented the standard and determined that there are no AROs related to existing assets. The College will AROs liabilities, if identified, on future financial statements.

Accounting Standard Impacting the Future

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be in effect beginning fiscal year 2021. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The College is following the State's Office of Financial Management directives to prepare for the implementation of this Statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the fiscal year ending June 30, 2021. This Statement require that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will no longer be included in the capitalized cost of capital assets reported by the College. The Statement will be applied on a prospective basis and the interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated.

Note 3 – Deposits and Investments

Cash and Cash Equivalents

As of June 30, 2019, the carrying amount of the College's cash and cash equivalents was $45,101,645 as represented in the table below.

Cash and Cash Equivalents		June 30, 2019
Cash	$	44,998,130
Cash equivalents		12,515
Total Cash and Cash Equivalents	**$**	**45,010,645**

Custodial Credit Risks – Deposits

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

Deposits

Cash and cash equivalents include bank demand deposits, petty cash held at the College, a small balance in an impending maturity money market account with Charles Schwab, and unit shares in the Washington State Treasurer's Local Government Investment Pool (LGIP). The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates. For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Investments in Local Government Investment Pool (LGIP)

The College is a participant in the Local Government Investment Pool as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

Custodial Credit Risk – Cash Equivalents

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2019, $2,985 of the College's operating fund investments, held by Charles Schwab, an agent for the College are exposed to custodial credit risk as follows.

Cash Equivalents Exposed to Custodial Risk		Fair Value
Charles Schwab		2,985
Total Cash Equivalents Exposed to Custodial Risk	**$**	**2,985**

Investments

The College closed out its investment portfolio in June 2019, prior to the close of the business year. A small balance of $2,985 remained in a money market account set to close in July 2019 based on interest earnings. The College discloses this as a cash or cash equivalent in accordance with the college's policy on 90-days or less to maturity.

Investment Expenses

Investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2019 were $64,801.

Note 4 – Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made according to sponsored agreements. At June 30, 2019, accounts receivable were as follows:

Accounts Receivable		Amount
Student Tuition and Fees	$	1,332,509
Due from the Federal Government		445,026
Due from Other State Agencies		329,516
Due from Other Governments		4,897,215
Due from the Office of the State Treasurer		690,964
Auxiliary Enterprises		121,543
Other		446
Accounts Receivable, subtotal		7,817,219
Less Allowance for Uncollectible Accounts		(71,697)
Accounts Receivable, net	**$**	**7,745,522**

Note 5 – Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2019 is presented as follows:

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Capital assets, non-depreciable				
Land	$ 726,552	$ -	$ -	$ 726,552
Construction in progress	183,195	-	(183,195)	-
Total capital assets, non-depreciable	909,747	-	(183,195)	726,552
Capital assets, depreciable				
Buildings	202,627,267	732,834	19,396	203,379,497
Other improvements and infrastructure	2,960,257	1,877,393	141,679	4,979,329
Equipment	6,518,862	799,562	(85,156)	7,233,268
Library resources	952,083	148,176	(128,215)	972,044
Total capital assets, depreciable	213,058,469	3,557,965	(52,296)	216,564,138
Less accumulated depreciation				
Buildings	57,409,888	4,283,074	4	61,692,966
Other improvements and infrastructure	1,540,008	146,252	(1)	1,686,259
Equipment	4,694,032	562,333	(85,138)	5,171,227
Library resources	491,496	118,317	(128,211)	481,602
Total accumulated depreciation	64,135,424	5,109,976	(213,346)	69,032,054
Total capital assets, depreciable, net	148,923,045	(1,552,011)	161,050	147,532,084
Capital assets, net	**$ 149,832,792**	**$ (1,552,011)**	**$ (22,145)**	**$ 148,258,636**

The current year depreciation expense was $5,109,976. The college has commitments for $2,728,174 for various capital improvement projects that include renovations and repairs of existing buildings.

Note 6 – Schedule of Long Term Liabilities

	Balance outstanding 6/30/18	Additions	Reductions	Balance outstanding 6/30/19	Current portion
Certificates of Participation	$ 4,565,000	$ -	$ 450,000	$ 4,115,000	$ 470,000
Compensation Absences	5,047,523	2,238,100	1,887,212	5,398,412	1,799,471
Net Pension Liability	9,908,808	3,091,860	5,265,258	7,735,411	-
Total Pension Liability	3,442,442	4,624,263	3,535,525	4,531,180	93,083
OPEB Liability	30,975,608	9,411,220	11,886,466	28,500,362	523,298
Total	**$ 53,939,382**	**$ 19,365,444**	**$ 23,024,461**	**$ 50,280,365**	**$ 2,885,852**

Note 7 – Compensated Absences

The components of the Compensated Absences liability include vacation, compensatory, and sick leave earned and unused for exempt professionals, civil service employees, and faculty on annual appointments. The amounts for unpaid vacation and compensatory time accumulated by College employees accrue when incurred. The sick leave liability is recorded as an estimate of one-fourth the total balance on the payroll records.

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

An estimated amount, based on a three-year average payout, is accrued as a current liability. The remaining amount of accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

The accrued leave liability balance for the college as of June 30, 2019 is $5,398,412 as follows:

Compensatory Leave, current	$	-
Vacation Leave, current	$	781,084
Vacation Leave, non-current	$	1,562,168
Sick Leave, current	$	1,018,387
Sick Leave, non-current	$	2,036,773
Total Compensated Absences Liablity	$	5,398,412

Note 8 – Unearned Revenue

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

Unearned Revenue		**Amount**
Summer Quarter Tuition & Fees	$	1,985,171
Total Unearned Revenue	$	1,985,171

Note 9 – Operating Lease Obligations

Operating Leases

The College is obligated under various operating leases for the use of equipment. All operating leases are with parties outside state government. Future commitments for non-cancellable operating leases having remaining terms in excess of one year as of June 30, 2019 were as follows:

Fiscal year	Operating Leases	
2020	$	59,157
2021		10,766
2022		1,141
Total minimum lease payments	**$**	**71,064**

In the current fiscal year, Pierce College incurred expenses of $137,346 for office copier contingent rentals on a cost-per-copy basis.

Note 10 – Certificates of Participation Payable

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

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

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

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

The College's debt service requirements for this (these) note agreement(s) for the next five years and thereafter are as follows in Note 11.

Note 11 – Annual Debt Service Requirements

Future debt service requirements at June 30, 2019 are as follows:

	Certificates of Participation		
Fiscal year	**Principal**	**Interest**	**Total**
2020	$ 470,000	$ 205,750	$ 675,750
2021	490,000	182,250	672,250
2022	520,000	157,750	677,750
2023	545,000	131,750	676,750
2024	565,000	104,500	669,500
2025-2029	1,525,000	138,000	1,663,000
Total	**$ 4,115,000**	**$ 920,000**	**$ 5,035,000**

Note 12 – Retirement Plans

A. General

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

Basis of Accounting

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

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities. The College has elected to use the current fiscal year end as the measurement date for reporting pension liabilities for the Higher Education Supplemental Retirement Plan.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 and No. 73 for the College, for fiscal year 2019:

Aggregate Pension Amounts - All Plans		
Pension Liabilities	$	12,266,591
Deferred outflows of resources related to pensions	$	3,606,416
Deferred inflows of resources related to pensions	$	4,050,359
Pension Expense	$	1,089,957

Department of Retirement Systems

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

The DRS administered systems are comprised of 12 defined benefit pension plans and 3 defined benefit/ defined contribution plans. Below are the DRS plans that the College participates in:

- Public Employees' Retirement System (PERS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

- Teachers' Retirement System (TRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

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

Administration of the PERS and TRS plans is funded by an employer rate of 0.18 percent of employee salaries.

Pursuant to RCW 41.50.770, the College offers its employees that elect to participate a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, WA 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report.

Higher Education

As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (funded on a pay-as-you-go basis) which is administered by the state.

B. College Participation in Plans Administered by the Department of Retirement Systems

PERS

Plan Description. The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

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

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

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

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

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

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44. PERS Plan 3 members have the option to retire early with reduced benefits. PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS covered employment.

TRS

Plan Description. The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees.

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3. Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

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

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

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

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member’s 60 highest paid consecutive months. TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44. TRS Plan 3 members have the option to retire early with reduced benefits.

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

Contributions

PERS and TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS or TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS or TRS-covered employment.

The employer contribution rates (expressed as a percentage of covered payroll) and actual contributions for the year ended June 30, 2019 were as follows:

	Employer Contribution Rates at June 30	Actual Employer Contributions
PERS		
Plan 1	12.83%	$767,168
Plan 2*	12.83%	$774,071
Plan 3*	12.83%	$325,650
TRS		
Plan 1	15.41%	$89,522
Plan 2*	15.41%	$15,795
Plan 3*	15.41%	$79,351

** Plan 2/3 employer rates includes a component to address the Plan 1 unfunded actuarial accrued liability*

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to the June 30, 2018, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary (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 members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of the WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The Office of the State Actuary (OSA) selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by the WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

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, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	7%	4.9%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
Total	100%	

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

There were no material changes in assumptions, benefit terms, or methods for the reporting period.

Discount rate

The discount rate used to measure the total pension liability was 7.40 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 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 7.40 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3 and TRS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

The following presents the net pension liability of the College calculated using the discount rate of 7.40 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40 percent) or 1-percentage-point higher (8.40 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 5,855,546	$ 4,764,722	$ 3,819,849
PERS 2/3	10,256,763	2,242,394	(4,328,494)
TRS 1	786,887	629,563	493,365
TRS 2/3	615,373	98,733	(320,959)

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

Pension Liabilities. At June 30, 2019, the College reported a total pension liability of $7,735,411 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$ 4,764,722
PERS 2/3	2,242,393
TRS 1	629,563
TRS 2/3	98,733

The College's proportionate share of pension liabilities for fiscal years ending June 30, 2018 and June 30, 2019 for each retirement plan are listed below:

	2017	2018	Change
PERS 1	0.102520%	0.106688%	0.004168%
PERS 2/3	0.126448%	0.131333%	0.004885%
TRS 1	0.016373%	0.021556%	0.005183%
TRS 2/3	0.016869%	0.021935%	0.005066%

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

Pension Expense. For the year ended June 30, 2019 the College recognized pension expense as follows:

Pension Expense	
PERS 1	$ 627,794
PERS 2/3	1,812
TRS 1	231,167
TRS 2/3	68,988
TOTAL	$ 929,760

Deferred Outflows of Resources and Deferred Inflows of Resources. The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2019:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-	274,859	392,602
Difference between expected and actual earnings of pension plan investments	-	189,347	-	1,376,037
Changes of assumptions	-	-	26,232	638,167
Changes in College's proportionate share of pension liabilities	-	-	210,802	79,742
Contributions subsequent to the measurement date	767,168	-	1,099,721	-
Totals	**$ 767,168**	**$ 189,347**	**$ 1,611,614**	**$ 2,486,548**

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	-	-	46,397	7,290
Difference between expected and actual earnings of pension plan investments	-	26,923	-	83,501
Changes of assumptions	-	-	1,679	39,677
Changes in College's proportionate share of pension liabilities	-	-	90,167	10,437
Contributions subsequent to the measurement date	89,522	-	95,146	-
Totals	**$ 89,522**	**$ 26,923**	**$ 233,389**	**$ 140,905**

The $2,701,693 reported as deferred outflows of resources represent differences between expected and actual experience, changes in assumptions, and changes in the College's proportionate share of pension liabilities. Contributions the College made subsequent to the measurement date of $2,051,557 will be recognized as a reduction of the net pension liability for the year ended June 30, 2020.

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

Year ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2020	8,284	(185,092)	2,694	17,895
2021	(41,392)	(434,000)	(5,573)	626
2022	(124,207)	(823,709)	(19,145)	(33,199)
2023	(32,032)	(293,343)	(4,899)	(7,123)
2024	-	(96,831)	-	4,630
Thereafter	-	(141,618)	-	14,508
Total	**$ (189,347)**	**$ (1,974,593)**	**$ (26,923)**	**(2,663)**

C. College Participation in Plan Administered by the State Board for Community and Technical Colleges

State Board Retirement Plan (SRP) – Supplemental Defined Benefits Plans

Plan Description. The State Board Retirement Plan is a privately administered single-employer defined contribution plans with a supplemental defined benefit plan component, which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. The College participates in this plan as authorized by chapter 28B.10 RCW and reports its proportionate share of the total pension liability. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.

Contributions. Contribution rates for the SRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2019 were $2,058,405 for employees and $2,058,319 for employer contributions.

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

As of July 1, 2011, all the Supplemental Retirement Plans were closed to new entrants.

Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is the one-twelfth of 2 percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of fifty percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member would receive from their defined contribution Retirement Plan benefit in the first month of retirement had they invested all employer and member contributions equally between a fixed income and variable income annuity investment.

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

The SRP pension benefits are unfunded. For the year ended June 30, 2019, supplemental benefits were paid by the SBCTC on behalf of the system in the amount of $1,818,361. The College's share of this amount was $74,642. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Higher Education Retirement Plan (HERP) Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During fiscal year 2019, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $118,509. This amount was not used as a part of GASB 73 calculations its status as an asset has not been determined by the Legislature. As of June 30, 2019, the Community and Technical College system accounted for $19,733,342 of the fund balance.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to the June 30, 2019, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50%-4.25%
Fixed Income and Variable Income Investment Returns*	4.25%-6.50%

**Measurement reflects actual investment returns through June 30, 2018*

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

Most actuarial assumptions used in the June 30, 2018 valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate decrease from 3.87 percent to 3.50 percent.

Discount Rate. The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.50 percent for the June 30, 2019, measurement date.

Pension Expense. Pension expense for the fiscal year ending June 30, 2019 was $160,197.

Proportionate Share (%)		**4.10489%**
Service Cost	$	117,048
Interest		141,582
Amortization of Differences Between Expected and Actual Experience		(154,149)
Amortization of Changes of Assumptions		17,473
Changes of Benefit Terms		---
Administrative Expenses		---
Other Changes in Fiduciary Net Position		---
Proportionate Share of Collective Pension Expense		**121,954**
Amortization of the Change in Proportionate Share of TPL		(38,244)
Total Pension Expense	**$**	**160,197**

Proportionate Shares of Pension Liabilities. The College's proportionate share of pension liabilities for fiscal year ending June 30, 2019 was 4.104886%. The College's proportion of the total pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating College's. The College's change in proportionate share of the total pension liability and deferred inflows and deferred outflows of resources are represented in the following table:

Proportionate Share (%) 2018		**3.95%**
Proportionate Share (%) 2019		**4.10%**
Total Pension Liability - Ending 2018	$	3,442,443
Total Pension Liability - Beginning 2019		3,578,353
Total Pension Liability - Change in Proportion		135,910
Total Deferred Inflow/Outflows - 2018		1,392,252
Total Deferred Inflow/Outflows - 2019		1,447,219
Total Deferred Inflows/Outflows - Change in Proportion		54,967
Total Change in Proportion	**$**	**190,877**

Plan Membership. Membership in the State Board Supplemental Retirement Plan consisted of the following as of June 30, 2018, the most recent actuarial valuation date:

	Number of Participating Members			
Plan	**Inactive Members or Beneficiaries Currently Receiving Benefits**	**Inactive Members Entitled to But Not Yet Receiving Benefits**	**Active Members**	**Total Members**
SRP	12	18	221	251

Change in Total Pension Liability. The following table presents the change in total pension liability of the State Board Supplemental Retirement Plan at June 30, 2019:

Schedule of Changes in Total Pension Liability	**Amount**
Service Cost	$ 117,048
Interest	141,582
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	266,932
Changes in Assumptions	501,907
Benefit Payments	(74,642)
Change in Proportionate Share of TPL	135,910
Other	---
Net Change in Total Pension Liability	1,088,737
Total Pension Liability - Beginning	3,442,443
Total Pension Liability - Ending	$ 4,531,180

Sensitivity of the Total Pension Liability to Changes in the Discount Rate. The following table presents the total pension liability, calculated using the discount rate of 3.50 percent, as well as what the employers' total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50 percent) or 1 percentage point higher (4.50 percent) than the current rate:

1% Decrease (2.50%)	**Current Discount Rate (3.50%)**	**1% Increase (4.50%)**
$ 5,177,534	$ 4,531,179	$ 3,994,465

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

At June 30, 2019, the State Board Supplemental Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference Between Expected and Actual Experience	$	230,860	$	949,733
Changes of Assumptions		434,082	$	256,901
Changes in College's proportionate share of pension liability		239,780		---
Transactions Subsequent to the Measurement Date		---		---
Total	**$**	**904,723**	**$**	**1,206,635**

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

State Board Supplemental Retirement Plan	
2020	(98,432)
2021	(98,432)
2022	(98,432)
2023	(98,432)
2024	(30,774)
Thereafter	122,591

Note 13 – Other Post-Employment Benefits

Plan Description. In addition to pension benefits as described in Note 16, the College, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB OPEB plan is administered by the state and is funded on a pay-as-you-go basis. In the state Comprehensive Annual Financial Report the plan is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. The PEBB OPEB plan has no assets and does not issue a publicly available financial report.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units. Additionally, there are 76 of the state's K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments not included in the state's financial reporting who participate in the PEBB plan. The plan is also available to the retirees of the remaining 227 K-12 schools, charter schools, and ESDs. Membership in the PEBB plan for the College consisted of the following:

Summary of Plan Participants
As of June 30, 2018

Active Employees*	677
Retirees Receiving Benefits**	152
Retirees Not Receiving Benefits***	32
Total Active Employees and Retirees	861

**Reflects active employees eligible for PEBB program participation a*

***Headcounts exclude spouses of retirees that are participating in a PEBB program as a dependent.*

****This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. No benefits are allowed to them unless they choose to join in the future. In order to do so, they must show proof of continuous medical coverage since their separation of employment with the State of Washington that meets the requirements set forth in Washington Administrative Code 182-12-205.*

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, Higher Education, Judicial, and LEOFF 2. However, not all employers who participate in these plans offer PEBB to retirees.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at $327 per adult unit per month, and in calendar year 2018, the average weighted implicit subsidy was valued at $347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be $368 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2017, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar years 2018. This was increased in calendar year 2019 up to $168 per member per month. It is projected to increase to $183 per member per month in calendar year 2020.

Contribution Information. Administrative costs as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium*		
Medical	$	1,092
Dental		79
Life		4
Long-term Disability		2
Total		1,177
Employer contribution		1,017
Employee contribution		160
Total	$	1,177

**Per 2019 PEBB Financial Projection Model 7.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2019 which includes projected claims cost at the time of this reporting.*

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

Total OPEB Liability

As of June 30, 2019, the state reported a total OPEB liability of $5.08 billion. The College's proportionate share of the total OPEB liability is $28,500,362. This liability was determined based on a measurement date of June 30, 2018.

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	2.75%
Projected Salary Changes	3.50% Plus Service-Based Salary Increases
Health Care Trend Rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 8%, reaching an ultimate rate of approximately 4.5% in 2080
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

In projecting the growth of the explicit subsidy, after 2020 when the cap is $183, it is assumed to grow at the health care trend rates. The Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.
Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2017 Economic Experience Study.

Actuarial Methodology.

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2018
Actuarial Measurement Date	6/30/2018
Actuarial Cost Method	Entry Age
Amortization Method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset Valuation Method	N/A - No Assets

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017 measurement date and 3.87 percent for the June 30, 2018 measurement date.

Additional detail on assumptions and methods can be found on OSA's website: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

Changes in Total OPEB Liability

As of June 30, 2019, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for the College are represented in the following table:

Pierce College		
Proportionate Share (%)		**0.5611817068%**
Service Cost	$	1,781,887
Interest Cost		1,225,037
Differences Between Expected and Actual Experience		1,118,221
Changes in Assumptions*		(7,800,838)
Changes of Benefit Terms		-
Benefit Payments		(517,395)
Changes in Proportionate Share		1,717,842
Other		-
Net Change in Total OPEB Liability		(2,475,246)
Total OPEB Liability - Beginning		30,975,608
Total OPEB Liability - Ending	**$**	**28,500,362**

**The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.*

Sensitivity of the Total Liability to Changes in the Discount Rate

The following represents the total OPEB liability of the College, calculated using the discount rate of 3.87 percent as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

Discount Rate Sensitivity		
1% Decrease	**Current Discount Rate**	**1% Increase**
$ 34,364,736	$ 28,500,362	$ 23,924,880

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following represents the total OPEB liability of the College, calculated using the health care trend rates of 8.00 percent decreasing to 4.50 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (7.00 percent decreasing to 3.50 percent) or 1 percentage point higher (9.0 percent decreasing to 5.50 percent) than the current rate:

Health Care Cost Trend Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 23,396,035	$ 8,500,362	$ 35,288,148

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ending June 30, 2019, the College will recognize OPEB expense of $1,885,421. OPEB expense consists of the following elements:

Pierce College

Proportionate Share (%)	0.5611817068%
Service Cost	$ 1,781,887
Interest Cost	1,225,037
Amortization of Differences Between Expected and Actual Experience	124,247
Amortization of Changes in Assumptions	(1,429,458)
Changes of Benefit Terms	-
Amortization of Changes in Proportion	183,708
Administrative Expenses	-
Total OPEB Expense	**$ 1,885,421**

As of June 30, 2019, the deferred inflows and deferred outflows of resources for the College are as follows:

Pierce College

Proportionate Share (%)	0.5611817068%	
Deferred Inflows/Outflows of Resources	**Deferred Inflows**	**Deferred Outflows**
Difference between expected and actual experience	$ -	$ 993,974
Changes in assumptions	10,872,959	-
Transactions subsequent to the measurement date	-	523,298
Changes in proportion	212,967	1,713,055
Total Deferred Inflows/Outflows	**$ 11,085,926**	**$ 3,230,327**

Amounts reported as deferred outflow of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for the College as follows:

Proportionate Share (%)		0.5611817068%
2020	$	(1,121,502)
2021	$	(1,121,502)
2022	$	(1,121,502)
2023	$	(1,121,502)
2024	$	(1,121,502)
Thereafter	$	(2,771,387)

The change in the College's proportionate share of OPEB liability and deferred inflows and deferred outflows of resources based on measurement date are representing in the following table:

Proportionate Share (%) 2017		**0.5316950210%**
Proportionate Share (%) 2018		**0.5611817068%**
Total OPEB Liability - Ending 2017	$	30,975,608
Total OPEB Liability - Beginning 2018		32,693,450
Total OPEB Liability Change in Proportion		1,717,842
Total Deferred Inflows/Outflows - 2017		(3,774,838)
Total Deferred Inflows/Outflows - 2018		(3,984,183)
Total Deferred Inflows/Outflows Change in Proportion		(209,345)
Total Change in Proportion	**$**	**1,927,187**

Note 14 – Risk Management

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

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

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

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2018 through June 30, 2019, were $178,265. Cash reserves for unemployment compensation for all employees at June 30, 2019, were $875,393.

Note 15 – Commitments and Contingencies

Capital Commitments

The College has commitments of *$2,728,174 as of June 30, 2019,* for various miscellaneous capital improvement projects that include construction and completion of new buildings and renovations of existing buildings. Funding for capital projects comes from a mixture of state capital appropriations and local funds.

Pierce College Capital Commitments		Amount
Fort Steilacoom HEC Repairs	$	7,011
Fort Steilacoom Mech & Light Upgrades	$	549,859
Puyallup Mech & Light Upgrades	$	355,742
Fort Steilacoom Boiler Replacement	$	372,562
Cascade Building, Phase 3 Renovations	$	1,443,000
Total Unearned Revenue	$	2,728,174

Contingencies

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

The various state and federal programs administered by the College for fiscal year 2019 and prior years are subject to examination by the state and federal grantor agencies. At the present time, amounts, if any, which may be due to state or federal grantors have not been determined but the College believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the College. Therefore, an estimated loss has not been recorded.

Note 16 – Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, operations, and academic support. The following table lists operating expenses by program for the year ending June 30, 2019.

Expenses by Functional Classification		
Instruction	$	31,156,919
Academic Support Services		8,657,920
Student Services		12,838,466
Institutional Support		13,175,808
Operations and Maintenance of Plant		7,317,594
Scholarships and Other Student Financial Aid		12,989,150
Auxiliary enterprises		2,412,258
Depreciation		5,109,976
Total operating expenses	**$**	**93,658,092**

Note 17 – Joint Venture

INVISTA Performance Solutions (IPS) is a Limited Liability Partnership (LLP) collaboration of three Pierce County Community and Technical Colleges: Clover Park Technical College, Pierce College District, and Tacoma Community College. Formed through a Memorandum of Understanding (MOU) between the colleges which complies with state requirements for an interlocal cooperation agreement under RCW 39.34, RCW 28B.50.020, RCW 23B.63.050, and all relevant and associated statutes.

Founded in September 2011, IPS' mission is to provide customized solutions to meet organizations' training and development needs, assisting companies in gaining a competitive advantage in the global economy by increasing the skills of their workforce through education, training, and consulting support.

IPS has a nine member governing body, which includes three voting members, appointment equally apportioned by each partner college. The College appoints three members, one of whom is a voting member. IPS has a fiscal year-end of June 30. A copy of the joint venture's complete financial statements are available from IPS's Administrative Offices at 4500 Steilacoom Blvd SW. Bldg. 19, Lakewood, WA 98499.

Interest in Equity

As a partner in the joint venture, Pierce College District holds certain rights to revenues from INVISTA Performance Solutions (IPS) in excess of expenses and a 12-month reserve requirement, as distributed by vote of the governing body.

For the fiscal year ended June 30, 2019, members' equity declined $39,250 after distributions. Total members' equity for the year ended June 30, 2019 is $1,813,321. The Governing Board of IPS determines the distribution of equity to joint venture institutions. During the fiscal year ended June 30, 2019, IPS distributed $156,848 of equity to the member colleges. Pierce College received $52,283.

The College does not have access to IPS assets, except as fiscal agent, nor is it obligated for its debts.

Fiscal Agent

Under the interlocal agreement, the College acts as the fiscal agent for IPS. The College provides fiscal services, including hiring all employees for the operation of IPS, and providing administrative financial services for operations including purchasing (accounts payable), contracting (accounts receivable), and budget tracking. Additionally, the College maintains records and coordinates the annual independent audit of IPS.

The College receives compensation for fiscal agent services provided equal to 8.5% of gross revenues. These fees are independent of distributions from equity in the joint venture that may be distributed. In 2019, the College received $197,720 in fees for accounting services provided. Other reimbursements to the College for supporting services and other expenditures totaled $1,195,000.

Note 18 – Subsequent Events

- In May 2020, the College migrated to ctcLink, a new enterprise service software (ERP) system and financial system.
- In April 2021, Pierce College identified asbestos dust in the Olympic South building on the Fort Steilacoom Campus during routine renovations. As a precautionary measure, the College ceased operations in the building until the College could remediate and abate the presence of the asbestos. In November 2021, the Board of Trustees obligated the college to the remediation and abatement, and obtained a professional specialist cost estimates. The current estimated amount for remediation during renovation of the building is $7,500,000. The state legislature, in March 2023, elected to provide funding for both remediation and renovation of the building. Pierce College will be directly contributing $2,500,000 from its reserves. This liability is an estimate and is subject to changes resulting from price increases or reductions, technology, or changes in applicable laws and regulations.

Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended June 30, 2019*

Financial reporting year	2015	2016	2017	2018	2019
Measurement date	June 30, 2014	June 30, 2015	June 30,2016	June 30,2017	June 30, 2018
College's proportion of the net pension liability	0.108664%	0.105141%	0.107185%	0.102520%	0.106688%
College's proportionate share of the net pension liability	$5,474,000	$5,499,852	$5,756,305	$4,864,654	$4,764,722
College employers' covered-employee payroll	$449,142	$392,830	$346,659	$230,507	$231,182
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	1,393.48%	1,586.53%	1,660.51%	2,110.42%	2,061.03%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%	61.24%	63.22%

Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended June 30, 2019*

Financial reporting year	2015	2016	2017	2018	2019
Measurement date	June 30, 2014	June 30, 2015	June 30,2016	June 30,2017	June 30, 2018
College's proportion of the net pension liability	0.128456%	0.125517%	0.128664%	0.126448%	0.131333%
College's proportionate share of the net pension liability	$2,596,560	$4,484,795	$6,478,141	$4,393,464	$2,242,394
College employers' covered-employee payroll	$11,012,149	$11,333,757	$11,875,974	$12,519,584	$13,646,972
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	22.91%	21.86%	54.55%	35.09%	16.43%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%	90.97%	95.77%

** As of June 30; these schedules are built prospectively until they contain ten years of data.*

Schedule of Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1
Fiscal Year Ended June 30, 2019*

Financial reporting year	2015	2016	2017	2018	2019
Measurement date	June 30, 2014	June 30, 2015	June 30,2016	June 30,2017	June 30, 2018
College's proportion of the net pension liability	0.009872%	0.009304%	0.017238%	0.016373%	0.021556%
College's proportionate share of the net pension liability	$291,170	$294,764	$588,545	$495,000	$629,563
College employers' covered-employee payroll	$9,233	$9,210	$1,313	---	---
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	3161.45%	22449.66%	44824.45%	**	**
Plan's fiduciary net position as a percentage of the total pension liability	68.77%	65.70%	62.07%	65.58%	66.52%

Schedule of Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3
Fiscal Year Ended June 30, 2019*

Financial reporting year	2015	2016	2017	2018	2019
Measurement date	June 30, 2014	June 30, 2015	June 30,2016	June 30,2017	June 30, 2018
College's proportion of the net pension liability	0.010150%	0.009179%	0.017743%	0.016869%	0.021935%
College's proportionate share of the net pension liability	$32,784	$77,452	$246,658	$155,691	$98,733
College employers' covered-employee payroll	$391,275	$563,986	$853,917	$885,301	1,250,071
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	5.81%	9.07%	28.53%	17.59%	7.90%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%	92.48%	88.72%	93.14%	96.88

** As of June 30; these schedules are built prospectively until they contain ten years of data.*
*** No College employer's covered-employee payroll, therefore this number cannot be calculated.*

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended June 30, 2019*

Financial reporting year	2014	2015	2016	2017	2018	2019
Contractually Required Contributions	$482,985	$483,102	$608,414	$617,045	$713,444	$762,139
Contributions in relation to the Contractually Required Contributions	$482,827	$482,374	$608,403	$617,045	$713,444	$762,104
Contribution deficiency (excess)	$158	$728	$11	---	---	$35
Covered-employee payroll	$11,461,291	$11,726,587	$12,222,633	$12,750,091	$13,878,154	$14,680,966
Contributions as a percentage of covered-employee payroll	4.21%	4.11%	4.98%	4.84%	5.14%	5.19%

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended June 30, 2019*

Financial reporting year	2014	2015	2016	2017	2018	2019
Contractually Required Contributions	$572,600	$596,364	$758,076	$808,415	$1,049,081	$1,121,429
Contributions in relation to the Contractually Required Contributions	$571,841	$596,364	$757,036	$808,093	$1,049,018	$1,117,029
Contribution deficiency (excess)	$759	---	$1,040	$322	$63	$4,400
Covered-employee payroll	$11,012,149	$11,333,757	$11,875,974	$12,519,584	$13,646,972	$14,530,793
Contributions as a percentage of covered-employee payroll	5.20%	5.26%	6.38%	6.46%	7.69%	7.72%

** As of June 30; these schedules are built prospectively until they contain ten years of data.*

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 1
Fiscal Year Ended June 30, 2019*

Financial reporting year	2014	2015	2016	2017	2018	2019
Contractually Required Contributions	$19,571	$20,837	$52,433	$57,295	$89,648	$88,073
Contributions in relation to the Contractually Required Contributions	$19,571	$20,837	$52,261	$57,295	$89,648	$88,073
Contribution deficiency (excess)	---	---	$172	---	---	---
Covered-employee payroll	$400,508	$573,196	$855,230	$855,301	$1,250,071	$1,110,946
Contributions as a percentage of covered-employee payroll	4.89%	3.64%	6.11%	6.47%	7.17%	7.93%

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 2/3
Fiscal Year Ended June 30, 2019*

Financial reporting year	2014	2015	2016	2017	2018	2019
Contractually Required Contributions	$22,041	$58,598	$59,858	$58,905	$100,363	$83,124
Contributions in relation to the Contractually Required Contributions	$20,779	$58,248	$56,929	$58,945	$97,828	$93,602
Contribution deficiency (excess)	$1,262	$350	$2,929	($40)	$2,535	($10,478)
Covered-employee payroll	$391,275	$563,986	$853,917	$885,301	$1,250,071	$1,110,946
Contributions as a percentage of covered-employee payroll	5.63%	6.87%	7.01%	6.65%	8.03%	7.48%

** As of June 30; these schedules are built prospectively until they contain ten years of data.*

Schedule of Changes in the Total Pension Liability and Related Ratios
Fiscal Year Ended June 30, 2019*

Financial reporting year	2017	2018	2019
Measurement date	June 30, 2016	June 30, 2017	June 30, 2018
Total Pension Liability			
Service Cost	$ 209,503	$ 151,127	$ 117,048
Interest	135,904	138,886	141,582
Changes of benefit terms	---	---	---
Differences between expected and actual experience	(979,871)	(410,773)	266,932
Changes in assumptions	(231,277)	(138,965)	501,907
Benefit Payments	(34,885)	(51,337)	(74,642)
Change in proportionate share of total pension liability	---	77,440	135,910
Other	---	---	---
Net Change in Total Pension Liability	**(900,626)**	**(233,622)**	**1,088,737**
Total Pension Liability - Beginning	**4,576,690**	**3,676,064**	**3,442,443**
Total Pension Liability - Ending	**$ 3,676,064**	**$ 3,442,442**	**$ 4,531,180**
College's Proportion of the Pension Liability	**3.867506%**	**3.948978%**	**4.104889%**
Covered-employee payroll	**$ 21,397,011**	**$ 23,391,230**	**$ 23,708,679**
Total Pension Liability as a percentage of covered employee payroll	**17.180269%**	**14.716807%**	**19.111904%**

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

State Board Supplemental Defined Benefit Plans – Notes to Required Supplementary Information

The State Board Supplemental Retirement Plans are financed on a pay-as-you-go basis. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, salary growth and the variable income investment return.

Schedule of Changes in Total OPEB Liability and Related Ratios
Fiscal Year Ended June 30, 2019*

	2018	2019
Financial reporting year	2018	2019
Measurement date	June 30, 2017	June 30, 2018
Total OPEB Liability		
Service Cost	$ 2,099,957	$ 1,781,887
Interest	983,633	1,225,037
Changes of benefit terms	---	---
Differences between expected and actual experience	---	1118221
Changes in assumptions	(4,798,178)	(7,800,838)
Benefit Payments	(501,275)	(517,395)
Change in proportionate share of total pension liability		1,717,842
Other	(278,014)	---
Net Change in Total OPEB Liability	**(2,493,877)**	**(2,475,246)**
Total OPEB Liability - Beginning	**33,469,485**	**30,975,608**
Total OPEB Liability - Ending	**$ 30,975,608**	**$ 28,500,362**
College's Proportion of the Total OPEB Liability	**0.531695%**	**0.561182%**
Covered-employee payroll	**$ 35,225,399**	**$ 37,726,198**
Total OPEB Liability as a percentage of covered employee payroll	**87.935435%**	**75.545280%**

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

Other Post-Employment Benefits – Notes to Required Supplementary Information

The Public Employee's Benefits Board (PEBB) OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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