PIERCE COLLEGE

possibilities. **realized.**

FINANCIAL REPORT

A component unit of the State of Washington

For Fiscal Year Ended
June 30, 2015

The Washington State Auditor's Office (SAO) recognized Pierce College District with their Stewardship Award for the College's work associated with the 2015 Financial Statement Audit.

From Left to Right: Sylvia James (Director of Fiscal Services), Amadeo Tiam (Board of Trustees), Angie Roarty (Board of Trustees), Steve Smith (Board of Trustees), Sophia Lin (Assistant State Auditor, Team Financial Audit), Troy Niemeyer (Deputy Director of State Audit), Brett Willis (Board of Trustees, Chair), Choi Halladay (Vice President, Administrative Services), Jaqueline Rosenblatt (Board of Trustees), Kennesy Cavanah (Auditor in Charge, Team Financial Audit), Michele L. Johnson (Chancellor and CEO)

Government that works for citizens

AUDITOR OF STATE
WASHINGTON
NOV 11, 1889

State Auditor's Stewardship Award

Presented in recognition of outstanding accomplishment
in the stewardship of public resources as we pursue
the shared goal of government that works better, costs less,
and earns greater public trust.

Troy X. Kelley

Better government is the bottom line

Washington State Auditor

June 8, 2016

Chancellor Michele Johnson, Ph.D.
Pierce College
9401 Farwest Drive S.W.
Lakewood, WA 98498

Dear Chancellor Johnson:

The State Auditor's Office recognizes Pierce College's dedication to making government work better and its commitment to the audit process.

We saw the College's culture of accountability to its citizens through Finance management and staff's commitment to meeting deadlines and being accessible during our audits. They were open to having conversations, assisted the audit process in a professional and productive manner, and were proactive to implement our recommendations.

In particular, we appreciated the open communication and additional time spent by Sylvia James, Director of Fiscal Services, preparing for the audits. She called ahead to schedule our audits to ensure our work did not overlap with the College's computer system upgrade. This was extremely helpful, because it allowed College staff to be available for questions.

Additionally, Pierce College compiled one of the first sets of financial statements in the Community College System. Ms. James researched the new Governmental Accounting Standards Board Statement No. 68 to understand and comply with its significant revisions in financial reporting related to pensions. It is evident that Ms. James has a true commitment to ensuring accurate financial reporting.

We applaud the College's management and staff's commitment to be accountable to the citizens and good stewards of public funds. They understand the value of our audits and have fostered a positive and professional working relationship with the Washington State Auditor's Office.

Thank you for your hard work and dedication to the citizens of Washington.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Insurance Building, PO Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

2015
Financial Report

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For information about the financial data included in this report, contact:
Vice President of Administrative Services
Pierce College
9401 Farwest Dr SW
Lakewood, WA 98498
253-964-6506

For information about enrollment, degrees awarded, or academic programs, contact:
Institutional Research
Pierce College
9401 Farwest Dr SW
Lakewood, WA 98498
253-964-6529
or
Visit the Facts and Stats of Pierce College - Home page at https://www.pierce.ctc.edu/about/demographics/

Trustees *and* Administrative Officers

Trustees and Officer list effective as of December 31, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pierce College
July 1, 2014 through June 30, 2015

Board of Trustees
Pierce College
Lakewood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Pierce College, Pierce County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the Pierce College, as of June 30, 2015, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 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, 2015, 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.

As discussed in Note 1 to the financial statements, in 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The Trustees and Administrative Officers is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

June 8, 2016

Management’s Discussion *and* Analysis

Overview of the Financial Statements and Financial Analysis
Pierce College is pleased to present its financial statements for fiscal year 2015. 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, 2015. This overview provides readers with an objective and easily readable analysis of the College’s financial performance for the year, based on currently known facts and conditions. This discussion should be read in conjunction with the College’s financial statements and accompanying note disclosures.

The financial statements presented in this report encompass the College and its discretely presented component unit*(s)*. The College’s financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college’s financial health as a whole.

Adoption of New Accounting Standards
The College implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ended June 30, 2015. The implementation of the statement required the College to record beginning net pension liability and the effects on unrestricted net position of contributions made by the College during the measurement period (fiscal year ended June 30, 2014). To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restate. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as a restatement to the ending net position of June 30, 2014. As a result, ending unrestricted net position for the College for the year ended June 30, 2014 decreased by 10,508,977. This decrease resulted in the restatement of unrestricted net position to a balance of 170,664,936 for the year ended June 30, 2014, prior to any other adjustments.

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

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

Net position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The next category is restricted net position, which is divided into two categories, expendable for Institutional Financial Aid and expendable for Student Loans. Expendable restricted net position is available for expendable for expenditure by the institution but must be spent for purposes as determined by external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the institution for any lawful purpose of the institution and includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

Condensed Summary of Net Position

	June 30, 2015	**June 30, 2014**	**Change**
Assets			
Current assets	$ 24,071,479	$ 22,246,976	$ 1,824,503
Non-current assets	16,999,804	17,394,503	(394,699)
Capital assets, net	161,158,704	163,948,328	(2,789,624)
Total assets	**202,229,987**	**203,589,807**	**(1,359,820)**
Deferred outflows of resources	**1,332,565**		**1,332,565**
Liabilities			
Current liabilities	9,717,712	10,991,044	(1,273,332)
Non-current liabilities	19,207,628	21,609,309	(2,401,681)
Total liabilities	**28,925,340**	**32,600,353**	**(4,324,048)**
Deferred inflows of resources	**3,563,160**		**3,563,160**
Net position			
Net investment in capital assets	154,548,704	156,893,328	(2,344,624)
Restricted expendable	1,613,157	1,183,787	429,370
Unrestricted	14,912,190	12,912,339	2,324,369
Total net position	**$ 171,074,051**	**$ 170,989,454**	**$ 409,115**

Current assets consist primarily of cash, investments, and various accounts receivables. The increase of current assets in FY 2015 can be attributed to deliberate changes in the College's investment strategy to prepare for the possibility that the State of Washington would not pass a budget by July 01, 2015 and the College may have needed to operate for some amount of time without an allocation from the State.

Net capital assets decreased by $2,789,624 from FY 2014 to FY 2015. The decrease is primarily the result of current depreciation expense of $5,056,339. This decrease was offset in part by ongoing acquisitions of capitalizable equipment.

Non-current assets consist primarily of the long-term portion of certain investments and student loans receivable. Some long-term investments that matured were deliberately held as current assets, as mentioned above. The college makes Student Loans as part of the Federal Perkins Loan Program CFDA No. 84.038. Loans receivable decreased as existing loans are paid down.

Deferred outflows of resources totaling $1,332,565 are related to the net pension liability that was recorded on the College's financials this year.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements. The decrease in current liabilities from FY 2014 to FY 2015 is the result of an increase in accounts payable, a decrease in accrued liabilities primarily attributable to a reduction in accrued salaries, and a decrease in unearned revenue for summer quarter received prior to the start of the FY 2016.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt. The College's non-current liabilities continue to decrease as the College pays down the principal owed on Certificates of Participation for the Pierce College Fort Steilacoom Health Education Center (HEC) and the Pierce College Puyallup Health Education Center (HEP). The changes in non-current liabilities also includes decreases to vacation and sick leave balances as employees no longer had unpaid Temporary Salary Reduction leave in lieu of paid leave.

Deferred inflows of resources related to the College's net pension liability totaled $3,563,160. Deferred inflows of resources include the calculated difference between actual and projected investment earnings on the state's pension plans.

Unrestricted net position decreased by $10,184,459 in FY 2015, primarily due to the impact of restating fiscal year 2015 beginning net position as a result of implementing GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The change in accounting treatment required by Statement No. 68 reduced unrestricted net position $10,508,977 for the fiscal year ending June 30, 2014. Overall, Unrestricted Net Position increased $2,324,369 in FY 2015 due primarily to an increase in Running Start revenue. This increase in revenue was from both a legislative increase of 10.7% in the reimbursement rate for Running Start students, as well as a 19.2% increase in Running Start students attending Pierce College.

Statement of Revenues, Expenses and Changes in Net Position

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

Changes in total net position as presented on the Statement of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

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

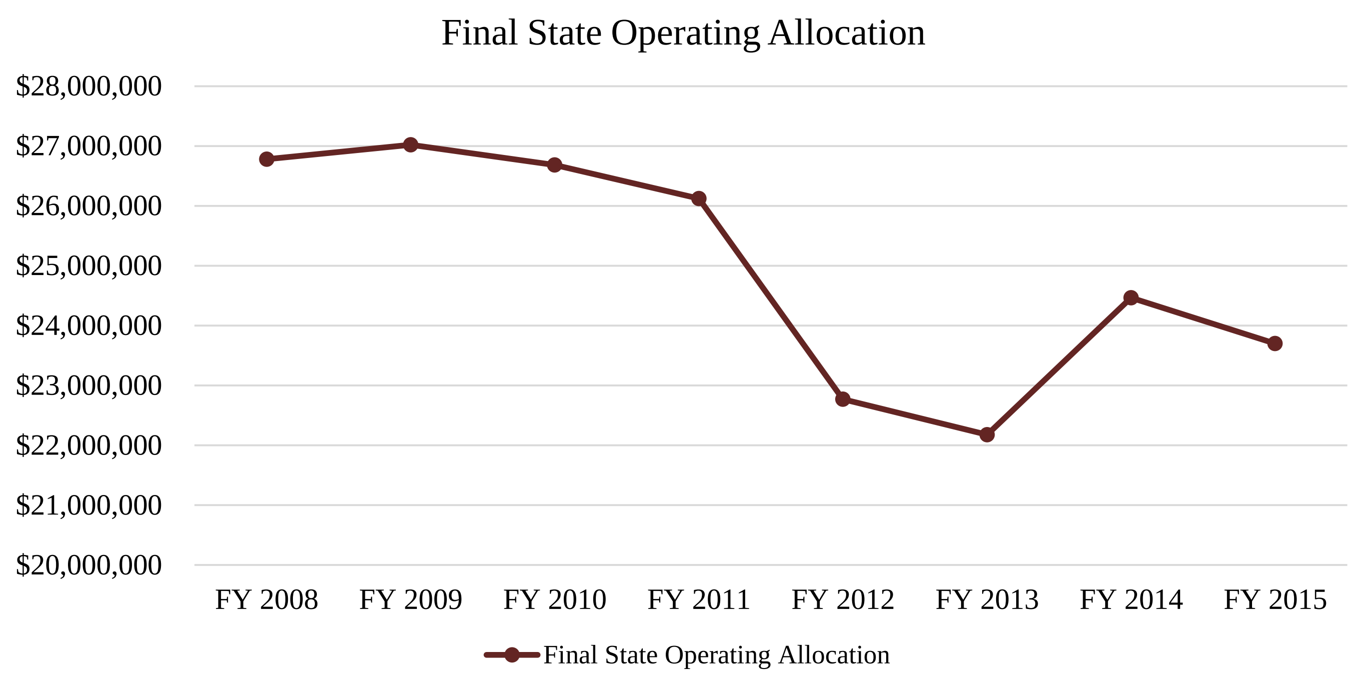
Non-operating revenues are revenues received for which goods and services are not provided. Non-operating revenues include state appropriations, federal Pell grant revenue and investment income, net of related expenses. State capital appropriations and capital grants are considered neither operating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

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

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

	June 30, 2015	**June 30, 2014**	**Change**
Operating revenues			
Student tuition and fees, net	$ 27,293,784	$ 23,277,961	$ 4,015,823
Auxiliary enterprise sales	1,142,679	1,434,332	(291,653)
State and local grants and contracts	15,090,136	17,462,182	(2,372,046)
Federal grants and contracts	1,011,661	950,715	60,946
Other operating revenues	446,736	513,147	(66,411)
Interest on loans to students	5,413	5,578	(165)
Total operating revenues	**44,990,409**	**43,643,915**	**1,346,495**
Operating expenses	**81,420,396**	**78,291,650**	**3,128,746**
Operating loss	**(36,429,987)**	**(34,647,735)**	**(1,782,251)**
Non-operating revenues			
State appropriations	23,648,137	24,422,057	(773,920)
Federal Pell grant revenue	12,436,622	12,150,534	286,088
Investment income, net	60,942	111,148	(50,206)
Non-operating expenses	(2,889,514)	(311,641)	(2,577,872)
Net non-operating revenues (expenses)	**33,256,187**	**36,372,098**	**(3,115,911)**
Income (loss) before capital contributions	**(3,173,800)**	**1,724,363**	**(4,898,162)**
Capital appropriations	3,258,397	1,076,175	2,182,223
Increase in net position	**84,597**	**2,800,538**	**(2,715,939)**
Net position, beginning of year	181,173,913	178,373,375	2,800,538
Restatement	(10,184,459)		
Adjusted net position, beginning of year	170,989,454		
Net position, end of year	**$ 171,074,051**	**$ 181,173,913**	**$ (10,099,862)**

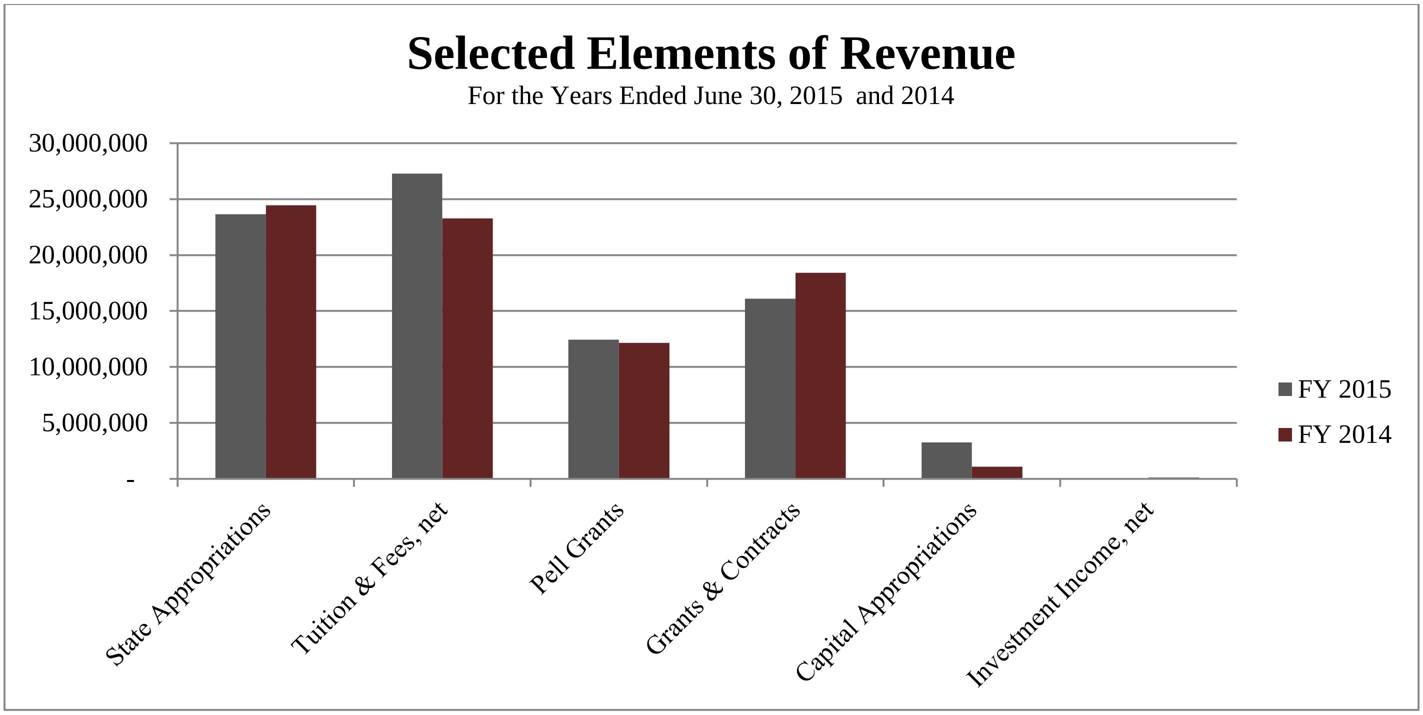
Revenues
Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased multiple times up through FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY 2014, the Legislature reinstate a small portion of the previous cuts.



Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. In addition, the College serves contracted international and Joint Base Lewis-McChord students on a fee-only basis, as allowed by law. Since state enrollments increased by just over 3% in FY2015, the Colleges' increase in tuition and fee revenues is attributable to the increase in enrollment but is primarily attributable to the shift in contract funding for international contract students from grants and contracts to fees paid for services. Pell Grant revenues generally follow enrollments trends. As the College's enrollment increase during FY 2015, so did the College's Pell Grant revenue. For FY 2015, the College attempted to keep other fees as stable as possible, resulting in only small changes in these revenues.

In FY 2015, grant and contract revenues decreased by $2,372,046 when compared with FY 2014. This is primarily attributable to the revenue for international contract students mentioned above. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The increase in Running Start enrollments partially offset the reduction in grant and contract revenues. The College entered year two as a recipient of a Department of Education – Fund for the Improvement of Postsecondary Education grant CFDA No. 84.116.

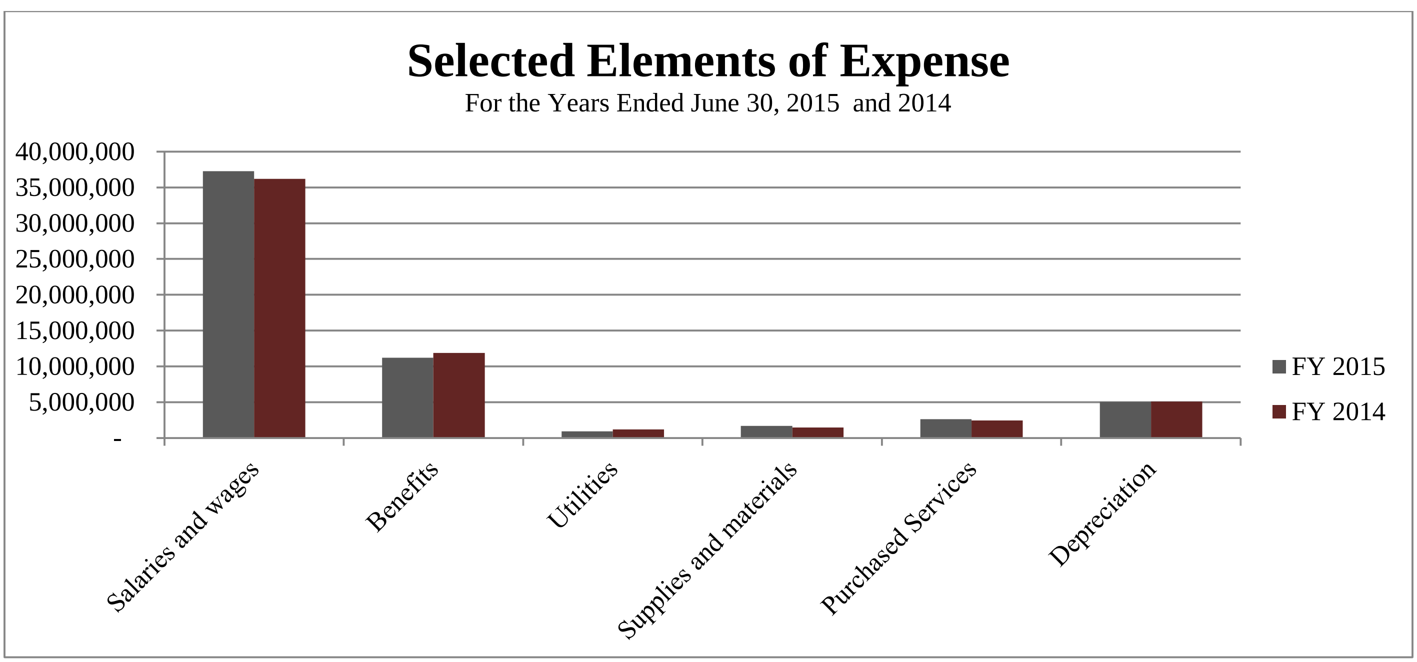
The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement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



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

More recently, in FY 2015, salary and benefit costs increased as result of adding positions (classified, exempt, and faculty) and having to compete in the job market in order to replace retiring exempt employees and/or faculty.

The College has reduced utility expenses in FY 2015 as a result of targeted efforts to reduce use, in spite of rate increases from utility providers. Supplies and materials, as well as purchased services, are slightly higher in FY 2015, primarily as a result of specifically targeted initiatives designed to increase institutional effectiveness. In FY 2015 depreciation decreased slightly. All other costs are reported as operating expenses. Examples include: printing and reproduction; employee training; travel; and non-capitalizable equipment, hardware and software.



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.

At June 30, 2015, the College had invested $161,158,704 in capital assets, net of accumulated depreciation. This represents a decrease of $2,789,624 from last year, as shown in the table below.

	June 30, 2015	June 30, 2014	Change
Land	$ 726,552	$ 726,552	$ 0
Buildings, net	156,055,451	158,531,960	(2,476,509)
Other improvements and infrastructure, net	1,823,880	1,959,393	(135,513)
Equipment, net	2,077,053	2,272,154	(195,101)
Library resources, net	475,768	458,269	17,499
Total capital assets, net	**$ 161,158,704**	**$ 163,948,328**	**$ (2,789,624)**

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

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

At June 30, 2015, the College had $6,610,000 in outstanding debt. The College entered into a Certificate of Participation (COP) for the Pierce College Fort Steilacoom Health Education Center (HEC) during FY 2006 as well as the Pierce College Puyallup Health Education Center (HEP) in FY2007.

See Note 11 for additional information on long-term debt activities.

Economic Factors That Will Affect the Future
Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2015 tuition flat for resident, non-resident and baccalaureate students.

Moving forward into the FY 2016 year, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however partially backfill this loss. In FY 2017, the State Board for Community and Technical College's has elected to move to a new allocation model, changing how the state allocated funds are distributed to each college. The new model will be based on performance in several key indicators from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations, therefore this new allocation model may be the only significant change that could affect the College's state allocation funding.

Pierce College
Statement *of* Net Position
As of June 30, 2015

Assets	
Current assets	
Cash and cash equivalents	17,195,920
Investments, current portion	2,162,187
Accounts receivable, net	3,796,077
Due from Office of the State Treasurer	905,661
Interest receivable	5,023
Prepaid expenses	6,611
Total current assets	24,071,479
Non-current assets	
Restricted cash and cash equivalents	59,657
Long-term investments	16,818,924
Student loans receivable	121,222
Capital assets, net	161,158,704
Total non-current assets	178,158,508
Total assets	**202,229,987**
Deferred outflows of resources related to pensions	1,332,565
Total deferred outflows of resources related to pensions	**1,332,565**
Liabilities	
Current liabilities	
Accounts payable	2,686,149
Accrued liabilities	2,460,164
Compensated absences and related liabilities	-
Deposits payable	13,885
Unearned revenue	4,092,514
Leases and certificates of participation payable	465,000
Total current liabilities	9,717,712
Non-current liabilities	
Compensated absences	4,668,114
Net Pension liabilty	8,394,514
Long-term liabilities	6,145,000
Total non-current liabilities	19,207,628
Total liabilities	**28,925,340**
Deferred inflows of resources related to pensions	3,563,160
Total deferred inflows of resources related to pensions	**3,563,160**
Net Position	
Net Investment in Capital Assets	154,548,704
Restricted for expendable purposes:	
Institutional Financial Aid	1,491,935
Student Loans	121,222
Unrestricted	14,912,190
Total Net Position	**171,074,051**

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

Pierce College Foundation
Non-Governmental Discretely Presented Component Unit
Statement *of* Financial Position
As of December 31, 2014

ASSETS	
Cash	$ 270,555
Investments	1,386,897
Accounts receivable	618
Contributions receivable, net	---
TOTAL ASSETS	$ 1,658,070

LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 26,353
TOTAL LIABILITIES	26,353
Net Assets:	
Unrestricted	397,401
Temporarily restricted net assets	865,741
Permanently restricted net assets	368,575
TOTAL NET ASSETS	1,631,717
TOTAL LIABILITIES AND NET ASSETS	$ 1,658,070

Pierce College
Statement *of* Revenues, Expenses *and* Changes *in* Net Position
For the year ended June 30, 2015

Operating revenues	
Student tuition and fees, net	27,293,784
Auxiliary enterprise sales	1,142,679
State and local grants and contracts	15,090,136
Federal grants and contracts	1,011,661
Other operating revenues	446,736
Interest on loans to students	5,413
Total operating revenues	44,990,409
Operating expenses	
Operating expenses	7,999,085
Salaries and wages	37,288,710
Benefits	11,314,478
Scholarships and fellowships	14,533,486
Supplies and materials	1,668,003
Depreciation	5,056,339
Purchased services	2,628,269
Utilities	932,026
Total operating expenses	81,420,396
Net operating loss	**(36,429,987)**
Non-operating revenues (expenses)	
State appropriations	23,648,137
Federal Pell grant revenue	12,436,622
Investment income, net of expense	60,942
Building fee remittance	(2,096,674)
Innovation fund remittance	(498,399)
Interest on indebtedness	(294,441)
Net non-operating revenues (expenses)	33,256,187
Loss before capital appropriations	**(3,173,800)**
Capital appropriations	3,258,397
Increase in net position	**84,597**
Net Position	
Net position, beginning of year	181,173,913
Restatement (Note 1, 17)	(10,184,459)
Net position, beginning of year, restated	170,989,454
Net position, end of year	**171,074,051**

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

Pierce College Foundation
Non-Governmental Discretely Presented Component Unit
Statement *of* Activities
For the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 82,806	$ 136,936	$ 1,053	$ 220,795
Private grants	---	223,416	---	223,416
In-kind contributions	334,650	---	---	334,650
Special events, net of expense of $29,542 in 2014 and $27,081 in 2013	---	76,628	---	76,628
Contracts	---	45,171	---	45,171
Investment income	28,568	35,399	38,710	102,677
Net assets released from restriction	405,711	(455,628)	49,917	---
TOTAL SUPPORT AND REVENUE	851,735	61,922	89,680	1,003,337
EXPENSES				
In-kind salaries, payroll taxes and benefits	281,251	---	---	281,251
Scholarships	188,914	---	---	188,914
Program enhancements	125,923	---	---	125,923
Federal grant payments	71,250	---	---	71,250
In-kind materials and supplies	39,844	---	---	39,844
Consulting and other professional services	14,700	---	---	14,700
Special projects	13,782	---	---	13,782
In-kind occupancy	13,555	---	---	13,555
Outside Computer Services	13,477	---	---	13,477
Other events	13,179	---	---	13,179
Contributions to Pierce College	12,106	---	---	12,106
Investment fees	11,042	---	---	11,042
Reimbursements	10,999	---	---	10,999
Other	11,139	---	---	11,139
Endowments	5,902	---	---	5,902
Donor hosting	3,521	---	---	3,521
Insurance	2,881	---	---	2,881
Capital campaign	---	---	---	---
College departments	---	---		---
TOTAL EXPENSES	833,465	---	---	833,465
CHANGE IN NET ASSETS	18,270	61,922	89,680	169,872
NET ASSETS, Beginning	379,131	803,819	278,895	1,461,845
NET ASSETS, Ending	$ 397,401	$ 865,741	$ 368,575	$1,631,717

Pierce College
Statement *of* Cash Flows
For the year ended June 30, 2015

Cash flow from operating activities	
Student tuition and fees	26,902,060
Grants and contracts	15,892,763
Payments to vendors	(13,377,866)
Payments for utilities	(916,563)
Payments to employees	(37,454,671)
Payments for benefits	(11,315,007)
Auxiliary enterprise sales	1,150,222
Payments for scholarships and fellowships	(14,533,486)
Collection of loans to students	45,816
Other receipts	2,606,688
Net cash used by operating activities	**(31,000,045)**
Cash flow from noncapital financing activities	
State appropriations	24,815,486
Federal Pell grants	12,436,622
Building fee remittance	(2,016,618)
Innovation fund remittance	(479,598)
Net cash provided by noncapital financing activities	**34,755,893**
Cash flow from capital and related financing activities	
Capital appropriations	2,233,992
Purchases of capital assets	(2,183,999)
Principal paid on capital debt	(445,000)
Interest paid on capital debt	(294,441)
Net cash used by capital and related financing activities	**(689,449)**
Cash flow from investing activities	
Purchases of investments	1,906,860
Proceeds from sales and maturities of investments	(182,269)
Investment income	60,942
Net cash provided by investing activities	**1,785,533**
Net increase (decrease) in cash and cash equivalents	4,851,933
Cash and cash equivalents, beginning of year	12,403,644
Cash and cash equivalents, end of year	**17,255,577**

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(36,429,987)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	5,056,339
Changes in assets and liabilities	
Receivables , net	1,663,748
Inventories	(6,611)
Accounts payable	1,010,326
Accrued liabilities	(2,531,164)
Unearned Revenue	(107,497)
Compensated absences	177,782
Pension liability adjustment expense	116,132
Deposits payable	10,485
Loans to students and employees	40,403
Net cash used by operating activities	(31,000,045)
Noncash investing, capital and financing activities	
Increase in fair value of investments	16,289

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

Pierce College Foundation
Non-Governmental Discretely Presented Component Unit
Statement *of* Cash Flows
For the year-ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers, contributions, and Pierce College	$ 565,339
Cash paid to suppliers and Pierce College	(490,645)
Interest and dividends received	34,926
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	109,620
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	---
Purchases of investments	(217,488)
Proceeds from redemption of investments	193,887
NET CASH USED BY INVESTING ACTIVITIES	(23,601)
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions permanently restricted	1,053
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,053
NET INCREASE (DECREASE) IN CASH	87,072
CASH, Beginning	183,483
CASH, Ending	$ 270,555
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Change in net assets	$ 169,872
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Net realized and unrealized gain on investments	(67,751)
Contributions permanently restricted	(1,053)
(Increase) decrease in:	
Accounts receivable	(618)
Contributions receivable	1,000
Increase (decrease) in:	
Accounts payable	8,170
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 109,620

DISCLOSURE OF ACCOUNTING POLICY AND NONCASH TRANSACTIONS

For purposes of these financial statements, the Foundation considers cash to include cash in banks and liquid investments with original maturities of three months or less. In 2014 , noncash transactions included donated materials and services of $334,650.

Notes to the Financial Statements

June 30, 2015
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Nature of Organization
Pierce College is a State-supported, coeducational institution of higher education and 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 16,500 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1967 and its primary purpose is to create quality educational opportunities for a diverse community of learners to thrive in an evolving world.

The College’s main campuses are located in Puyallup and Lakewood, Washington, with communities of about 37,000 and 60,000 residents, respectively. The College also provides educational programs on Joint Base Lewis-McChord, which supports 40,000 active, Guard and Reserve Service members as well as 60,000 family members who live on and outside the base.

The College is governed by a five member Board of Trustees appointed by the governor of the state with the confirmation of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law. Accordingly, as such it administers, has jurisdiction over, and is responsible for the management of the College.

Reporting Entity
The College is an agency of the State of Washington. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the College. The College is a component unit of the State of Washington and its financial statements are included in the Comprehensive Annual Financial Report of the State of Washington.

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

The Foundation’s financial statements are discretely presented in this report. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2015, the Foundation distributed $375,421 to the College for restricted and unrestricted purposes. The Foundation has a year-end of December 31st. A copy of the Foundation’s complete financial statements may be obtained from the Foundation’s Administrative Offices at 1601 39th Avenue SE, Puyallup, WA 98374.

Financial Statement Presentation
The college follows all GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State*

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

Use of Estimates

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

Adoption of New Accounting Standards

Effective for the fiscal year ended June 30, 2015, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.* As a result of this implementation, the College will now report its portion of the State of Washington's net pension liability. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as a restatement to ending net position as of June 30, 2014.

The Governmental Accounting Standards Board (GASB) issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective for the year ended June 30, 2015. This statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The effect of Statement No. 71 to the College is to require the deferral (Deferred Outflows) of pension contributions made subsequent to the measurement date and is addressed in Note 16 to the financial statements.

The effect of these implementations are discussed in Note 12 and Note 17.

Basis of Accounting

For financial reporting purposes, the College, along with the Pierce College Foundation, its discretely presented component unit, is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows. Student tuition and fees are presented net of scholarships and fellowships applied to student accounts, while payments made directly are presented as scholarship and fellowship expenses.

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

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

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Beginning net position was restated by $10,184,459 in FY 2015, primarily as a result of implementing GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The change in accounting treatment required by Statement No. 68 reduced unrestricted net position $10,508,977 for the fiscal year ending June 30, 2014.

Cash, Cash Equivalents and Investments

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

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

In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, cash, cash equivalents and investments are stated at fair value.

Receivables

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. Accounts receivable are shown net of estimated uncollectible receivables.

Student loan receivable consists of amounts due from the Federal Perkins Loan Program.

Prepaid Items

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

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the college, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 5 to 7 years for library resources, 2 to 10 years for most equipment, and 11 to 40 years for heavy duty equipment, aircraft, locomotives, and vessels.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated 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, 2015, no assets had been written down.

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

Income Taxes
The College is a political subdivision of the State of Washington and is consequently exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

The Internal Revenue Service has determined that the Pierce College Foundation qualifies as an exempt organization under Internal Revenue Code Section 501(c)(3) and as such are exempt from taxation on related income.

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

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

Net Position
The College's net position is classified as follows.

> *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
>
> *Restricted for Institutional Financial Aid.* The institutional financial aid funds are established for the explicit purpose of providing institutional financial aid as prescribed by RCW 28B.15.820.
>
> *Restricted for Loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.

Unrestricted. These represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues and Expenses
The College has classified its revenues and expenses as either operating or non-operating according to the following criteria:

Operating revenues and expenses: Operating revenues include activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts. Operating expenses include all expense transactions incurred other than those related to investing or capital activities.

Non-operating revenues and expenses: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and other revenue sources that are defined as non-operating revenue by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, such as state and federal appropriations and investment income. Non-operating expenses include interest paid on capital asset related debt and capital appropriations from the State of Washington.

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.

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.

2. Cash, Cash Equivalents and Investments

Cash

As of June 30, 2015, the carrying amount of the College's change funds, petty cash, and bank demand deposit accounts with financial institutions was $16,478,758 as represented in the table below.

Cash and Cash Equivalents

	2015
Cash	$ 16,478,758
Cash equivalents	776,819
Cash and cash equivalents	**$ 17,255,577**

Custodial Credit Risks—Deposits

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

Investments

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

College Investments by Type

College investments	**Fair value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**
Cash Equivalents					
Money Market Funds	$ 509,750	$509,750			
Local Government Investment Pool	267,069	267,069			
Total cash equivalents	**776,819**				
Short-term investments					
U.S. Treasuries	762,088	762,088			
Agency Securities	1,400,099	1,400,099			
Total short-term investments	**2,162,187**				
Long-term investments					
Agency Securities	6,161,319		$6,161,319		
Mortgage Pools	6,166,336			$448,805	$5,717,531
CMO & Asset Backed Securities	4,491,269		1,119,570	1,095,435	2,276,264
Total long-term investments	**16,818,924**				
Total college investments	**$19,757,930**				

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

Concentration of Credit Risk—Investments
State law limits College operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. College policy does not limit the amount the College may invest in any one issuer.

Custodial Credit Risk—Investments
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2015, $19,490,862 of the College's operating fund investments, held by Key Banc and Charles Schwab as agent for the College are exposed to custodial credit risk as follows.

Investments Exposed to Custodial Credit Risk

Outside party	**Fair value**
Key Banc	$ 2,993,460
Charles Schwab	16,497,402
Total investment exposed to custodial risk	**$ 19,490,862**

Investment Expenses
Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2015 were $62,647.

3. Accounts Receivable

At June 30, 2015, accounts receivable are as follows

Student tuition and fees	**$ 1,122,841**
Due from the federal government	90,022
Due from the office of the state treasurer	905,661
Due from other state agencies	466,549
Interest receivable	5,023
Auxiliary enterprises	17,756
Due from other governments	2,212,266
Other	2,237
Subtotal accounts receivable	4,822,355
Less allowance for doubtful accounts	(115,594)
Accounts receivable, net	**$ 4,706,761**

4. Loans Receivable

As of June 30, 2015, the amount of the College's loans receivable for the Federal Perkins Loan Program, CFDA No. 84.038, was $121,222.

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2015 is presented as follows

	Beginning balance	**Additions/transfers**	**Retirements**	**Ending balance**
Capital assets, non-depreciable				
Land	$ 726,552	$ 0	$ 0	$ 726,552
Total capital assets, non-depreciable	726,552	0	0	726,552
Capital assets, depreciable				
Buildings	198,962,664	1,745,111	0	200,707,775
Other improvements and infrastructure	2,960,257	0	0	2,960,257
Equipment	5,825,204	455,243	(1,163,335)	5,117,112
Library resources	666,257	114,037	0	780,294
Total capital assets, depreciable	208,414,382	2,314,391	(1,163,335)	209,565,438
Less accumulated depreciation				
Buildings	40,430,704	4,221,620	0	44,652,324
Other improvements and infrastructure	1,000,864	135,513	0	1,136,377
Equipment	3,553,050	601,956	(1,114,947)	3,040,059
Library resources	207,988	96,538	0	304,526
Total accumulated depreciation	45,192,606	5,055,627	(1,114,947)	49,133,286
Total capital assets, depreciable, net	163,221,776	(2,741,236)	(48,388)	160,432,152
Capital assets, net	**$ 163,948,328**	**$ (2,741,236)**	**$ (48,388)**	**$ 161,158,704**

The current year depreciation expense was $5,056,339. The College has commitments of $100,260 for various capital improvement projects that include renovations of existing buildings.

6. Accounts Payable and Accrued Liabilities

At June 30, 2015, accrued liabilities were as follows

Accounts Payable and Accrued Liabilities

Amounts owed to employees	**$ 1,077,507**
Accounts payable	2,686,149
Retainage	59,657
Amounts held for others	1,323,000
Total accounts payable and accrued liabilities	**$ 5,146,313**

7. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria

Unearned Revenue

Summer & Fall quarter tuition & fees	$ 4,092,144
Other deposits	370
Total unearned revenue	**$ 4,092,521**

8. Compensated Absences

The accrued leave liability balance as of June 30, 2015 is $4,668,114. The components of this liability include vacation and sick leave earned and unused for exempt professionals, civil service employees and faculty on annual appointments. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records.

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

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

Compensated Absences

Accrued annual leave	$ 1,939,314
Accrued sick leave	2,728,800
Total compensated absences	**$ 4,668,114**

9. Notes 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%.

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

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

10. Annual Debt Service Requirements

Future debt service requirements at June 30, 2015 are as follows

Fiscal year	Principal	Interest	Total
2016	$ 465,000	$ 276,641	$ 741,641
2017	480,000	258,041	738,041
2018	505,000	238,841	743,841
2019	525,000	218,304	743,304
2020	540,000	196,954	736,954
2021-2025	3,435,000	629,515	4,064,515
2026-2030	1,030,000	60,500	1,090,500
Total	**$ 6,610,000**	**$ 1,878,796**	**$ 8,488,796**

11. Schedule of Long Term Liabilities

	Balance outstanding 06/30/2014	Additions	Reductions	Balance outstanding 06/30/2015	Current Portion
Certificates of Participation	$ 7,055,000		$ 445,000	$ 6,610,000	$ 465,000
Compensated Absences	4,490,332	$ 1,718,243	1,540,461	4,668,114	
Net Pension Liability				8,394,514	
Total	**$ 11,545,332**	**$ 1,718,243**	**$ 1,985,461**	**$ 19,672,628**	**$ 465,000**

12. Pension Plans

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

For FY2014-15, the payroll for the College's employees was $11,798,178 for PERS, $592,117 for TRS, and $20,033,310 for SBRP. Total covered payroll was $32,077,520.

Basis of Accounting
Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respected on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for the College, for fiscal year 2015:

Aggregate Pension Amounts – All plans

Pension liabilities	$ (8,394,514)
Deferred outflows of resources related to pensions	1,332,565
Deferred inflows of resources related to pensions	(3,563,160)
Pension expense/expenditures	(1,207,295)

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

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

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

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

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

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

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The college also has 2 employees with pre-existing eligibility who continue to participate in TRS 1 or 2.

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

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

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

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2013, 2014, and 2015 are as follows

	FY2013		FY2014		FY2015	
	Employee	**College**	**Employee**	**College**	**Employee**	**College**
PERS						
Plan 1	6.0%	7.21%	6.0%	9.21%	6.0%	9.21%
Plan 2	4.64%	7.21%	4.92%	9.21%	4.92%	9.21%
Plan 3	5.0-15.0%	7.21%	5.0-15.0%	9.21%	5.0-15.0%	9.21%
TRS						
Plan 1	6.0%	8.05%	6.00%	10.39%	6.00%	10.39%
Plan 2	4.69%	8.05%	4.96%	10.39%	4.96%	10.39%
Plan 3	5.0-15.0%	8.05%	5.0-15.0%	10.39%	5.0-15.0%	10.39%

The College's actual retirement contributions to the above plans for the fiscal years ended June 30, 2013, 2014, and 2015 were

	FY2013		FY2014		FY2015	
	Employee	**College**	**Employee**	**College**	**Employee**	**College**
PERS						
Plan 1	25,827	32,400	26,654	41,208	23,096	35,452
Plan 2	345,872	537,330	394,789	738,569	405,677	759,394
Plan 3	175,699	203,763	180,540	274,891	184,598	283,892
TRS						
Plan 1	511	685	554	959	553	957
Plan 2	3,818	6,553	4,381	8,935	4,737	9,923
Plan 3	21,958	23,560	19,495	30,456	28,517	48,325

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

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB adopted investment policies for the various asset classes in which the WSIB invests. For the year ended June 30, 2014, the annual money weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	16.98%
PERS Plan 2/3	17.06%
TRS Plan 1	16.97%
TRS Plan 2/3	17.07%

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

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Net Pension Liability

At June 30, 2015 the College reported liabilities of $8,070,560 and $323,954 for its proportionate share of the PERS and TRS net pension liability, respectively. The proportions are based on the College's contributions to the pension plan relative to the contributions of all participating employees. The net pension liabilities were measured as of June 30, 2014, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2013 projected forward to June 30, 2014. The College's proportionate shares of net pension liabilities were based on a projection of the College's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	$ 296,767	$ 416,651	$ 13,336	$ 22,014	$ 748,768
Amortization of change in proportionate liability	311,621	63,709	79,193	4,005	458,527
Total Pension Expense	$ 608,388	$ 480,360	$ 92,529	$ 26,019	$ 1,207,295

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2015 the College reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

Washington State Public Employees Retirement System (PERS Plan 1)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
College contributions subsequent to the measurement date	$ 485,857	
Changes in College's proportionate share of pension liabilities		
Net difference between projected and actual earnings on pension plan investments		$ 684,493
Total outflows and inflows of resources	**$ 485,857**	**$ 684,493**

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
College contributions subsequent to the measurement date	$ 559,965	
Changes in College's proportionate share of pension liabilities	222,980	
Net difference between projected and actual earnings on pension plan investments		$ 2,752,377
Total outflows and inflows of resources	**$ 782,945**	**$ 2,752,377**

Washington State Teachers Retirement System (TRS Plan 1)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
College contributions subsequent to the measurement date	$ 20,830	
Changes in College's proportionate share of pension liabilities		
Net difference between projected and actual earnings on pension plan investments		$ 51,058
Total outflows and inflows of resources	**$ 20,830**	**$ 51,058**

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
College contributions subsequent to the measurement date	$ 24,512	
Changes in College's proportionate share of pension liabilities	18,421	
Net difference between projected and actual earnings on pension plan investments		$ 75,232
Total outflows and inflows of resources	**$ 42,933**	**$ 75,232**

The $1,091,164 reported as deferred outflows of resources related to pensions resulting from College contributions paid subsequent to the measurement date for the PERS and TRS plans, respectively, during the year ended June 30, 2015 will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2016.

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
2016	$ 171,123	$ 624,385	$ 12,764	$ 14,803	**$ 823,075**
2017	171,123	624,385	12,764	14,803	**823,075**
2018	171,123	624,385	12,764	14,803	**823.075**
2019	171,124	656,241	12,766	14,803	**854,932**
2020				(2,401)	**(2,401)**
	$ 684,493	**$ 2,529,397**	**$ 51,058**	**$ 56,811**	**$3,321,759**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2013 to 2014 for each retirement plan are listed below:

Year ended June 30	2013	2014
PERS Plan 1	0.103331%	0.108664%
PERS Plan 2/3	0.121742%	0.128456%
TRS Plan 1	0.007630%	0.009872%
TRS Plan 2/3	0.008105%	0.010150%

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

Actuarial Assumptions and Methods

The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

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

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

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

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

	1% Decrease	**Current Discount Rate**	**1% Increase**
	(6.50%)	**(7.50%)**	**(8.50%)**
PERS Plan 1	$ 6,747,241	$ 5,474,000	$ 4,381,048
PERS Plan 2/3	10,830,806	2,596,560	(3,692,872)
TRS Plan 1	374,697	291,170	219,473
TRS Plan 2/3	284,960	32,784	(154,658)

State Board Retirement Plan
Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are 100% matched by the College. Employee and employer contributions for the year ended June 30, 2015 were $1,739,781 for employees and $1,748,951 for employer.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2015, supplemental benefits were paid by the SBCTC on behalf of the system as a total in the amount of $583,625. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2015, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $98,798. As of June 30, 2015, the Community and Technical College system accounted for $7,729,471 of the fund balance.

Washington State Deferred Compensation Program

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

Other Post-Employment Benefits

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $22,306,431, with an annual required contribution (ARC) of $2,179,632. The ARC represents the amortization of the liability for FY 2015 plus the current expense for active employees, which is reduced by the current contributions of approximately $274,030. The College's net OPEB obligation at June 30, 2015 was approximately $3,229,629. This amount is not included in the College's financial statements.

The College paid $5,148,126 for healthcare expenses in 2015, which included its pay-as-you-go portion of the OPEB liability.

13. Related Parties

Certain separately chartered legal entities whose activities are related to those of the College exist primarily to provide financial assistance and other support to the College and its educational programs.

The activities of these entities are not included in the College's financial statements. However, the College's financial statements may include transactions between the College and its related parties.

In accordance with Governmental Accounting Standards Board (GASB) Codification Sections 2100, Defining the Financial Reporting Entity, and Section 2600, Reporting Entity and Component Unit Presentation and Disclosure, management annually reviews its relationships, with the related parties described in this note. The College excluded these related parties from the reporting entity because it is not financially accountable for them.

Following is a more detailed discussion of these entities and a summary of significant transactions (if any) between the entity and Pierce College.

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

Launched in September 2011, IPS, a partnership of colleges, operates as a single point of contact for regional business to access workforce development services. Their mission is to help companies gain a competitive advantage in the global economy by increasing the skills of their workforce. They offer high quality training and learning solutions to meet and exceed client expectations.

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

This entity had no transactions with the College and did not significantly require the time or service of any College employees.

14. Risk Management

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, 2014 through June 30, 2015, were $140,902. Cash reserves for unemployment compensation for all employees at June 30, 2015, were $369,007.

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.

15. Contingencies and Litigation

The College is involved in a number of 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 the legal proceedings and claims is 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 2015 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 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.

There is a class action filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgement. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

16. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Assets, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The College included $179,341 and $116,132 for compensated absences and pension expense with institutional support for the purpose of this table. The following table lists operating expenses by program for the year ending June 30, 2015:

Operating Expenses by Program
Expenses by Functional Classification

Instruction	$ 21,822,820
Academic support services	14,289,474
Student services	8,694,634
Institutional support	8,062,620
Operations and maintenance of plant	7,236,029
Scholarships and other student financial aid	12,886,185
Auxiliary enterprises	3,372,295
Depreciation	5,056,339
Total operating expenses	$ 81,420,396

17. New Accounting Pronouncement

Effective for the fiscal year ending June 30, 2015, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27.

This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements. The State of Washington's pension plans are administered by the State of Washington Department of Retirement Services (DRS). The Statement required the College to restate its financial statements to recognize its proportionate share of the plan's net pension liability, record deferred outflows and inflows of resources for changes in the net pension liability, and report pension expense based on an actuarial valuation rather than actual contributions. Details of the adoptions of GASB No. 68 are described in Note 12 Pension Plans.

As a result, ending unrestricted net position for the College for the year ended June 30, 2014 decreased by 10,508,977. This decrease resulted in the restatement of unrestricted net position to a balance of 170,664,936 for the year ended June 30, 2014, prior to any other adjustments.

The effect to beginning net position for these implementations and adjustments are summarized in Note 18.

18. Prior Year Adjustments

Beginning net position was restated by $10,184,459 in FY 2015, primarily as a result of implementing GASB Statement No. 68, Accounting and Financial Reporting for Pensions. An additional adjustment was made to increase net position by $324,518. This modification was made due to a discrepancy between the ending balance of FY13 and beginning balance of FY14.

The following is a summary of the restatement for adoption of GASB No. 68, Net Pension Liability and the additional prior year adjustment, recorded during fiscal year 2015:

Description	**June 30, 2014 as originally stated**	**Net Pension Liability and Prior Year Adjustment**	**June 30, 2014 as restated**
Net investment in capital assets	$ 156,893,328		$ 156,893,328
Restricted for expendable purposes:			
Institutional financial aid	1,027,481		1,027,481
Student loans	156,306		156,306
Unrestricted	23,096,798	(10,184,459)	12,912 339
Total net position	**$ 181,173,913**		**$ 170,989,454**

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Pierce College's Proportionate Share of the Net Pension Liability

Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30*

	2014
College's proportion of the net pension liability	0.108664%
College's proportionate share of the net pension liability	$5,474,000
College employers' covered-employee payroll	$392,830
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	1393.48%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%

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

Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30*

	2014
College's proportion of the net pension liability	0.128456%
College's proportionate share of the net pension liability	$2,596,560
College employers' covered-employee payroll	$11,333,757
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	22.91%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%

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

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Pierce College's Proportionate Share of the Net Pension Liability

Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1
Measurement Date of June 30*

	2014
College's proportion of the net pension liability	0.009872%
College's proportionate share of the net pension liability	$291,170
College employers' covered-employee payroll	$9,210
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	3161.45%
Plan's fiduciary net position as a percentage of the total pension liability	68.77%

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

Schedule of Pierce College's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3
Measurement Date of June 30*

	2014
College's proportion of the net pension liability	0.010150%
College's proportionate share of the net pension liability	$32,784
College employers' covered-employee payroll	$563,986
College's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	5.81%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%

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

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions
Public Employee's Retirement System (PERS) Plan 1
Fiscal Year Ended June 30*

Fiscal year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 41,366	$ 41,208	$ 158	$ 449,142	9.17%
2015	36,180	35,452	728	392,830	9.02%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Contributions

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

Fiscal year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 1,014,219	$ 1,013,460	$ 759	$ 11,012,149	9.20%
2015	1,043,286	1,043,286		11,333,757	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Contributions

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

Fiscal year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 959	$ 959		$ 9,233	10.39%
2015	957	957		9,210	10.39%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Required Supplementary Information

PENSION PLAN INFORMATION

Cost Sharing Employer Plans
Schedules of Contributions

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

Fiscal year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 40,653	$ 39,391	$ 1,262	$ 391,275	10.07%
2015	58,598	58,248	350	563,986	10.33%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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