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**FINANCIAL REPORT**

**For Fiscal Year Ended**

**June 30, 2014**

**2014**

**Financial Report**

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Visit the Facts and Stats of Pierce College - Home page at <https://www.pierce.ctc.edu/about/demographics/>

# Trustees *and* Administrative Officers

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Jaqueline Rosenblatt

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Marty Heilstedt, Dean of Instruction – Military Programs

Sachi Horback, Dean of Business and Social Science

Ronald May, Dean of Applied Technology and Allied Health

Holly Smith, Dean of Arts and Humanities

Trustees and Officer list effective as of December 31, 2014



**Washington State Auditor’s Office**

**INDEPENDENT AUDITOR’S REPORT**

June 2, 2015

Pierce College

Puyallup, 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 Pierce College, Pierce County, Washington, as of and for the year ended June 30, 2014, 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.

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 opinion.

**Opinion**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Pierce College, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Matters of Emphasis**

As discussed in Note 1, the financial statements of Pierce College, an agency of the state of Washington, are intended to present the financial position, 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 discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

***Report on Summarized Comparative Information***

The financial statements include partial prior-year comparative information for the Pierce College Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended December 31, 2013, from which such partial information was derived. Other auditors have previously audited the Pierce College Foundation’s 2013 financial statements and they expressed an unmodified opinion in their report dated August 11, 2014.

***Required Supplementary Information***

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

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2015 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.



Jan M. Jutte, CPA, CGFM

ACTING STATE AUDITOR

# Management’s Discussion *and* Analysis

## Pierce College

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, 2014 (FY 2014). The 2014 report constitutes the college’s inaugural audited financial statements. As a result, comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2013 (FY 2013), where available.

This overview provides readers with an objective and easily readable analysis of the College’s financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College’s financial statements and accompanying note disclosures.

*Reporting Entity*

Pierce College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 18,000 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 Lakewood and Puyallup, Washington, a community of about 95,403 residents. 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 consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

*Using the Financial Statements*

The financial statements presented in this report encompass the College and its discretely presented component unit*(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. The Statement of Net Position provides information about the College at a moment in time, at year-end. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over a period of time. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college’s financial health as a whole.

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

**Statement of Net Position**

The Statement of Net Position provides information about the College’s financial position, and presents the College’s assets, liabilities, and net assets at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position is as follows:



Current assets consist primarily of cash, investments, and various accounts receivables. The significant decrease of current assets in FY 2014 can be attributed to deliberate changes in the College’s investment strategy.

Net capital assets decreased by 1,600,172 from FY 2013 to FY 2014. The decrease is primarily the result of current depreciation expense of 5,072,434. 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. 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.

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.

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 increases to vacation and sick leave balances as employees used unpaid Temporary Salary Reduction leave in lieu of paid leave.

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

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

***Restricted:***

***Expendable –*** resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are institutional financial aid funds and student loans. Changes in student loan balances are discussed above.

***Unrestricted –*** Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. 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.

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**Statements of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College’s changes in total net position during FY 2014. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

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

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

A condensed statement of revenues, expense and changes in net position is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.



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. Since enrollments decreased in FY 2014, the College’s decrease in tuition and fees is primarily attributable to the decrease in enrollments. Pell grant revenues generally follow enrollment trends. As the College’s enrollment softened during FY 2014, so did the College’s Pell Grant revenue. For FY2014, the College attempted to keep other fees as stable as possible, resulting in only small changes in these revenues.In addition, the College serves some students and offers some programs on a fee-only basis, as allowed by law.

In FY 2014, grant and contract revenues increased by $1,674,801 when compared with FY 2013. The College continued to serve students under the terms of contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. The College also serves contracted international and Joint Base Lewis-McChord students who are not supported by state dollars. The College was also 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

Faced with severe budget cuts over the past five years, the College has continuously sought opportunities to identify savings and efficiencies. Over time, the College decreased spending and services and was subject to various state spending freezes and employee salary reductions.

More recently, in FY 2014, salary and benefit costs increased as result of adding positions (classified, exempt, and faculty), negotiated increases for classified staff, having to compete in the job market in order to replace retiring exempt employees and/or faculty, as well as new grant and contract funded positions.

The College has reduced utility expenses in FY 2014 as a result of targeted efforts to reduce use, in spite of rate increases from utility providers. Supplies and materials are significantly lower in FY 2014, primarily as a result of contracting out the College Bookstore. In FY 2014 purchased services, as well as depreciation, increased slightly.

Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses for FY 2014 and FY 2013.

**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, 2014, the College had invested $163,948,326 in capital assets, net of accumulated depreciation. This represents a decrease of $1,600,173 from last year, as shown in the table below.



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

The decreasein 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. In FY 2014, the College applied the retroactive infrastructure reporting requirements of Government Accounting Standards Board Statement Number 34 for the first time. FY 2013 amounts have not been restated to recognize these changes.

At June 30, 2014, the College had $7,055,000 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 12 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 2014 tuition flat for resident, non-resident and baccalaureate students. 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.

Washington’s Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its most recent forecast (February 2014), the council observed that most of the state’s economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies. However, the passage of a federal budget in January and the recent suspension of the debt ceiling reduce uncertainty surrounding federal fiscal policy.

Closer to home, Washington continues to add jobs, including showing growth in the manufacturing sector. Housing construction, home prices and car sales also increased and exports are at an all-time high. Both employment in Washington state and personal income are expected to continue to grow in 2014 and through 2019, the end of the period covered by the forecast.

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. Enrollment is downslightly about 1% from FY2013, which, if this trend continues, will result in a significant reduction in tuition revenue.

# Pierce College Statement *of* Net Position



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



# Pierce College Statement *of* Cash Flows



# Pierce College Foundation Statements *of* Financial Position



# Pierce College Foundation Statements *of* Activities *and* Changes *in* Net Position



Notes *to* Financial Statements

*June 30, 2014*

*These notes form an integral part of the financial statements.*

**1. Summary of Significant Accounting Policies**

**Financial Reporting Entity**

Pierce College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the college is included in the State’s Comprehensive Annual Financial Report.

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, 2014, the Foundation distributed $268,639.84 to the College for restricted and unrestricted purposes. 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.

**Basis of 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.

**New Accounting Pronouncements**

There were no new accounting pronouncements implemented by the College this fiscal year.

**Basis of Accounting**

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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.

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

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.

**Cash, Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value or at fair value.

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

**Accounts Receivable**

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

**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, 2014, no assets had been written down.

**Unearned Revenues**

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer and fall quarter tuition and fees, and rental deposits as unearned revenues.

**Tax Exemption**

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

**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, and sales and services of educational departments and auxiliary enterprises.

**Classification of Revenues**

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

*Operating Revenues*. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

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

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of

scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in

Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students’ behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College’s financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2014 are $6,926,926.

**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.

**Operating Revenues/Expenses**

Operating revenues consist of tuition and fees, grants and contracts, sales and service of educational activities and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as non-operating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

**2. Cash, Cash Equivalents and Investments**

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2014, the carrying amount of the College’s cash and equivalents was $12,403,644 as represented in the table below.



Investments are stated at Fair Value. They consist of Agency Securities held with Key Bank and U.S. Treasuries, Agency Securities, Mortgage Pools, and CMO and Asset Backed Securities held with Charles Schwab.



As of June 30, 2014 the balance of Short-term and Long-term investments were as follows:

Short-term investments $3,481,340.28

Long-Term investments $17,224,362.15.

**Custodial Credit Risks—Deposits**

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College’s deposits may not be returned to it. The majority of the College’s demand deposits are with the Key Bank. 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).

**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, 2014, $20,705,702 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.



**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, 2014 were $61,840.89.

**3. Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2014, accounts receivable were as follows.



**4. Loans Receivable**

Loans receivable as of June 30, 2014 consisted primarily of student loans, as follows.



**5. Capital Assets**

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $5,072,433.93.



**6. Accounts Payable and Accrued Liabilities**

At June 30, 2014, accrued liabilities are the following.



**7. Unearned Revenue**

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



**8. 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, 2013 through June 30, 2014, were $110,991.67. Cash reserves for unemployment compensation for all employees at June 30, 2014, were $254,008.35.

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.

**9. Compensated Absences**

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. 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. The accrued vacation leave totaled $1,882,251.31, and accrued sick leave totaled $2,608,081.01 at June 30, 2014.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

**10. 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:

**11. Annual Debt Service Requirements**

Future debt service requirements at June 30, 2014 for the next five years and thereafter are as follows.



**12. Schedule of Long Term Debt**



**13. Pension Plans**

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The **State Board Retirement Plan (SBRP)** is a 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 FY2013-14, the payroll for the College’s employees was $11,461,291.03 for PERS, $400,508.22 for TRS, and $19,722,408.16 for SBRP. Total covered payroll was $31,584,207.41.

**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 five 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, 2014, 2013, and 2012 are as follows.





**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 matched by the College.  Employee and employer contributions for the year ended June 30, 2014 were $1,765,808.44 for employer and $1,765,922.22 for employees.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $23,485.73.  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 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $98,477.62.  As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 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 at the system level. The SBCTC further allocated these amounts among the colleges. The College’s share of the BASB 45 actuarially accrued liability (AAL) is $16,329,975, with an annual required contribution (ARC) of $1,595,447. The ARC represents the amortization of the liability for the fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $300,189. The College’s net OPEB obligation (NOO) at June 30, 2014 was approximately $1,295,258. This amount is not included in the College’s financial statements.

The College paid $5,840,190.39 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

**14. 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 following table lists operating expenses by program for the year ending June 30, 2014.



**15. Commitments and Contingencies**

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 judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

Additionally, the College is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statement.

The College has commitments of $5,427,503.11 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

**16. Subsequent Events**

The College does not have any subsequent events as of June 30, 2014 to report.

We would like to acknowledge the following staff responsible for the content of this report:

Sylvia Derrick James, Director of Fiscal Services

Kristina Schreiber-Glodowski, Budget Analyst 4