TACOMA COMMUNITY COLLEGE

2015 Financial Statement Report
Fiscal Year ended June 30, 2015
Prepared by Financial Services Office

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Financial Statements for Fiscal Year 2015

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BOARD OF TRUSTEES AND ADMINISTRATIVE OFFICERS

Tacoma Community College
Financial Statements for Fiscal Year 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Tacoma Community College
July 1, 2014 through June 30, 2015

Board of Trustees
Tacoma Community College
Tacoma, 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 Tacoma Community 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Tacoma Community 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 Tacoma Community 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 Tacoma Community 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 respective financial position of the business-type activities and the aggregate discretely presented component units of the Tacoma Community College, as of June 30, 2015, and the respective 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 Tacoma Community 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 Schedules of Tacoma Community 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.

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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 20, 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 20, 2016

Tacoma Community College
Statement of Net Position
June 30, 2015

	Primary Government College	Component Unit Foundation
Assets		
Current assets		
Cash and cash equivalents	28,460,318	2,533,756
Accounts Receivable	2,998,121	69,323
Inventories	530,202	125,000
Prepaid Expenses	-	7,108
Total current assets	**31,988,641**	**2,735,187**
Non-Current Assets		
Long-term investments	5,484,867	5,497,153
Capital assets, net of depreciation	68,694,088	
Non-depreciable capital assets	35,864,781	
Total non-current assets	**110,043,736**	**5,497,153**
Total assets	**142,032,377**	**8,232,340**
Deferred Outflows of Resources	1,024,000	
Total Deferred Outflows of Resources	**1,024,000**	**-**
Total Assets and Deferred Outflows	**$ 143,056,377**	**$ 8,232,340**
Liabilities		
Current Liabilities		
Accounts Payable	2,762,884	94,649
Accrued Liabilities	2,650,444	
Deposits Payable	126,333	
Unearned Revenue	2,949,535	
Certificates of Participation Payable	240,000	
Total current liabilities	**8,729,197**	**94,649**
Noncurrent Liabilities		
Compensated Absences	2,928,559	
Pension liabilty	6,084,000	
Long-term liabilities	1,685,000	
Total non-current liabilities	**10,697,559**	**-**
Total liabilities	**19,426,756**	**94,649**
Deferred Inflows of Resources	2,611,000	
Total Deferred Inflows of Resources	**2,611,000**	**-**
Net Position		
Net Investment in Capital Assets	102,633,869	
Restricted for:		
Foundation	-	7,898,371
Institutional Financial Aid Funds	542,136	
Unrestricted	17,842,616	239,320
Total Net Position	**121,018,621**	**8,137,691**
Total Liabilities, Deferred Inflows and Net Position	**$ 143,056,377**	**$ 8,232,340**

See accompanying notes to Financial Statements

Tacoma Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

	Primary Government College	Component Unit Foundation
Operating Revenues		
Student tuition and fees, net	23,876,785	
Auxiliary enterprise sales	4,333,800	
State and local grants and contracts	15,674,235	864,038
Federal grants and contracts	1,057,949	
Contributions		1,000,494
Other operating revenues	105,343	48,090
Total operating revenue	**45,048,111**	**1,912,622**
Operating Expenses		
Academic and Administrative Expenses	7,985,811	3,968,363
Salaries and wages	31,221,633	
Benefits	9,436,995	
Scholarships and fellowships	15,274,920	
Supplies and materials	3,503,268	
Depreciation	2,969,157	
Purchased services	1,855,383	
Utilities	970,632	
Total operating expenses	**73,217,798**	**3,968,363**
Operating income (loss)	**(28,169,687)**	**(2,055,741)**
Non-Operating Revenues		
State appropriations	18,814,848	
Federal Pell grant revenue	13,262,764	
Investment income, gains and losses	99,955	147,461
Net non-operating revenues	**32,177,567**	**147,461**
Non-Operating Expenses		
Building Fee & Innovative Fee	(2,367,604)	
Interest on indebtedness	(90,647)	
Net non-operating expenses	**(2,458,251)**	**-**
Income or (loss) before Capital Appropriations	**1,549,629**	**(1,908,280)**
Capital Revenues		
Capital appropriations	7,856,770	
Increase (Decrease) in net position	**9,406,420**	**(1,908,280)**
Net Position		
Net position, beginning of year	119,114,201	10,045,971
Net position change due to GASB 68	(7,502,000)	
Restated net position, beginning of year	111,612,201	10,045,971
Net position, end of year	**$ 121,018,621**	**$ 8,137,691**

See accompanying notes to Financial Statements

Tacoma Community College

Statement of Cash Flows

For the Year Ended June 30, 2015

	Primary Government College
Cash flow from operating activities	
Student tuition and fees	21,257,780
Grants and contracts	16,977,877
Payments to vendors	(3,512,647)
Payments for utilities	(1,073,312)
Payments to employees	(31,076,747)
Payments for benefits	(9,445,208)
Auxiliary enterprise sales	4,586,758
Payments for scholarships and fellowships	(15,274,920)
Other receipts (payments)	(7,216,394)
Net cash used by operating activities	**(24,776,814)**
Cash flow from noncapital financing activities	
State appropriations	18,814,847
Pell grants	13,262,764
Amounts for other than capital purposes	0
Building fee remittance	(1,738,963)
Innovation fund remittance	(628,641)
Net cash provided by noncapital financing activities	**29,710,007**
Cash flow from capital and related financing activities	
Capital appropriations	7,856,770
Purchases of capital assets	(6,489,147)
Certificate of participations proceeds	0
Principal paid on capital debt	(313,000)
Interest paid	(90,647)
Net cash used by capital and related financing activities	**963,976**
Cash flow from investing activities	
Purchase of investments	(1,500,405)
Proceeds from sales and maturities of investments	1,000,000
Income of investments	86,421
Net cash provided by investing activities	**(413,984)**
Increase in cash and cash equivalents	**5,483,185**
Cash and cash equivalents at the beginning of the year	22,977,133
Cash and cash equivalents at the end of the year	**$ 28,460,318**

See accompanying notes to Financial Statements

Tacoma Community College
Statement of Cash Flows
For the Year Ended June 30, 2015

		Primary Government College
Reconciliation of Operating Loss to Net Cash used by Operating Activities:		
Operating Loss	$	(28,169,687)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		2,969,157
Changes in assets and liabilities:		
Receivables , net		839,673
Inventories		(17,554)
Other assets		45,012
Accounts payable		471,775
Accrued liabilities		(718,763)
Unearned revenue		(421,059)
Compensated absences		26,487
Pension liability adjustment expense		169,000
Deposits payable		29,145
Net cash used by operating activities	**$**	**(24,776,814)**

See accompanying notes to Financial Statements

Notes to the Financial Statements

June 30, 2015

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Tacoma Community 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 a part of the State of Washington. It was established under Washington law, receives funding appropriations from the state and is financially accountable to the state. The financial activity of the college is included in the State's Comprehensive Annual Financial Report.

The Tacoma Community College Foundation is a separate but affiliated non-profit entity, incorporated under Washington law in 1967 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to:

- Secure private financial resources
- Enhance educational, cultural and work force opportunities that may otherwise be unavailable
- Advocate for the college

Since 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.

This report represents the Foundation's financial condition and activities as a discretely presented separate component unit in this financial statement. The Foundation reports its financial results in accordance with Financial Accounting Standards Board (FASB) pronouncements and guidance. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the college's financial statements for these differences. 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 approximately $2,666,000 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:

Building 6
6501 South 19th Street,
Tacoma, WA 98466
(253) 566-5336.

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 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
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 7 to the financial statements.

Cumulative Effect of Change in Accounting Principle
The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 68. The net position has been restated as follows:

Net Position as previously reported at June 30, 2014	$ 119,114,201
Prior period adjustment:	
Net Pension Liability	($5,915,000)
Deferred Outflows	1,024,000
Deferred Inflows	(2,611,000)
Total prior period adjustment	($7,502,000)
Net Position, as restated, July 1, 2014	$ 111,612,201

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 in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. 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 equivalent at cost, which approximates fair value. Investment are recorded at market 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.

Inventories
Inventories, consisting primarily of merchandise for resale in the college bookstore are valued at cost using the FIFO method.

Capital Assets
In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading 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. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, as defined by the State of Washington's Office of Financial Management. Useful lives are generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and land improvements.

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 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 quarter tuition and fees as unearned revenues.

Tax Exemption
The College is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes 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—Net of Related Debt. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted. These monies are resources collected with student tuition set aside for the purpose of creating an institutional financial aid fund, required by RCW 28B.15.820.

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.

Classification of Expenses

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

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

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

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, 2015 are $8,060,174.

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 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, 2015, the carrying amount of the College's cash and equivalents was $28,460,318 as represented in the table below.

Cash and Cash Equivalents	**June 30, 2015**
Petty Cash and Change Funds	11,763
Bank Demand and Time Deposits	10,034,375
Escrow Deposits	1,072,222
Local Government Investment Pool	17,341,958
Total Cash and Cash Equivalents	**28,460,318**

Investments consist of US government agency securities held at US Bank.

Investment Maturities	**Fair Value**	**One Year or Less**	**1 - 5 Years**	**6 - 10 Years**	**10 or More Years**
U.S. Agency Obligations Other	$ 5,484,867		$5,484,867		
Total Investments	**$ 5,484,867**	**$ -**	**$ 5,484,867**	**$ -**	**$ -**

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with Key Bank. All cash and equivalents, except for change funds and petty cash held by the College, 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 its exposure to fair value losses resulting from changes in interest rates by structuring the entire portfolio time horizon. Unless matched to a specific cash flow, the college generally will not directly invest in securities maturing more than five years from the date of purchase.

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, $5,484,867 of the College's operating fund investments, held by US Bank in the bank's name as agent for the College, are exposed to custodial credit risk as follows:

Investments Exposed to Custodial Risk	Fair Value
Federal Home Loan Bank	$ 998,266
Federal Nat'l Mortgage Assn	1,001,017
Federal Nat'l Mortgage Assn	1,002,187
Federal Home Loan Mtg Corp	1,495,116
Federal Farm Credit Bank	988,281
Total Investments Exposed to Custodial Risk	**$ 5,484,867**

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 $330.

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, 2015, accounts receivable were as follows:

Accounts Receivable	Amount
Student Tuition and Fees	$ 1,266,284
Due from the Federal Government	323,258
Due from Other State Agencies	1,085,216
Auxiliary Enterprises	62,940
Business Contract Training	158,488
Other	118,283
Subtotal	$ 3,014,469
Less Allowance for Uncollectible Accounts	(16,348)
Accounts Receivable, net	**$ 2,998,121**

4. Loans Receivable

The College does not have any loans as of June 30, 2015.

5. Inventories

Merchandise inventory, stated at cost using the FIFO method, consisted of $530,202 as of June 30, 2015.

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2015 is presented as follows. The current year depreciation expense was $2,969,157.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets:				
Land	$ 1,450,071	$ -	$ -	$ 1,450,071
Construction in progress	29,625,869	4,788,841	-	34,414,710
Total nondepreciable capital assets	**31,075,940**	**4,788,841**	-	**35,864,781**
Depreciable capital assets:				
Buildings	87,369,223	231,949		87,601,172
Other improvements and infrastructure	4,424,056			4,424,056
Equipment	8,181,098	3,551,297		11,732,395
Library resources	2,879,539	40,133		2,919,672
Subtotal depreciable capital assets	**102,853,916**	**3,823,379**		**106,677,295**
Less accumulated depreciation:				
Buildings	24,669,581	1,819,888		26,489,469
Other improvements and infrastructure	1,551,586	202,460		1,754,046
Equipment	6,048,840	908,761		6,957,601
Library resources	2,744,043	38,048		2,782,091
Total accumulated depreciation	**35,014,050**	**2,969,157**		**37,983,187**
Total depreciable capital assets	**67,839,866**	**854,222**		**68,694,088**
Capital assets, net of accumulated depreciation	**$ 98,915,806**	**$ 5,643,063**		**$104,558,869**

7. Deferred Outflows/Inflows

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in statement of net position relates to pensions.

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position:

Deferred Outflows/Inflows of Resources	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Difference between expected and actual earnings of pension plan investments	448,000	1,865,000	117,000	181,000	2,611,000
Changes in College's proportionate share of pension liabilities	-	129,000	-	63,000	192,000
Contributions to pension plans after measurement date	325,000	382,000	55,000	70,000	832,000
Total	123,000	1,354,000	62,000	48,000	1,587,000

The $832,000 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2016.

Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows: (use amortization schedules)

Year Ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
2016	112,000	429,000	29,000	32,000	602,000
2017	112,000	429,000	29,000	32,000	602,000
2018	112,000	429,000	29,000	32,000	602,000
2019	112,000	448,000	29,000	32,000	621,000
2020				(8,000)	(8,000)
	448,000	1,735,000	116,000	120,000	2,419,000

8. Accounts Payable, Accrued Liabilities, and Deposits Payable

At June 30, 2015, accounts payable and accrued liabilities are the following:

Accounts Payable, Accrued Liabilities, and Deposits Payable	Amount
Amounts Owed to Employees	$ 1,071,953
Accounts Payable	3,269,153
Amounts Held for Others and Retainage	1,198,555
Total	**$ 5,539,661**

9. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria for Summer Quarter Tuition and Fees are $2,949,535.

10. Risk Management

The College, in accordance with state policy, self-insures unemployment compensation for all employees. Payments made for claims from July 1, 2014 through June 30, 2015, totaled $142,656.

The College purchases commercial insurance property insurance through the master property program administered by the Department of Enterprise Services for all buildings including those that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $500,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years.

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 million for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

11. 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 $1,386,453 at June 30, and accrued sick leave totaled $1,542,106 at June 30, 2015.

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.

12. Leases Payable

The College leases office equipment with two vendors. The leases are classified as operating leases. The College does not have any capital leases at this time. As of June 30, 2015, the minimum lease payments consist of the following:

Leases Payable Fiscal year	**Operating Leases - Equipment**
2015	73,942
2016	25,316
2017	9,107
2018	9,107
Total minimum lease payments	$ 117,472
Less Amount representing interest	-
Net present value	**$ 117,472**

13. Notes Payable

In June, 2003, the College obtained financing in order to install energy efficient boilers and heat pumps to buildings on the Tacoma campus through a 12 year certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $755,000. The interest rate is approximately 3.32%. Final payment on the COP is scheduled for June 2015.

In February, 2001, the College obtained financing in order to expand Building 11 to accommodate Student Life offices and student related programs. Financing was obtained through a 15 year certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $1,825,000, with an interest rate of 4.748%. The students voted to assess themselves a mandatory fee of $1.50 per credit, to a maximum of $15.00 per quarter, to service the debt. The COP was refinanced in October, 2009 through the OST with a principal balance of $1,090,000. The interest rate was reduced to 2.764% with all other terms and conditions remaining the same as the original COP. Final payment on the COP is scheduled for June, 2017.

In November, 2007, the College obtained financing in order to build the Annette B. Weyerhaeuser Early Learning Center (ELC) through a 20 year certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $2,200,000. The students voted to assess themselves a mandatory fee of $1.25 per credit, to a maximum of $12.50 per quarter, to service the debt. The interest rate is approximately 4.739%. Final payment on the COP is scheduled for December, 2027.

The student fees related to the two COP's are accounted for in dedicated accounts, which are used to pay principal and interest, not coming out of the general operating budget.

The College's debt service requirements for these note agreements for the next five years and thereafter are displayed in the following tables.

14. Annual Debt Service Requirements

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

Certificates of Participation

Fiscal year	Principal	Interest	Total
2016	240,000	79,553	319,553
2017	255,000	68,913	323,913
2018	105,000	59,612	164,612
2019	110,000	55,313	165,313
2020	115,000	50,669	165,669
2021-2025	650,000	174,013	824,013
2026-2028	450,000	30,826	480,826
Total	**$1,925,000**	**$ 518,899**	**$ 2,443,899**

15. Schedule of Long Term Debt

	Balance outstanding 6/30/14	Additions	Reductions	Balance outstanding 6/30/15	Current portion
Certificates of Participation	$ 2,233,000	-	$ (308,000)	$ 1,925,000	$ 240,000
Compensated Absences	$ 2,902,072	$ 26,487		$ 2,928,559	
Pension Liability	$ 5,915,000	$169,000		$ 6,084,000	

17. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are a 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 FY 2014-15, the payroll for the College's employees was:

$ 7,778,199 for PERS
$ 1,216,499 for TRS
$18,137,553 for SBRP

Total covered payroll was $18,396,762.

The College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

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 respects 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	$ 6,084,000
Deferred outflows of resources related to pensions	$ 1,024,000
Deferred inflows of resources related to pensions	$ 2,611,000
Pension expense/expenditures	$ 1,001,000

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 when an employee completes five or ten years of eligible service, depending on employee 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 1 faculty member with pre-existing eligibility who continues to participate in TRS plan 1.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issues a publicly available financial report that includes 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 Plan 1 are established by statute.

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 the required contributions.

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

Contribution Rates at June 30, 2015						
	FY2013		FY2014		FY 2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.21%	6.00%	9.21%	6.00%	9.21%
Plan 2	4.64%	7.21%	4.92%	9.21%	4.92%	9.21%
Plan 3	5-15%	7.21%	5-15%	9.21%	5-15%	9.21%
TRS						
Plan 1	6.00%	8.05%	6.00%	10.39%	6.00%	10.39%
Plan 2	4.69%	8.05%	4.69%	10.39%	4.69%	10.39%
Plan 3	5-15%	8.05%	5-15%	10.39%	5-15%	10.39%

Required Contributions						
	FY 2013		FY 2014		FY 2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 13,455	$ 16,168	$ 10,132	$ 15,546	$12,340	$18,942
Plan 2	278,298	432,632	314,640	591,568	322,856	609,497
Plan 3	56,136	66,029	67,056	96,808	69,524	94,874
TRS						
Plan 2	380	510	1,466	3,071	1,692	3,544
Plan 3	51,486	58,299	67,743	103,172	84,701	122,094

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%
Total	100%	

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.

Pension Expense

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	$194,000	$282,000	$31,000	$53,000	$560,000
Amortization of change in proportionate liability	141,000	37,000	249,000	14,000	441,000
Total Pension Expense	335,000	319,000	280,000	67,000	1,001,000

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:

	2013	2014
PERS 1	.068594%	.071009%
PER 2/3	.083164%	.087035%
TRS 1	.015600%	.022661%
TRS 2/3	.017441%	.024435%

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
The total pension liability was determined by an actuarial valuation as of June 30, 2013, 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 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

Discount Rate
The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability).

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability of the College calculated using the discount rate of 7.50 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.

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	4,409,000	3,577,000	2,863,000
PERS Plan 2/3	7,338,000	1,759,000	(2,502,000)
TRS Plan 1	860,000	668,000	504,000
TRS Plan 2/3	686,000	79,000	(372,000)

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 reemployed 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, 2015 were $ 1,548,957 for employer and $1,566,271 for employees.

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 $585,625. 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 0.25% of covered salaries, totaling $ 90,642. As of June 30, 2015, the Community and Technical College system accounted for $7,729,471 of the fund balance.

The unfunded actuarial accrued liability calculated at July 1, 2014 was $13,931,097 under the plan's entry age normal method and is amortized over an 11 year period. The annual required contribution (ARC) is projected at $1,361,076. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability by SBCTC. The net pension obligation as of June 30, 2014 is $1,104,984.

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 $19,887,232, with an annual required contribution (ARC) of $1,943,245. 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 $244,000. The College's net OPEB obligation at June 30, 2015 was approximately $2,879,000. This amount is not included in the College's financial statements.

The College paid $ 4,312,389 for healthcare expenses in 2015, which included its pay-as-you-go portion of the OPEB liability.

18. 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, 2015.

Expenses by Functional Classification

Instruction	$25,491,846
Academic Support Services	3,678,361
Student Services	6,143,380
Institutional Support	6,866,788
Operations and Maintenance of Plant	7,528,647
Scholarships and Other Student Financial Aid	15,605,822
Auxiliary Enterprises	4,933,797
Depreciation	2,969,157
Total operating expenses	**$ 73,217,798**

19. Commitments and Contingencies

There is a class action lawsuit, Moore v. HCA, filed against the State of Washington on behalf of former part-time and non-permanent 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. As of the end of fiscal year 2015, the parties have reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits. Final settlement is contingent on a) funding of the settlement by the legislature and b) final approval by the trial court if funding is provided.

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 $15,538,000 for renovation of the Health and Wellness Center.

20. Subsequent Events

The State Board of Community and Technical Colleges made a decision in 2011 to replace the current administrative legacy system implemented in the late 1980s. The software chosen was Oracle's PeopleSoft Higher Education suite. The system for SBCTC is called ctcLink. CtcLink is a project that will modernize student information, finance and human resources systems at all 34 community and technical colleges in Washington State. It is a single, centralized system of online functions that will give students, faculty and staff 24/7 access to a modern, efficient way of doing their college business. Called Enterprise Resource Planning (ERP), ctcLink will provide a set of interconnected software modules to help us streamline and standardize many of the things we do at TCC. The project is being implemented in waves. TCC with the Spokane Community College and Spokane Falls Community College are the pilot colleges for the project; considered the FirstLink. Implementation for the project is scheduled for August 2015.

The Board approved expanding the current athletic and fitness center after the feasibility study in 2011. The renovation will create a Health and Wellness Center for the College. The Health and Wellness Center has a budget of $16,230,000; $10M from a Certificate of Participation and $6,230,000 from local college funding. The project includes additions to the facility through the expansion of the gym, new athletic offices, a student lounge/activity space, a new classroom, a new building entry and increased social space. It is anticipated ground breaking will commence late summer. The COP will be funded late September 2015.

On March 29, 2016, the legislature passed the supplemental budget which included an appropriation to fund the settlement for the Moore v. HCA lawsuit. SBCTC's portion of this obligation is $32 million of which $19 million is funded by the legislature and the remaining $13 million will be allocated among 34 colleges in the system. At this time SVCTC has not calculated the exact allocation to each college and it can only be reasonably estimated within a range. The estimated range provided by SBCTC for the College is from $131,000 to $733,000.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Tacoma Community College's Proportionate Share of the Net Pension Liability PERS Plan 1.

Schedule of Tacoma Community College's 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		0.071009%
College proportionate share of the net pension liability	$	3,577,112
College covered-employee payroll	$	168,868
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		2118.29%
Plan's fiduciary net position as a percentage of the total pension liability		61.19%

Cost Sharing Employer Plans

Schedules of Tacoma Community College's Proportionate Share of the Net Pension Liability PERS Plan 2/3.

Schedule of Tacoma Community College 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		0.087035%
College proportionate share of the net pension liability	$	1,759,292
College covered-employee payroll	$	7,446,927
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		23.62%
Plan's fiduciary net position as a percentage of the total pension liability		93.29%

Cost Sharing Employer Plans
Schedules of Tacoma College's Proportionate Share of the Net Pension Liability TRS Plan 1.

Schedule of Tacoma Community College's 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	0.022661%
College proportionate share of the net pension liability	$ 668,376
College covered-employee payroll	$ -
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	$ -
Plan's fiduciary net position as a percentage of the total pension liability	68.77%

Cost Sharing Employer Plans
Schedules of Tacoma Community College's Proportionate Share of the Net Pension Liability TRS Plan 2/3.

Schedule of Tacoma Community College's 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	0.024435%
College proportionate share of the net pension liability	$ 78,922
College covered-employee payroll	$ 1,032,375
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7.64%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%

Cost Sharing Employer Plans

Schedules of Contributions PERS Plan 1

Schedule of Contributions Public Employees' 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	$ 15,546	$ 15,546	$ -	$ 168,868	9.21%
2015	$ 18,942	$ 418,942	$	$ 205,669	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Note: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions PERS Plan 2/3

Schedule of Contributions Public Employees' 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	$ 685,719	$ 685,719	$ -	$ 7,446,927	9.21%
2015	$ 698,927	$ 698,927	$ -	$ 7,590,237	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Note: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Contributions TRS Plan 1.

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	$ -	$ -	$ -	$ -	0.00%
2015	$ -	$ -	$ -	$ -	0.00%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Note: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Contributions TRS Plan 2/3.

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	$ 107,216	$ 107,216	$ -	$ 1,032,375	10.39%
2015	$ 126,821	$ 126,821	$ -	$ 1,220,607	10.39%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Note: These schedules will be built prospectively until they contain 10 years of data