Tacoma Community College

2016 Annual Financial Report

Tacoma Community College College, located in Tacoma, Washington

Tacoma Community College

2016 Financial Report

TACOMA COMMUNITY COLLEGE

Trustees and Administrators

Independent Auditor's Report

To the Board of Trustees
Tacoma Community College
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the business-type activities and the aggregate discretely presented component units of the Tacoma Community College (the College), which comprise the statement of financial position as of June 30, 2016, and the related statement of revenues, expenses and changes in net position and cash flows for the year the ended, 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. We did not audit the financial statements of the Tacoma Community College Foundation, which represents 100 percent of the assets, net position, revenues and expenses 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.

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.

CN

T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

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 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 unit of the Tacoma Community College, as of June 30, 2016, 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 unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and 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.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017 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 College's internal control over financial reporting and compliance.

Clark Nuber P.S.
Certified Public Accountants
November 8, 2017

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Tacoma Community College (the College) for the fiscal year ended June 30, 2016 (FY 2016) with comparative June 30, 2015 (FY 2015) financial information. 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

Tacoma Community College is one of thirty-four public community and technical colleges in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills, and community service educational programs to approximately 13,700 students. The College confers baccalaureate degrees in Health Information Management, associates degrees, certificates, and high school diplomas. The College was established in 1965 and its mission is to create meaningful and relevant learning, inspire greater equity, and celebrate success in our lives and communities.

The College's main campus is located in Tacoma, Washington, a community of about 208,000 residents[1]. The College also has operations in Gig Harbor, Washington. 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, the Tacoma Community College Foundation. The College's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2016. The Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the College's financial health.

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

[1] https://www.census.gov/quickfacts/table/PST045215/5370000,53

Management's Discussion and Analysis

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 position at year-end and includes all assets and liabilities of the College. A condensed comparison of the Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30	**FY 2016**	**FY 2015**
Assets		
Current Assets	$ 41,024,820	$ 31,988,641
Capital Assets, net	108,726,674	104,558,869
Other Assets, non-current	5,504,379	5,484,867
Total Assets	**155,255,873**	**142,032,377**
Deferred Outflows	**1,544,000**	**1,024,000**
Liabilities		
Current Liabilities	11,455,030	8,729,197
Other Liabilities, non-current	21,293,632	10,697,559
Total Liabilities	**32,748,662**	**19,426,756**
Deferred Inflows	**1,206,000**	**2,611,000**
Net Position	**$ 122,845,211**	**$ 121,018,621**

Current assets consist primarily of cash, investments, accounts receivable, and inventories. The increase in current assets in FY 2016 is primarily due to the presence of a large receivable held in trust related to proceeds for the new Health and Wellness Building, and to several large inter-agency receivables that were billed near year end but not collected until FY 2017.

Capital assets consist of land, buildings, improvements, furnishings and equipment, as well as construction in progress. During FY 2016, the College continued construction on the Health and Wellness Building. The increase in net capital assets during FY 2016 of $4,167,805 is due to investments in capital assets of $7,506,569 less depreciation expense of $3,338,764.

Non-current assets consist of investments in bonds held by the College. See Note 2 for more information.

Deferred outflows of resources totaling $1,544,000 relates to contributions that were made after the measurement date for the net pension liability. See Note 7 for more information.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificates 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. For FY 2016, these fluctuations included several large contractor invoices related to the construction of the Health and Wellness Building that were paid after year end.

Non-current liabilities primarily consist of the value of pension liability attributable to the College, vacation and sick leave earned but not yet used by employees and long-term portion of COP debt. As described in Note 13, the College entered into a new COP agreement of $9,700,000 to finance the Health and Wellness building construction project. The College's pension liability also increased by $1,658,000 in FY 2016.

Deferred inflows of resources increased by $1,405,000 during FY 2016. Deferred inflows includes the calculated difference between actual and projected investment earnings on the state's pension plans. See Note 7 for more information.

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

- *Net Investment in Capital Assets* – The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.
- *Restricted Nonexpendable* – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. The College does not have net position in this category.
- *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 restricted for capital projects and institutional financial aid.
- *Unrestricted* – Includes all other assets not subject to external imposed restrictions, but which may be designed or obligated for specific purposes by the Board of Trustees or management.

Net Position As of June 30	**FY 2016**	**FY 2015**
Net Investment in Capital Assets	$ 96,958,829	$ 102,633,869
Restricted Expendable – Capital Projects	4,228,874	
Restricted – Institutional Financial Aid	531,363	542,136
Unrestricted	21,126,145	17,842,616
Total Net Position	$ 122,845,211	$ 121,018,621

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position accounts for the College's changes in total net position during FY 2016. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses paid or incurred by the College, along with any other revenue, expenses, gains, and losses of the College.

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

Operating expenses are 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.

Management's Discussion and Analysis

A condensed comparison of the College's revenues, expense, and changes in net position is as follows:

Condensed Statement of Revenues, Expenses, and Changes in Net Position As of June 30	**FY 2016**	**FY 2015**
Operating Revenues	$ 39,439,040	$ 45,048,111
Operating Expenses	68,559,729	73,217,798
Net Operating Loss	(29,120,689)	(28,169,687)
Non-Operating Revenues and Expenses	29,941,975	29,719,316
Gain Before Other Capital Appropriations	821,286	1,549,629
Other Capital Appropriations	1,005,304	7,856,770
Increase (Decrease) in Net Position	1,826,590	9,406,399
Net Position, Beginning of Year	121,018,621	111,612,222
Net Position, End of Year	$ 122,845,211	$ 121,018,621

Revenues

The State of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college.

In FY 2016, state appropriations for the College increased significantly, from $18.8 million to $21.6 million, an increase of $2.8 million. The majority of this increase went to fund increases in salaries (state employees received an average 3.0% wage increase in FY 2016), and to cover large increases in health insurance costs. Additionally, the College received $834,000 in funding for the new College Affordability Program.

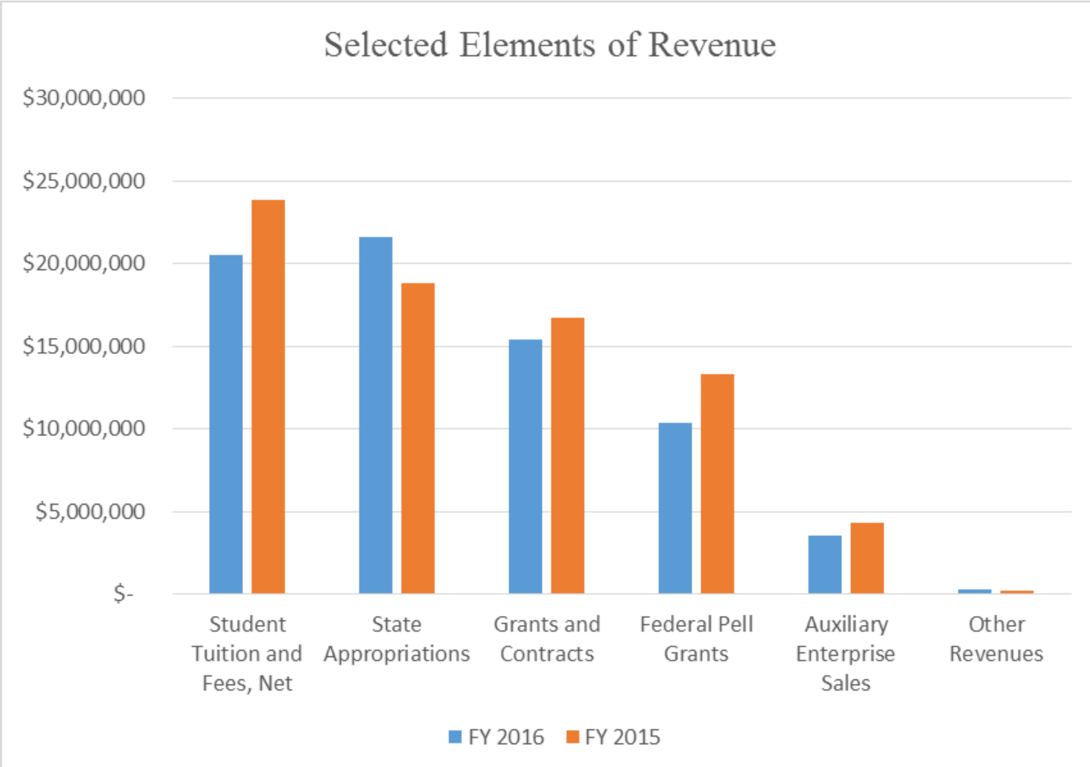
In FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5%. This reduced the amount of tuition each student paid to the College. In addition to the decline in tuition rates, the College experienced a drop in enrollment in FY 2016 of approximately 6.3%, not counting non-tuition Running Start enrollment, which increased by 9%. These factors contributed to an overall decrease in tuition and fees of $3.3 million.

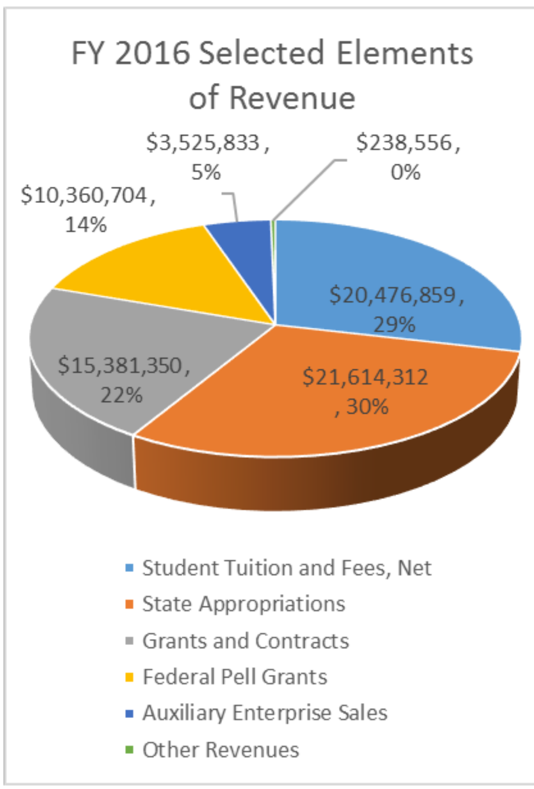
State and local grant and contract revenues decreased by $1,221,709 in FY 2016 when compared with FY 2015. Of particular note was the decline in State Need Grants of $812,000 in FY 2016.

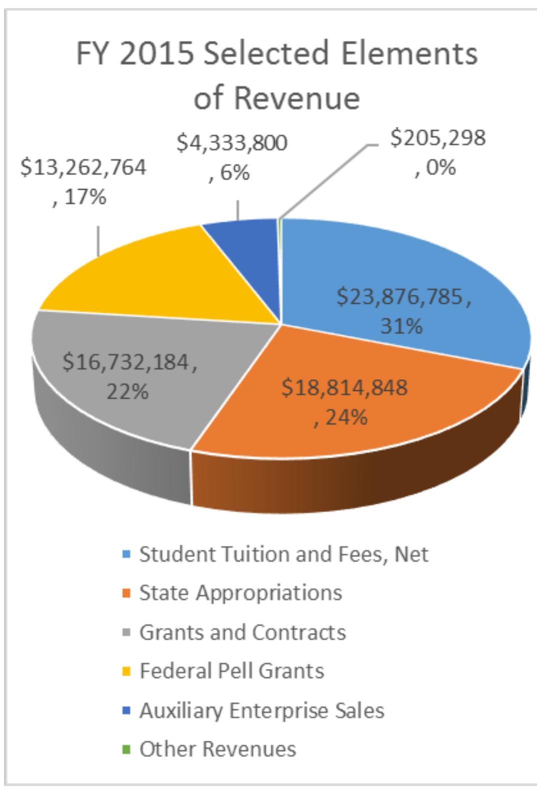
Sales of auxiliary enterprises also decreased in FY 2016, with softening bookstore sales responsible for $492,000 of an overall $807,967 reduction.

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 ($1,005,304 in FY 2016) is the amount expended in the current year.

Management's Discussion and Analysis







Management's Discussion and Analysis

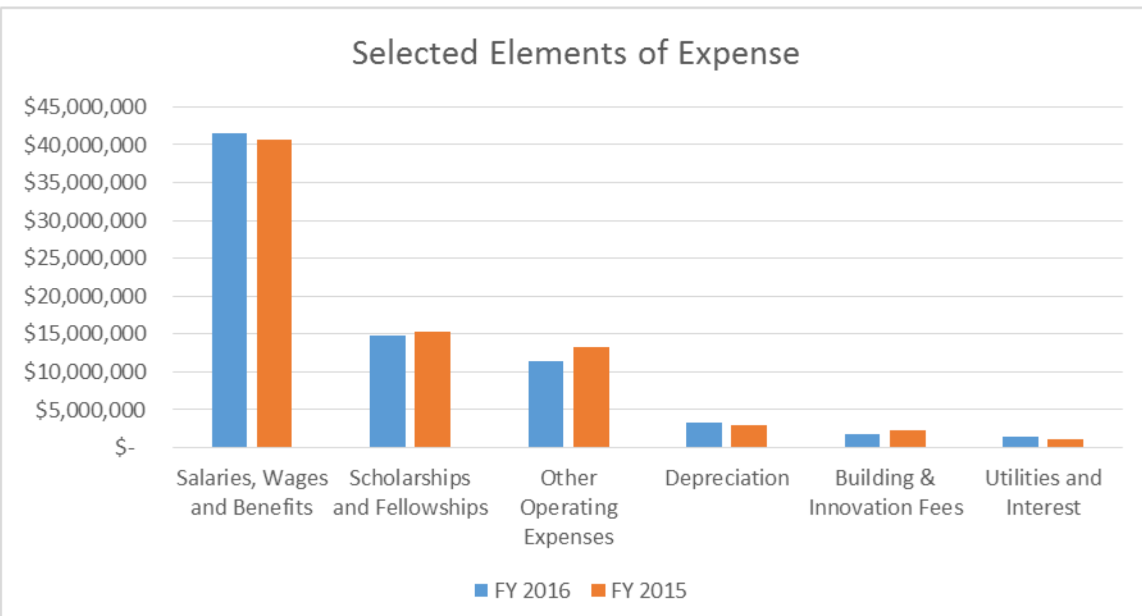
Expenses

Faced with budget cuts in recent years, the College has continued to look for opportunities to create savings and efficiencies. In FY 2016, non-salary related operating expenses declined by 15%, from $13.3 million to $11.1 million. In addition to overall belt-tightening measures, the reduction in both state and federal grants has led to corresponding reductions in related expenses. Also, the completion of the $39 million Harned Center for Health Careers early in FY 2016 led to reductions in certain non-capitalizable expenses that accompany any major construction project.

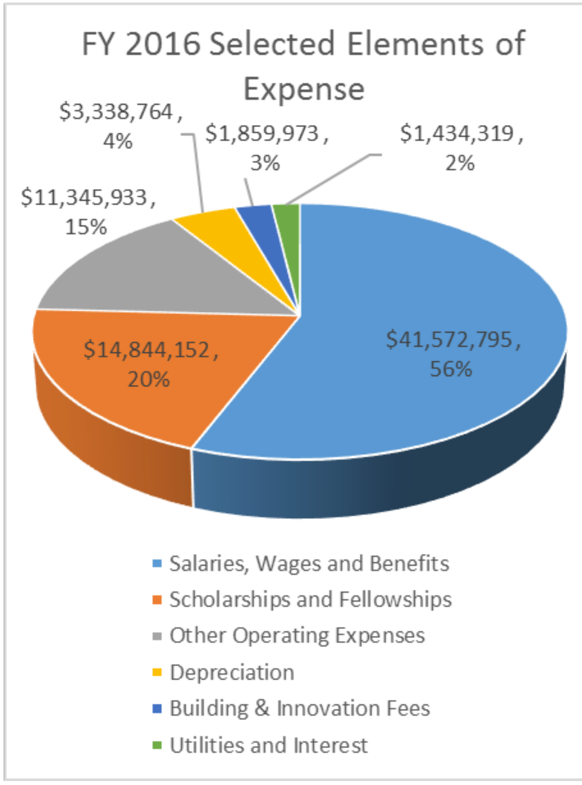
Salary expenses increased by $522,377 or 1.7% in FY 2016, primarily reflecting the 3.0% average salary increase approved by the Legislature. Likewise, benefit expenses increased by 7.8%, or $737,315. Actual benefit costs increased by over $1.1 million in FY 2016, with an increase in health insurance rates accounting for nearly all of that increase. However, actuarial adjustments related to GASB 68 created a positive swing in benefits expense, resulting in a lower net increase for the financial statements.

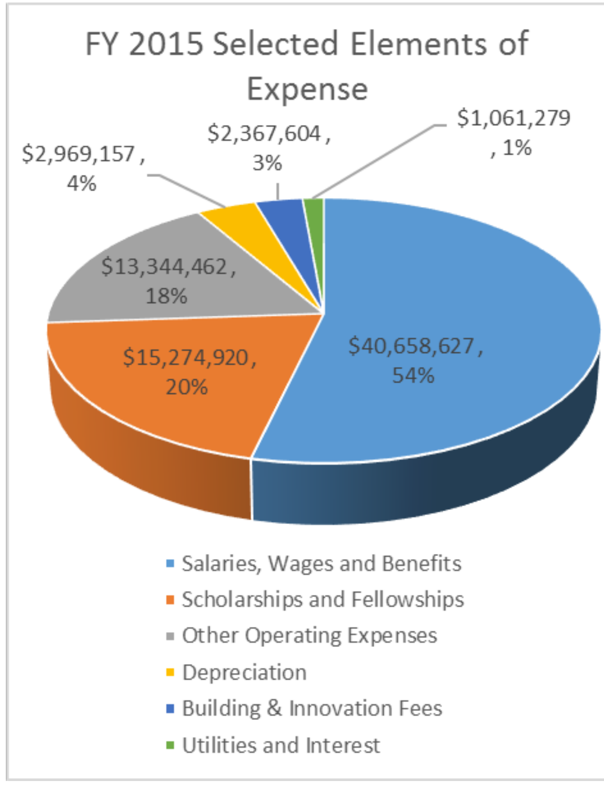
Depreciation expense climbed from $2.97 million to $3.33 million in FY 2016, as the Harned Center was placed in service during the year. Interest expense climbed significantly, from $90,647 to $356,626. This is attributable to the long term debt taken on by the College to finance the new Health and Wellness Center, under construction during the fiscal year.

The charts below show the amounts, in dollars, for selected functional areas of operating expenses for FY 2016 and FY 2015.



Management's Discussion and Analysis





Statement of Cash Flows

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

Capital Assets and Long-Term Debt Activities

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

At June 30, 2016, the College had invested $108,726,674 in capital assets, net of accumulated depreciation. This represents an increase of $4,167,805 from the prior year, as shown in the table below.

Asset Type As of June 30	**FY 2016**	**FY 2015**	**Change**
Land	$ 1,450,071	$ 1,450,071	$ -0-
Construction in Progress	7,628,708	34,414,710	(26,786,002)
Buildings, Net	91,370,314	61,111,703	30,258,611
Other Improvements and Infrastructure, Net	4,181,464	2,670,010	1,511,454
Equipment, Net	3,995,553	4,774,794	(779,241)
Library Resources, Net	100,564	137,581	(37,017)
Total Capital Assets, Net	**$ 108,726,674**	**$ 104,558,869**	**$ 4,167,805**

At June 30, 2016, the College had $11,317,845 in outstanding debt and related net Original Issue Discount. The College entered into a Certificate of Participation (COP) for the Health and Wellness Center during FY 2016.

Description	June 30, 2016
Certificates of Participation	$ 11,220,000
Unamortized OID	547,845
Total	$ 11,317,845

Additional information on long-term debt and debt service schedules can be found in Notes 13-15 to the Financial Statements.

Economic Factors That May Affect the Future

Unlike the 4 year state institutions, the Affordable Education Act did not assess a further tuition rollback to the Community College system. This will help to stabilize that revenue stream in future years.

During FY 2017, the State Board for Community and Technical Colleges (SBCTC) elected to move to a new allocation model, changing how state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. While it appears that the College will benefit from the model as it is implemented, actual enrollment changes will determine the long term impact of the new model. Additionally, the SBCTC requirement that international students be counted as 'contract' as opposed to 'state' full time equivalence (FTE) may impact the College's ability to meet its state enrollment targets, which in turn may negatively impact the College's state allocation. The College is working with the SBCTC to mitigate these projected financial challenges.

While Tacoma Community College has implemented the new ctcLink ERP system, the system as a whole is still in the planning phases. It has been estimated that the project will require up to an additional $15 million to fully implement the system state-wide. It is unknown how much, if any of that cost will be absorbed by the colleges.

It is unclear how much opportunity there may be for additional legislative investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations such as the McCleary Act. As state funding becomes less reliable, the College will continue to pursue other sources of funding. The College will see opportunities to increase local fund revenues. With creativity and innovation, the College will develop and expand its high demand programs that are responsive to the needs of the community.

Statement of Net Position

June 30, 2016

Assets	College	Foundation
Current Assets		
Cash and Cash Equivalents	$ 24,850,436	$ 3,160,830
Accounts Receivable	15,670,688	133,040
Inventories	503,696	21,500
Prepaid Expenses	-	7,708
Total Current Assets	**41,024,820**	**3,323,078**
Non-Current Assets		
Long-Term Investments	5,504,379	5,229,920
Capital Assets, Net of Depreciation	99,647,895	-
Non-Depreciable Capital Assets	9,078,779	-
Total Non-Current Assets	**114,231,053**	**5,229,920**
Total Assets	**155,255,873**	**8,552,998**
Deferred Outflows of Resources	1,544,000	
Total Assets and Deferred Outflows	**$ 156,799,873**	**$ 8,552,998**
Liabilities		
Current Liabilities		
Accounts Payable	$ 3,003,208	$ 22,756
Accrued Liabilities	5,765,122	-
Unearned Revenue	2,236,700	-
Certificates of Participation Payable	450,000	-
Total Current Liabilities	**11,455,030**	**22,756**
Noncurrent Liabilities		
Compensated Absences	2,233,787	-
Pension Liability	7,742,000	-
Certificates of Participation Payable - Long-Term	11,317,845	-
Total Non-Current Liabilities	**21,293,632**	**-**
Total Liabilities	**32,748,662**	**22,756**
Deferred Inflows of Resources	1,206,000	
Net Position		
Net Investment in Capital Assets	96,958,829	-
Restricted for:		
Non-Expendable	-	3,591,727
Expendable, Temporary	-	4,669,514
Expendable for Capital Construction	4,228,874	-
Student Financial Aid	531,363	-
Unrestricted	21,126,145	269,001
Total Net Position	**122,845,211**	**8,530,242**
Total Liabilities, Deferred Inflows and Net Position	**$ 156,799,873**	**$ 8,552,998**

See accompanying notes to the financial statements.

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

	College	Foundation
Operating Revenues		
Student Tuition and Fees, Net	$ 20,476,859	$ -
Auxiliary Enterprise Sales	3,525,833	-
State and Local Grants and Contracts	14,452,526	729,375
Federal Grants and Contracts	928,824	-
Contributions	-	1,021,297
Other Operating Revenues	54,998	61,893
Total Operating Revenue	**39,439,040**	**1,812,565**
Operating Expenses		
Academic and Administrative Expenses	5,096,009	1,422,604
Salaries and Wages	31,744,010	-
Benefits	10,174,310	-
Scholarships and Fellowships	11,147,463	-
Supplies and Materials	5,270,811	-
Depreciation	3,338,764	-
Purchased Services	710,669	-
Utilities	1,077,693	-
Total Operating Expenses	**68,559,729**	**1,422,604**
Operating Income (Loss)	**(29,120,689)**	**389,961**
Non-Operating Revenues		
State Appropriations	21,614,312	-
Federal Pell & Other Grant Revenue	10,360,704	-
Investment Income, Gains and Losses	183,558	2,590
Net Non-Operating Revenues	**32,158,574**	**2,590**
Non-Operating Expenses		
Building Fee & Innovative Fee	1,859,973	-
Interest on Indebtedness	356,626	-
Net Non-Operating Expenses	**2,216,599**	**-**
Income or (Loss) before Capital Appropriations	**821,286**	**392,551**
Capital Revenues		
Capital Appropriations	1,005,304	-
Increase in Net Position	**1,826,590**	**392,551**
Net Position		
Net position, Beginning of Year	121,018,621	8,137,691
Net position, End of Year	**$ 122,845,211**	**$ 8,530,242**

See accompanying notes to the financial statements.

Statement of Cash Flows

For the Year Ended June 30, 2016

Cash Flow from Operating Activities	
Student Tuition and Fees	$18,140,240
Grants and Contracts	11,622,224
Payments to Vendors	(12,177,552)
Payments for Utilities	(1,026,362)
Payments to Employees	(32,194,141)
Payments for Benefits	(8,391,505)
Auxiliary Enterprise Sales	3,552,339
Payments for Scholarships and Fellowships	(11,147,463)
Other Receipts (Payments)	54,998
Net Cash Used by Operating Activities	**(31,567,222)**
Cash Flow from Noncapital Financing Activities	
State Appropriations	19,282,532
Pell Grants	9,838,045
Net Cash Provided by Noncapital Financing Activities	**29,120,577**
Cash Flow from Capital and Related Financing Activities	
Capital Appropriations	1,005,304
Purchases of Capital Assets	(7,641,148)
Certificate of Participations Proceeds	6,057,559
Principal Paid on Capital Debt	(405,000)
Interest Paid	(356,626)
Net Cash used by Capital and Related Financing Activities	**(1,339,911)**
Cash Flow from Investing Activities	
Purchase of Investments	(5,506,884)
Proceeds from Sales and Maturities of Investments	5,500,000
Income of Investments	183,558
Net Cash Provided by Investing Activities	**176,674**
Decrease in Cash and Cash Equivalents	**(3,609,882)**
Cash and Cash Equivalents at the Beginning of the Year	28,460,318
Cash and Cash Equivalents at the End of the Year	**$24,850,436**

See accompanying notes to the financial statements.

Statement of Cash Flows *- continued*

For the Year Ended June 30, 2016

Reconciliation of Operating Loss to Net Cash used by Operating Activities:	
Operating Loss	$ (29,120,689)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,338,764
Changes in Assets and Liabilities:	
Receivables, Net	(5,580,275)
Inventories	26,506
Accounts Payable	(1,298,595)
Accrued Liabilities	2,334,007
Unearned Revenue	(712,835)
Compensated Absences	(694,772)
Pension Liability	267,000
Deposits Payable	(126,333)
Net Cash Used by Operating Activities	**$ (31,567,222)**

See accompanying notes to the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Tacoma Community College (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers baccalaureate degrees in Health Information Management, 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 Tacoma Community College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington State 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.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. 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, 2016, the Foundation distributed approximately $286,183 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 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.

Basis of Accounting

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

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

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, which provides guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The College currently invests in the Local Government Investment Pool (LGIP) which is managed by the Office of the State Treasurer and prepares its own financial report that meets GASB standards. The college also invests in U.S. Agency bonds that are reported at cost. Any necessary adjustments to note disclosures have been made.

In June 2015, the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. The College is currently working with SBCTC to determine the financial impact.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which identifies the hierarchy of generally accepted accounting principles (GAAP). The Statement reduced the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The College adheres to this hierarchy of GAAP.

In March 2016, the GASB issued Statement No. 82, Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No.73. This Statement essentially addresses issues regarding the presentation of payroll-related measures in the required supplementary information (RSI). The College has reviewed this Statement in relation to the RSI presented with its financial statements.

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. Endowment investments are classified as non-current assets. The College records all cash, cash equivalents, and investments at amortized cost.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis or allocated to certain contributors in accordance with board policy with the remainder allocated for general operating needs of the College. The internal investment pool is comprised of cash, cash equivalents, certificates of deposit, and U.S. Agency securities.

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. Where applicable, accounts receivable includes proceeds from Certificates of Participation that have not yet been received from the State Treasurer. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

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

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, 2016, 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 a portion of 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 reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Net Position

The College's net position is classified as follows.

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

- *Restricted for Nonexpendable.* This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principal. The College has no net position in this classification.

- *Restricted for Expendable.* These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties.

- *Unrestricted.* These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

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

- *Operating Revenues*. This includes activities that 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 that primarily support the operational/educational activities of the College.

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

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 building and innovation fees, 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, 2016 are $7,652,142.

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 Fees

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 and 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 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. These remittances 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, 2016, the carrying amount of the College's cash and equivalents was $24,850,436 as represented in the table below.

Cash and Cash Equivalents	**June 30,2016**
Petty Cash and Change Funds	$ 7,090
Bank Demand Deposits	7,891,437
Local Government Investment Pool	16,951,909
Total Cash and Cash Equivalents	**$ 24,850,436**

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

Investment Maturities	**Cost**	**One Year or Less**	**1 - 5 Years**
U.S. Agency Obligations	**$ 5,504,379**	**$ 996,724**	**$ 4,507,655**

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- *Level 1.* Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other publicly traded securities.

- *Level 2.* Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.

- *Level 3*. Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements.

The following table summarize the investments reported at fair value within the fair value hierarchy as of June 30, 2016:

Investment	Total	Level 1	Level 2	Level 3
Fixed or variable income securities U.S. Government sponsored enterprises	$5,504,379	$ -	$5,504,379	$ -

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 the College's 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. The 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, 2016, 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	Cost
Federal Home Loan Bank	$ 1,999,127
Federal Nat'l Mortgage Assn	1,498,697
Federal Farm Credit Bank	2,006,555
Total Investments Exposed to Custodial Risk	**$ 5,504,379**

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, 2016 were $135.

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, 2016, accounts receivable were as follows:

Accounts Receivable	Amount
Student Tuition and Fees	$ 2,580,453
Due from the Federal Government	1,691,352
Due from Other State Agencies	5,072,173
Auxiliary Enterprises	121,842
Interest	9,592
Funds held in Trust by Washington State	4,228,874
Other, including local School Districts	2,041,402
Subtotal	$ 15,745,688
Less Allowance for Uncollectible Accounts	(75,000)
Accounts Receivable, net	**$ 15,670,688**

4. Loans Receivable

The College does not have any loans receivable as of June 30, 2016.

5. Inventories

Merchandise inventory, primarily bookstore inventories, are stated at cost using the FIFO method and totaled $503,696 as of June 30, 2016.

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2016 is presented as follows. The current year depreciation expense was $3,338,764.

Capital Assets	Beginning Balance	Additions/ Transfers	Ending Balance
Non-depreciable capital assets:			
Land	$ 1,450,071	-	$ 1,450,071
Construction in progress	34,414,710	(26,786,002)	7,628,708
Total non-depreciable capital assets	**$ 35,864,781**	**(26,786,002)**	**$ 9,078,779**

Depreciable capital assets:			
Buildings	87,601,172	32,313,724	119,914,896
Other improvements and infrastructure	4,424,056	1,763,299	6,187,355
Equipment	11,732,395	215,547	11,947,942
Library resources	2,919,672		2,919,672
Subtotal depreciable capital assets	**106,677,295**	**34,292,570**	**140,969,865**
Less accumulated depreciation:			
Buildings	26,489,468	2,055,114	28,544,582
Other improvements and infrastructure	1,754,046	251,845	2,005,891
Equipment	6,957,601	994,787	7,952,388
Library resources	2,782,091	37,018	2,819,109
Total accumulated depreciation	**37,983,206**	**3,338,764**	**41,321,970**
Total depreciable capital assets	**$ 68,694,089**	**30,953,806**	**$ 99,647,895**
Capital assets, net	**$ 104,558,870**	**4,167,804**	**$ 108,726,674**

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 outflows 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	(201,000)	(861,000)	(58,000)	(86,000)	(1,206,000)
Changes in College's proportionate share of pension liabilities	-	422,000	-	101,000	523,000
Contributions to pension plans after measurement date	400,000	466,000	77,000	78,000	1,021,000
Total	199,000	27,000	19,000	93,000	338,000

The $1,021,000 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.

8. Accounts Payable and Accrued Liabilities

At June 30, 2016, accounts payable and accrued liabilities are the following:

Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 1,048,606
Accounts Payable	3,003,207
Due to Government Agencies	4,365,857
Payroll Taxes and Benefits	265,793
Accrued Interest	53,541
Retainage Held for Others	31,326
Total	**$ 8,768,330**

9. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria for summer quarter tuition and fees are $2,236,700.

10. Risk Management

The College, in accordance with state policy, self-insures unemployment compensation for all employees. Payments made for claims from July 1, 2015 through June 30, 2016, totaled $126,147.

The College purchases commercial 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 $10,000,000 for each claim with no deductible. The College has had no claims in excess of the coverage amount within the past three years.

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 $1,410,274 at June 30, 2016, and accrued sick leave totaled $823,513 at June 30, 2016.

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 three vendors. The leases are classified as operating leases. The College does not have any capital leases at this time. As of June 30, 2016, the minimum lease payments consist of the following:

Fiscal year	Amount
2017	$104,102
2018	104,102
2019	96,200
2020	49,452
Total minimum lease payments	**$353,856**

13. Notes Payable

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 was approximately 4.739%. The COP was refinanced in March, 2017 through the OST with a principal balance of $1,365,000. The interest rate was reduced to 2.239% with all other terms and conditions remaining essentially the same as the original COP. Final payment on the COP is scheduled for June, 2028.

In October, 2015, the College obtained financing to build the Health and Wellness Center through a 20 year certificate of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $9,700,000. The students voted to assess themselves a mandatory fee of $3.00 per credit, to a maximum of $30.00 per quarter, to service the debt. The interest rate is approximately 3.421%. Final payment on the COP is scheduled for December, 2035.

The student fees related to the three COP's are accounted for in dedicated accounts, which are used to pay principal and interest, not 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 tables in note 14.

14. Annual Debt Service Requirements

Future debt service for the College's Certificates of participation requirements at June 30, 2016 are as follows:

Fiscal year	Principal	Interest	Total
2017	$450,000	462,988	$912,988
2018	425,000	424,862	849,862
2019	445,000	404,062	849,062
2020	465,000	381,438	846,438
2021	490,000	357,687	847,687
2021-2026	2,690,000	1,417,766	4,107,766
2027-2031	3,090,000	819,828	3,909,828
2032-2036	3,165,000	300,163	3,465,163
Total	**$11,220,000**	**$4,568,794**	**$15,788,794**

15. Schedule of Long Term Debt

	Balance outstanding 6/30/15	Additions	Reductions	Balance outstanding 6/30/16	Current portion
Certificates of Participation	**$1,925,000**	**$9,700,000**	**($405,000)**	**$11,220,000**	**$450,000**
Original Issue Discount		**$586,433**	**($38,588)**	**$547,845**	
Compensated Absences	**$2,928,559**		**($694,772)**	**$2,233,787**	
Pension Liability	**$6,084,000**	**$1,658,000**		**$7,742,000**	

16. Pension Plans

Pension liabilities reported as of June 30, 2016 consists of the following:

Pension Liability by Plan	
PERS 1	$ 3,675,000
PERS 2/3	3,061,000
TRS 1	784,000
TRS 2/3	222,000
Total	**$ 7,742,000**

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 2016, the payroll for the College's employees was $9,208,000 for PERS, $1,582,000 for TRS, and $18,930,000 for SBRP. Total covered payroll was $29,720,000.

The College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2016 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 2016:

Aggregate Pension Amounts - All Plans	
Pension Liabilities	$7,742,000
Deferred Outflows of Resources Related to Pensions	$1,544,000
Deferred Inflows of Resources Related to Pensions	$1,206,000
Pension Expense/Expenditures	$1,237,000

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 1 provides retirement and disability benefits and minimum benefit increases to eligible faculty plan members hired prior to October 1, 1977. TRS Plans 2 provides retirement and disability benefits and a cost-of-living adjustment to eligible faculty plan members hired on or after October 1, 1977. Retirement benefits are vested after 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 one 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 years ending June 30 are as follows:

	FY2014		FY2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	9.21%	6.00%	11.18%
Plan 2	4.92%	9.21%	4.92%	9.21%	6.12%	11.18%
Plan 3	5-15%	9.21%	5-15%	9.21%	5-15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	10.39%	6.00%	13.13%
Plan 2	4.69%	10.39%	4.69%	10.39%	5.95%	13.13%
Plan 3	5-15%	10.39%	5-15%	10.39%	5-15%	13.13%

	FY 2014		FY 2015		FY 2016	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	10,132	15,546	12,340	18,942	6,303	11,745
Plan 2	314,640	591,568	322,856	609,497	466,034	851,350
Plan 3	67,056	96,808	69,524	94,874	94,819	166,347
TRS						
Plan 2	1,466	3,071	1,692	3,544	2,638	5,821
Plan 3	67,743	103,172	84,701	122,094	109,660	201,846

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, 2015, 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	4.45%
PERS Plan 2/3	4.63%
TRS Plan 1	4.41%
TRS Plan 2/3	4.65%

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, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

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

Net Pension Liability

At June 30, 2016 the College reported liabilities of $7,742,000 for its proportionate share of the net pension liability. The proportions are based on the College's contributions to the pension plan relative to the contributions of all participating employees. The net pension liabilities were measured as of June 30, 2015, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2014 projected forward to June 30, 2015. Pension liabilities reported as of June 30, 2016 consists of the following:

Pension Liability by Plan	
PERS Plan 1	$ 3,675,000
PERS Plan 2/3	$ 3,061,000
TRS Plan 1	$ 784,000
TRS Plan 2/3	$ 222,000
Total	$ 7,742,000

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	($181,000)	($104,000)	($37,000)	($15,000)	($337,000)
Amortization of change in proportionate liability	(42,000)	23,000	72,000	17,000	70,000
Total Pension Expense	($223,000)	($81,000)	$35,000	$2,000	($267,000)

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2014 to 2016 for each retirement plan are listed below:

	2014	2015	2016
PERS 1	.071009%	.070262%	0.067166%
PER 2/3	.087035%	.085667%	0.082762%
TRS 1	.022661%	.024741%	0.024300%
TRS 2/3	.024435%	.026239%	0.024739%

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, 2016, 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.

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	6,476,000	5,370,000	4,419,000
PERS Plan 2/3	9,270,000	5,035,000	(2,621,000)
TRS Plan 1	4,197,137	3,414,000	2,740,000
TRS Plan 2/3	3,108,000	1,373,000	(1,595,000)

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions
The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2016:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			325,378	
Difference between expected and actual earnings of pension plan investments		201,082		817,123
Changes of Assumptions			4,932	
Changes in the College's proportionate share of pension liabilities			91,829	44,018
Contributions to pension plans after measurement date	400,298		466,222	

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience			35,047	
Difference between expected and actual earnings of pension plan investments		58,016		85,899
Changes of Assumptions			192	
Changes in the College's proportionate share of pension liabilities			65,014	
Contributions to pension plans after measurement date	76,772		78,181	

The $1,544,000 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, 2017.

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

Year Ended June 30	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2017	(77,933)	(220,147)	(22,502)	(10,036)
2018	(77,933)	(220,147)	(22,502)	(10,036)
2019	(77,933)	(238,513)	(22,501)	(10,036)
2020	32,715	209,777	9,489	33,106
2021	-	30,028	-	8,152
2022	-	-	-	3,204

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, 2016 were $1,552,352 for employer and $1,532,132 for employees.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2016, supplemental benefits were paid by the SBCTC on behalf of the system as a total in the amount of $766,692. 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 2016, the College paid into this fund at a rate of 0.25% of covered salaries, totaling $94,650. As of June 30, 2016, the Community and Technical College system accounted for $10,439,441 of the fund balance.

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

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

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $19,887,232, with an annual required contribution (ARC) of $1,979,020. The ARC represents the amortization of the liability for FY 2016 plus the current expense for active employees, which is reduced by the current contributions of $287,812. The College's net OPEB obligation at June 30, 2016 was approximately $4,586,429. This amount is not included in the College's financial statements.

The College paid $5,172,624 for healthcare expenses in 2016, which included its pay-as-you-go portion of the OPEB liability.

The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

17. 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, 2016.

Expenses By Functional Classification	
Instruction	$ 26,056,892
Academic Support Services	3,899,312
Student Services	6,934,487
Institutional Support	7,570,324
Operations and Maintenance of Plant	3,873,237
Scholarships/Other Student Financial Aid	10,573,602
Auxiliary Enterprises	6,313,111
Depreciation	3,338,764
Total Operating Expenses	$ 68,559,729

18. 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. As of the end of fiscal year 2016, the parties had reached a settlement agreement with the plaintiffs to settle all matters relating to this and related lawsuits.

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 allocated among 34 colleges in the system. In July 2016, the College was assessed a total liability in the amount of $696,340 which is included in accounts payable as of June 30, 2016.

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 $5,155,000 for completion of the Health and Wellness Center project.

19. Subsequent Events

The primary contractor on the ctcLink ERP project, Ciber, Inc. filed for bankruptcy in April, 2017, and subsequently filed a breach of contract lawsuit against the community college system. The lawsuit was settled in July, 2017 at no cost to the College.

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Proportionate share of the Net Pension Liability

Schedule of Tacoma Community College's Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date June 30		
	2014	2015
College's proportion of net pension liability	.071009%	.070262
College's proportionate share of the net pension liability	3,577,112	3,539,481
College covered payroll	168,868	205,669
College's proportionate share of the net pension liability as a percentage of its covered payroll	2118.29%	1720.96%
Plan's fiduciary net position as a percentage of the total pension liability	61.19%	59.1%

Schedule of Tacoma Community College's Share of the Net Pension Liability Public Employees' Retirement (PERS) Plan 2/3 Measurement Date June 30		
	2014	2015
College's proportion of net pension liability	.087035%	.085667%
College's proportionate share of the net pension liability	1,759,292	1,731,640
College covered payroll	7,446,927	7,590,237
College's proportionate share of the net pension liability as a percentage of its covered payroll	23.62%	22.81%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%	89.20%

Required Supplementary Information

Schedule of Tacoma Community College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 1 Measurement Date June 30		
	2014	2015
College's proportion of net pension liability	.022661%	.024741%
College's proportionate share of the net pension liability	668,376	729,724
College covered payroll	0	0
College's proportionate share of the net pension liability as a percentage of its covered payroll	0	0
Plan's fiduciary net position as a percentage of the total pension liability	68.77%	65.70%

Schedule of Tacoma Community College's Share of the Net Pension Liability Teachers' Retirement System (TRS) Plan 2/3 Measurement Date June 30		
	2014	2015
College's proportion of net pension liability	.024435%	.026239%
College's proportionate share of the net pension liability	78,922	84,749
College covered payroll	1,032,375	1,220,607
College's proportionate share of the net pension liability as a percentage of its covered payroll	7.64%	6.94%
Plan's fiduciary net position as a percentage of the total pension liability	96.81%	92.48%

Schedules of Contributions

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 Payroll	Contributions as a Percentage of Covered Payroll
2014	15,546	15,546	-0-	168,868	9.21%
2015	18,942	18,942	-0-	205,669	9.21%
2016	11,745	11,745	-0-	105,049	11.18%

Required Supplementary Information

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 Payroll	Contributions as a Percentage of Covered Payroll
2014	685,719	685,719	-0-	7,446,927	9.21%
2015	698,927	698,927	698,927	7,590,237	9.21%
2016	1,017,696	1,017,696	-0-	9,102,838	11.18%

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 Payroll	Contributions as a Percentage of Covered Payroll
2014	-0-	-0-	-0-	-0-	0.00%
2015	-0-	-0-	-0-	-0-	0.00%
2016	-0-	-0-	-0-	-0-	0.00%

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 Payroll	Contributions as a Percentage of Covered Payroll
2014	107,216	107,216	-0-	1,032,375	10.39%
2015	126,821	126,821	-0-	1,220,607	10.39%
2016	207,667	207,667	-0-	1,581,622	13.13%

ADDITIONAL AUDITOR'S REPORT

IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

CN

T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Clark Nuber PS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the Board of Trustees
Tacoma Community College
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Tacoma Community College (the College), which comprise the statement of financial position as of and for the year ended June 30, 2016, and the related statement of revenues, expenses and changes in net position and statement of cash flows and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 8, 2017.

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

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, 2016, 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.

CN
T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, that we consider to be significant deficiencies as items 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Clark Nuber PS

Purpose of This Report

The purpose of this report is solely to described the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark Nuber P.S.

Certified Public Accountants
November 8, 2017

TACOMA COMMUNITY COLLEGE

Schedule of Findings
For the Year June 30, 2017

Finding 2016-001 - Significant Deficiency in Internal Control Over Financial Reporting

Issue:	We noted that there were not sufficient internal controls over the accounts payable process (procure-to-pay), primarily related to segregation of duties and approval thresholds.
Recommendation:	We recommend the College conduct an annual risk assessment and review and monitor its internal control processes and procedures to ensure proper segregation of duties and maintaining an effective control environment.

Finding 2016-002 - Significant Deficiency in Internal Control Over Financial Reporting

Issue:	We noted during the audit that due to the implementation of ctcLink and PeopleSoft as well as staff turnover, the June 30, 2016 fiscal year was not closed until July 2017. We further noted that this resulted the delay of account reconciliations and also the timeliness of accurate financial reporting to the College's Board of Trustees.
Recommendation:	We recommend the College continue to work on resolving these issues with the Washington State Board of Community and Technical Colleges (SBCTC).

2016 Graduation Day

Tacoma Community College

Tacoma Community College
6501 South 19th Street
Tacoma, WA 98466

tacomacc.edu