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Office of the President August 16, 2016

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Ms. Sandra Elman,  
Executive Director,  
Northwest Commission on Colleges and Universities (NWCCU)  
8060 165<sup>th</sup> Ave. N.E., Suite 100  
Redmond, WA 98052-3981

Re: Tacoma Community College – Fall 2016 Special Report

Dear Ms. Elman,

As requested in the NWCCU Notification Letter dated July 8, 2016 Tacoma Community College is submitting its Fall 2016 Special Report, due October 1, 2016 including its financial statements, audit, and evidence of governing board review in fulfillment of Recommendation 2 of the Spring 2014 Year Seven *Mission Fulfillment and Sustainability* Peer-Evaluation Report regarding Eligibility Requirement 19 and Standard 2.F.7.

Tacoma Community College is providing financial information that “in the opinion of [TCC’s] chief administrative officer constitutes evidence (‘New Evidence’) that (a) was not available to the institution at the time the Commission voted for the adverse accrediting action, and (b) is deemed to be so substantial and material that had it been available it is likely to have had a bearing on the decision of the Commission to issue an adverse accrediting action, and (c) the only remaining deficiency cited by the Commission in support of a final adverse action decision is the institution’s failure to meet a Commission standard pertaining to finances.”

Please acknowledge receipt of this report and if you have questions please contact me directly to discuss.

Sincerely,

A handwritten signature in black ink that reads 'Sheila Ruhland'.

Sheila Ruhland, Ph.D.  
President

Attachments: 2014-15 Audited Financial Statements  
2013-14 Audited Financial Statements  
Fall 2016 Special Report

Cc: Timothy Gould, Vice President for Administrative Services  
Dr. Tod Treat, Executive Vice President for Academic and Student Affairs  
Dr. Mecca Salahuddin, Accreditation Liaison, Dean of Organizational Learning & Effectiveness



## **Fall 2016 Special Report**

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*Prepared for  
The Northwest Commission on Colleges and Universities*

**Tacoma Community College  
August 16, 2016**

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# Fall 2016 Special Report

## Introduction

Tacoma Community College is providing this Special Report in response to the Northwest Commission on College and Universities (NWCCU) letter dated July 8, 2016 to address Recommendation 2 of the *Year Seven Mission Fulfillment and Sustainability Peer -Evaluation Report*, noted below:

*Recommendation 2: The evaluation committee recommends that for each year of operation, the College undergo an external financial audit and that the results from such audits, including findings and management letter recommendations, be considered in a timely, appropriate and comprehensive manner by the Board of Trustees (Eligibility Requirement 19 and Standard 2.F.7)*

*The Commission determined that Recommendation 2 is an area where Tacoma Community College does not meet the Commission's criteria for accreditation according to U.S. Department of Education Regulation 34 CFR 602.20 and Commission Policy, Commission Action Regarding Institutional and Sustainability. The Commission has requested this recommendation be addressed and resolved within a two-year period.*

In its September 2015 Ad Hoc Report , Tacoma Community College provided a status of the College's Financial Audit indicating that the financial statements were scheduled to be audited during the 2015-2016 fiscal year by the Washington State Auditor's Office (SAO). In the Ad Hoc Report dated May 2016 (Appendix C), Tacoma Community College reported that the Washington State Auditor's Office (SAO) had completed its work on the 2013-2014 and 2014-2015 Financial Statements. As of submission of the May 2016 Ad Hoc Report the College had not received the official audit/management report from the SAO team.

## Tacoma Community College Update on Recommendation 2

On June 30, 2016, Tacoma Community College received its official Financial Audit Reports for FY 2014 and FY 2015. On July 13, 2016, the College's President and the Board of Trustees reviewed and discussed the findings and management letter recommendations. All recommendations issued by the Washington SAO have been or are in the process of being implemented by the College. Tacoma Community College has scheduled an annual financial audit to be completed every Spring quarter. Accordingly, Tacoma Community College has met the requirements of Recommendation 2 as outlined in Eligibility Requirement 19 and Standard 2.F.7.

## Management Letter Findings and College's Corrective Action

For both FY2014 and FY2015, the SAO found three errors in the College's financial statements that were due to turnover in key finance positions post fiscal year 2014 while the College was in the midst of a major system conversion and simultaneously preparing financial statements. The SAO indicated the College was proactive in making these

corrections in their final financial statements. Below are the auditor's recommendations and the College's Corrective Actions:

Recommendation #1 – Thoroughly review all capital assets to ensure accurate useful lives are used in calculating depreciation, and make the appropriate adjustments.

***College's Corrective Action – Prior to converting capital asset data from Legacy to PeopleSoft, the College will thoroughly review the useful lives for all capital assets making any necessary adjustments.***

Recommendation #2 – Dedicate the necessary resources to ensure the financial statements are prepared timely and accurately in accordance with generally accepted accounting principles (GAAP).

***College's Corrective Action – The Financial Services Department (FSD) has requested additional staffing in order to assure accurate and timely financial statements***

Recommendation #3 – Establish a process to thoroughly review the financial statements prior to submission. The College may wish to develop an internal checklist or other reviewing tool.

***College's Corrective Action – The College's new ERP system will automate many processes and procedures to increase accuracy in financial reporting. This tool will be used to prepare all financial statements going forward beginning in the 2016 fiscal year.***

### **Analysis of the College's Net Position**

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, and net assets at year-end and includes all assets and liabilities of the College. The College is required by accounting standards to report its net position in four categories:

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

*Restricted*. These monies are resources collected with student tuition set aside for the purpose of creating an institutional financial aid fund, required by RCW 288.15.820.

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

## Analysis of the College's Net Position for FY2014

A condensed version of the Statement of Net Position for FY2014 is as follows:

Condensed Statement of Net Position		
As of June 30th	FY 2014	
<b>Assets</b>	<b>College</b>	<b>Foundation</b>
Current Assets	\$27,372,586	\$4,701,604
Capital Assets, net	\$67,839,866	—
Other Assets, non-current	\$31,075,940	\$5,500,920
<b>Total Assets</b>	<b>\$131,259,320</b>	<b>\$10,202,524</b>
<b>Liabilities</b>		
Current Liabilities	\$7,318,048	\$156,553
Other Liabilities, non-current	\$4,827,072	—
<b>Total Liabilities</b>	<b>\$12,145,119</b>	<b>\$156,553</b>
<b>Net Position</b>	<b>\$119,114,201</b>	<b>\$10,045,971</b>

Current assets consist primarily of cash, short-term investments, various accounts receivables, inventories and prepaid expenses.

Net capital assets increased by \$5.6 Million from FY 2014 to FY 2015. After taking into consideration current depreciation expense of \$2.9 million the majority of the increase is the result of the construction in progress (CIP) for the Harned Health Center, which was completed July 13, 2013.

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.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt. Net position represents the value of the College's assets after liabilities are deducted.

## Analysis of the College's Net Position for FY2015

A condensed version of the Statement of Net Position for FY2015 along with a comparison to FY2014 is as follows:

Condensed Statement of Net Position		FY 2015		FY 2014		Change	
As of June 30th							
Assets		College	Foundation	College	Foundation	College	Foundation
Current Assets		\$31,988,641	\$2,735,187	\$27,372,586	\$4,701,604	-\$4,616,055	\$1,966,417
Capital Assets, net		\$68,694,088	—	\$67,839,866	—	-\$854,222	—
Other Assets, non-current		\$35,864,781	\$5,497,153	\$31,075,940	\$5,500,920	-\$4,788,841	\$3,767
<b>Total Assets</b>		<b>\$142,032,377</b>	<b>\$8,232,340</b>	<b>\$131,259,320</b>	<b>\$10,202,524</b>	<b>-\$10,773,057</b>	<b>\$1,970,184</b>
Liabilities							
Current Liabilities		\$8,729,197	\$94,649	\$7,318,048	\$156,553	-\$1,411,149	\$61,904
Other Liabilities, non-current		\$10,697,559	—	\$4,827,072	—	-\$5,870,487	—
<b>Total Liabilities</b>		<b>\$19,426,756</b>	<b>\$94,649</b>	<b>\$12,145,119</b>	<b>\$156,553</b>	<b>-\$7,281,637</b>	<b>\$61,904</b>
<b>Deferred Inflows</b>		<b>\$2,611,000</b>					
<b>Deferred Outflows</b>		<b>\$1,024,000</b>					
<b>Net Position</b>		<b>\$121,018,621</b>	<b>\$8,137,691</b>	<b>\$119,114,201</b>	<b>\$10,045,971</b>	<b>-\$1,904,420</b>	<b>\$1,908,280</b>

Net position for the college increased by \$1.9 million between 2014 and 2015 due primarily to an increase in Current Assets of \$4.6 million and construction in progress (CIP) of \$4.8 million with simultaneous decreases increases in Current liabilities of \$1.4 million and other, non-current liabilities of \$5.9 million.

An increase in cash and cash equivalents of \$5.5 million drove the increases in current assets, which was aided by reducing the outstanding accounts receivables by \$839,000 and increasing the accounts payable by \$471,000. However, for the most part, the increases in current assets were a result of the increase in net operating revenue from \$40.6 million in 2014 to \$45.0 million in 2015.

**Appendix A. 2013-2014 TCC Audited Financial Statements**

See Attachment



## Appendix B. 2014-2015 TCC Audited Financial Statements

See Attachment

## Appendix C. May 12, 2016. Ad Hoc Report for Recommendation 2

### **Ad Hoc Report** **(2<sup>nd</sup> Ad Hoc Report on Recommendation 2)**

#### **Introduction**

This Ad Hoc Report is the Tacoma Community College's second report in response to Recommendation 2 as outlined in a letter dated July 17, 2014 where the Northwest Commission on College and Universities (NWCCU) reaffirmed the accreditation of Tacoma Community College (TCC) based on its spring 2014 Year Seven *Mission Fulfillment and Sustainability* Peer- Evaluation report. Also in the letter, the Commission requested the College address Recommendation 2 of the Peer Evaluation.

#### *Recommendation 2:*

"The evaluation committee recommends that for each year of operation, the College undergo an external financial audit and that the results from such audits, including findings and management letter recommendations, be considered in a timely, appropriate and comprehensive manner by the Board of Trustees (Eligibility Requirement 19 and Standard 2.F.7)"

The Commission determined that Recommendation 2 is an area where Tacoma Community College does not meet the Commission's criteria for accreditation according to U.S. Department of Education Regulation 34 CFR 602.20 and Commission Policy, *Commission Action Regarding Institutional and Sustainability*. The Commission has requested this recommendation be addressed and resolved within a two-year period.

In the September 2015 Fall Ad Hoc Report, Tacoma Community College provided a status of the College's Financial Audit (Appendix A). Stated in the report, the college indicated the financial statements were scheduled to be audited during the 2015-2016 fiscal year. Following is an update on actions that have been taken since the Fall Ad Hoc Report to address Recommendation 2.

#### **Update on Recommendation 2**

Tacoma Community College is pleased to report the auditing and completion of our 2013-2014 and 2014-2015 Financial Statements by our SAO during April and May 2016. At this time, the College has not received the official audit/management report from the SAO team.

#### **Upcoming Plans to Address Recommendation 2**

Once the College has received the official Audit Report, the President and the Board of Trustees will review the findings and management letter at a Board of Trustees meetings. Upon the completion of the review by the President and Board of Trustees, we will submit an addendum report to NWCCU that will include the Audit Report findings and

management letter. The addendum will also include any SAO's recommendations and the College's plans for addressing these recommendations.

## **Conclusion**

Given the two-year time frame prescribed in the NWCCU reaffirmation letter to address and resolve Recommendation 2, TCC will provide another update on the results of both the 2013-2014 and 2014-2015 audits to ensure we remain in compliance with the Commission's *Standards* and *Eligibility Requirements*. In addition, the SAO has now scheduled regular annual audits for the College that will be completed in the Fall Quarter of each year after the end of each Fiscal Year (June 30<sup>th</sup>) to ensure we continue to comply with the Commission.