Tacoma Community College

2017 Comprehensive
Annual Financial Report

Tacoma Community College College, located in Tacoma, Washington

Libeti Omelanchuk and TCC Accounting Instructor Matthew Mburu

Acknowledgements to the College's Financial Services staff for producing this report.

Tacoma Community College
2017 Financial Report

Campus Commons

TACOMA COMMUNITY COLLEGE

Trustees and Administrators

TACOMA COMMUNITY COLLEGE

August 29th, 2018

James Curtis, Board Chair
Board of Trustees
Tacoma Community College
Tacoma, WA 98466

Dear Chair Curtis:

I am proud to submit our 2017 Annual Financial report of Tacoma Community College to the Board of Trustees. Management assumes full responsibility for the content and accuracy of this report.

Tacoma Community College (TCC) was one of the first three colleges in the State Board for Community and Technical Colleges to convert from Legacy FMS to the ctclink PeopleSoft system in August of 2015. Three years after the launch, we are at the forefront of the ctclink project, demonstrating how the new system can help other community and technical colleges meet their financial reporting responsibilities.

Our 2017 report serves as a reminder of the responsibility we have as stewards of public resources. Such a financial audit provides the public confidence in our management of college and state resources. Our auditor has issued another clean (unmodified) opinion on the College's Financials. The *Management Discussion and Analysis,* which follows the Independent Auditor's Report, provides the reader a better understanding of our financial position and operation results of the College's most recent fiscal year.

As we begin a new academic year, I am pleased to inform you we are well positioned to meet the needs of students and community.

Sincerely,

Ivan L. Harrell ll, Ph.D, President

Clark Nuber PS

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 unit of the Tacoma Community College (the College), which comprise the statement of financial position as of June 30, 2017, 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, 2017, 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, 2017, 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.

Clark Nuber PS

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2018 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
August 29, 2018

Tacoma Community College

The objective of this Management Discussion and Analysis (MD&A) is to help readers of Tacoma Community College's financial statements better understand the financial position and operating activities for the year ended June 30, 2017 with comparative information for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section. Unless otherwise stated, all years refer to the fiscal year ended June 30th.

The Tacoma Community College financial report communicates financial information for Tacoma Community College and its' discretely presented component unit, the Tacoma Community College Foundation. The College is an agency of the State of Washington, and the financial information contained in this report is included in the State of Washington's Comprehensive Annual Financial Report (CAFR) for 2017.

Reporting Entity

Tacoma Community College is one of 34 public institutions of higher education in the State of Washington overseen by the State Board for Community and Technical Colleges (SBCTC). The College is governed by a Board of five Trustees, which has broad responsibilities to supervise, coordinate, manage and regulate the College as provided by state law. Trustees are appointed by the Governor for a term of five years, with consent of the Senate.

The College offers associate degrees and certificates in a variety of programs, and a baccalaureate degree in Health Information Management, and starting in with Fall quarter 2018, the College will be offering a baccalaureate degree in Community Health.

The College first opened its doors to students in 1965 and currently averages approximately 13,700 full-time and part-time students each year. The College's main campus is located in Tacoma, and serves Pierce County with a population of over 850,000, and has a satellite campus in Gig Harbor.

Using the Financial Statements

The College reports as a special purpose government, engaged in business-type activities as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*, as amended. Under this model, the financial report includes three financial statements, the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted accounting standard setting body for establishing governmental accounting and financial reporting principles.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires a college to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under this requirement, the Tacoma Community College Foundation is a component unit of the College and their financial statements are discretely presented into this financial report.

The College's Financial Position

The statement of net position provides information about the College's financial position at the end of the year. It displays all of the College's assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position.

A condensed comparison of the Statements of Net Position as of June 30, 2017 and 2016, follows:

Condensed Statements of Net Position As of June 30 (Dollars in thousands)	2017	2016
ASSETS		
Current assets	$ 35,524	$ 41,025
Capital assets	114,947	108,727
Other non-current assets	6,545	5,504
Total assets	157,016	155,256
DEFERRED OUTFLOWS	2,247	1,544
LIABILITIES		
Current liabilities	12,113	11,455
Other non-current liabilities	24,173	25,366
Total liabilities	36,286	36,821
DEFERRED INFLOWS	1,160	1,206
NET POSITION	$ 121,817	$ 118,773

Current assets consist of cash, accounts receivable and inventories. The $5.5 million decrease from 2016 to 2017 was mainly the result of the near completion of the Health and Wellness Center renovation in 2017. A slight increase in inventories occurred, as the College Bookstore stocked for the 2017 summer quarter.

Capital assets increased by a net of $6.2 million in 2017, mainly the result of the Health and Wellness Center renovation, with its completion in the summer of 2017. The College recorded $3.6 million in depreciation expense in 2017 on its capital assets, an increase of about a quarter million dollars from 2016. More information on the College's capital assets can be found in footnote 7 to the financial statements.

Non-current assets increased by $1 million in 2017, of which half of this the result of the College's recording of its investment in INVISTA, a joint venture with Pierce and Clover Park Technical Colleges for a corporate education partnership, and the other half for restricted cash associated with contractor retainage held in an escrow account. More information on the INVISTA joint venture can be found in footnote 19 to the financial statements.

Deferred outflows for 2017 increased as a result of changes between projected versus actual earnings on pension plan investments. More information can be found on this in footnotes 16 and 17 to the financial statements.

Current liabilities include accounts payable, accrued payroll and associated liabilities and unearned revenues. The slight increase for 2017 were mainly due to the timing of the payments of liabilities for fiscal year 2017 for building and innovation fees owed the state of Washington.

Other non-current liabilities are made up of pension liabilities, long-term portion of debt and compensated absences. The $1.2 million decrease for 2017 was mainly due to the College's classification of the vacation component of compensated absences to current to better reflect that this liability must be used and its limit capped whereas the sick leave component of compensated absences has no limit, and when an employee retires, the employee can transfer this balance to a VEBA account, and further discussed in note 8 to the financial statements. The implementation of Government Accounting Standards Board (GASB) statement No. 73, effective for the year ended June 30, 2017, which required the inclusion of the College's proportionate share of the State Board Retirement Plan (SBRP) total pension liability, in addition to this liability, the College recorded its proportionate share of the SBRP deferred outflows at June 30, 2017. The result of the implementation of GASB Statement No. 73, required that beginning net position at July 1, 2016 be restated. More information on this can be found in footnotes 1, 16 and 17 to the financial statements.

Net position represents the College's assets plus deferred outflows, less liabilities and deferred inflows, and measures whether the financial condition has improved or worsened during the year. The College reports its net position in three categories:

Net investment in capital assets – This is the College's total investment in property, plant and equipment, net of accumulated depreciation and any outstanding debt attached to its capital assets. To the extent of restricted cash and cash equivalents for capital projects collected, but not yet spent, these amounts are not included as a component of capital assets, instead are included as a component of restricted net position, expendable described below.

Restricted net position, expendable – Includes resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by the donor or external parties.

Unrestricted net position – These represent all the other resources available to the College for general and educational obligations to meet expenses for any lawful purpose. Unrestricted net positon is not subject to externally imposed stipulations, however the College has designated the majority of the unrestricted net position for various academic and support functions.

Condensed Net Position

As of June 30 (Dollars in thousands)	2017	2016
Net investment in capital assets	$ 103,697	$ 96,959
Restricted expendable	3,457	4,760
Unrestricted	14,663	17,054
Total Net Position	$ 121,817	$ 118,773

Several factors are involved in the change in net position, 1) the $6.8 million increase in net investment in capital assets is the result of the near completion of the Health and Wellness Center renovation in 2017, along with the payment of a portion of its associated debt in 2017, and depreciation expense and 2) the $2.4 million decrease in unrestricted net position in 2017 was the mainly the result of the implementation of GASB Statement No. 73, which itself resulted in a $4.1 million decrease to unrestricted net position.

Statements of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position provides information about the details of the changes in the net position of the College. The statement classifies revenues and expenses as either operating or non-operating. Generally, operating revenues are revenues that are earned by the College in exchange for providing goods or services. Operating expenses are defined as expenses incurred in the normal operation of the College, including a provision for the depreciation of property and equipment assets. The difference between the operating revenues and operating expenses, will always result in an operating loss since the College's state operating appropriations, and Federal Pell grant revenues are shown as non-operating revenues as required by the GASB. A summary of the College's Statements of Revenue, Expenses and Changes in Net Position for the years ended June 30, 2017 and 2016, follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30 (dollars in thousands)	2017	2016
Operating revenues	$ 38,186	$ 39,439
Operating expenses	69,721	68,560
Net operating loss	(31,535)	(29,121)
Non-operating revenues	35,022	32,159
Non-operating expenses	2,987	2,217
Income before capital appropriations	500	821
Capital appropriations	2,544	1,005
Increase in net position	3,044	1,826
Net position, beginning of year (as restated)	118,773	116,947
Net position, end of year	$ 121,817	$ 118,773

Operating and Non-Operating Revenues

State operating appropriations, tuition and fees (net of scholarship discounts and allowances), and grants and contracts, are the primary sources for funding the College’s academic programs.

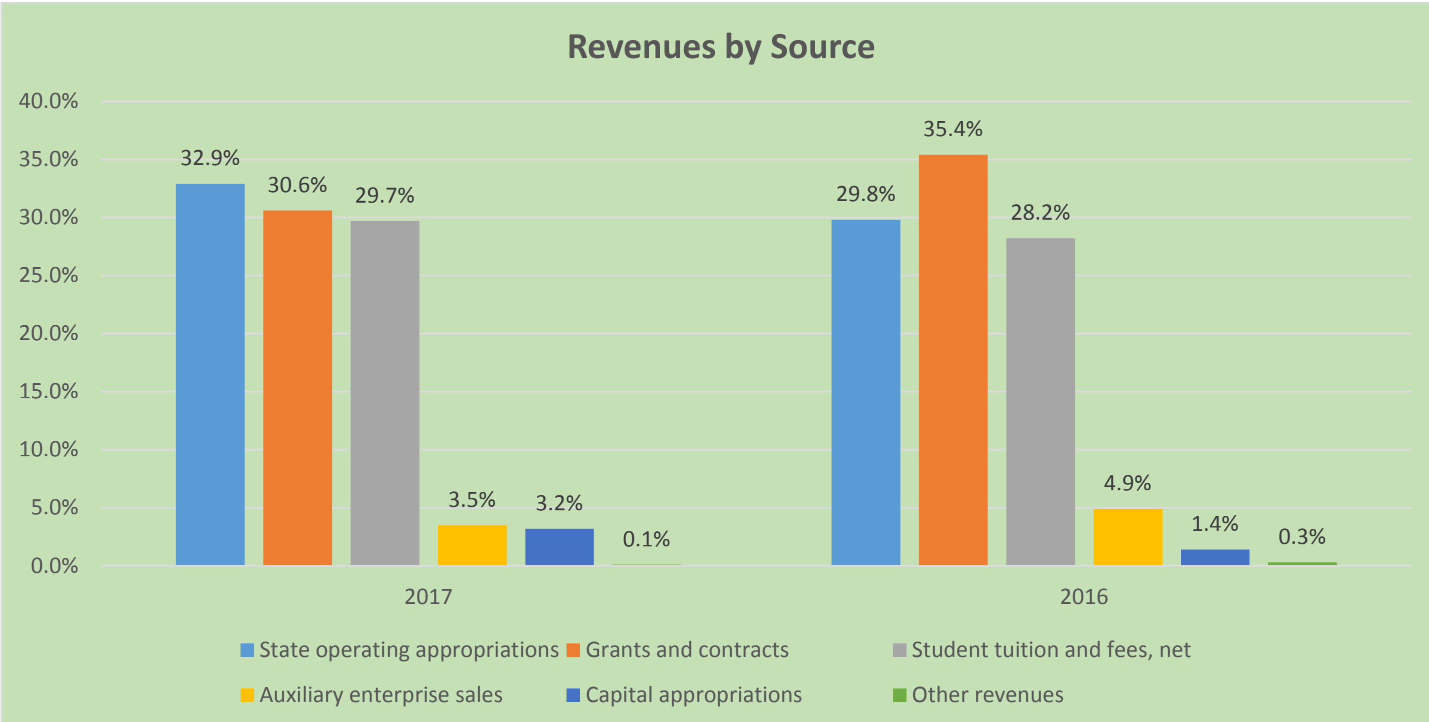
The following table shows a comparison of operating and non-operating revenues for years ended June 30, 2017 and 2016:

Revenues by Source

For the years ended June 30 (dollars in thousands)	2017	2016
Operating		
Student tuition and fees, net	$ 20,308	$ 20,477
Grants & contracts	15,107	15,381
Auxiliary enterprise sales, net	2,754	3,526
Other revenues	17	55
Non-operating		
State operating appropriations	25,909	21,614
Capital appropriations	2,544	1,005
Grants & contracts	9,051	10,361
Investment income	62	184
Total revenues	$ 75,752	$ 72,603

Revenues remained fairly consistent between the years, the notable exceptions are state operating appropriations that were up by $4.3 million in 2017, due to increase state allocations, and a slight decrease in auxiliary revenues, and a $1.3 million decrease in non-operating grants & contract revenue, i.e. Federal Pell because of reduced enrollment in 2017, and a $1.5 million increase in state capital appropriations, which is a function of state capital appropriations spending by the College.

The following illustration shows revenue by source, both operating and non-operating used to fund the College's programs for the years ended June 30, 2017 and 2016, in percentage terms:

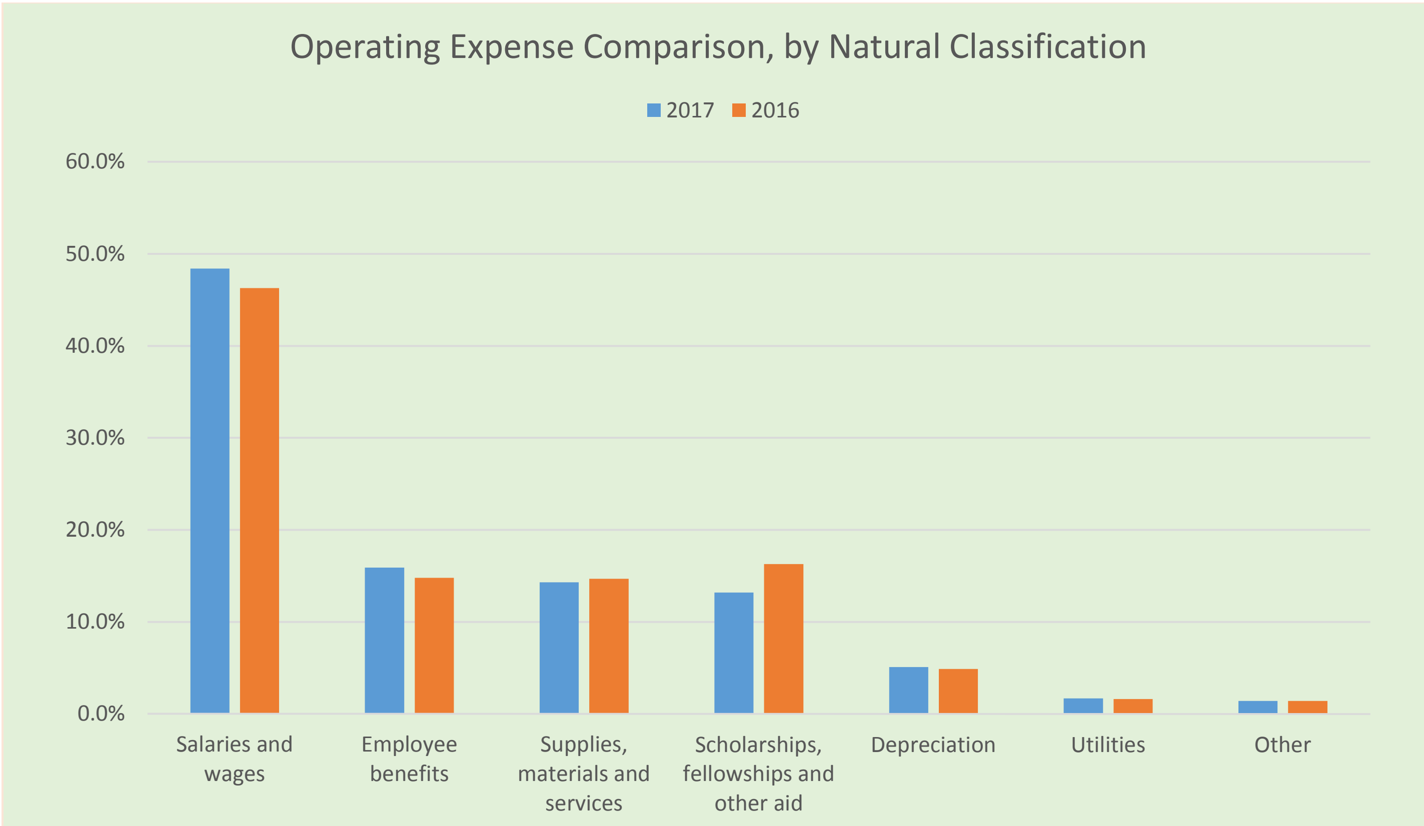


Operating Expenses

Operating expenses for 2017 increased by $1.2 million over 2016. Several factors were involved in this increase, 1) increased spending of $3 million for salaries and employee benefits for cost of living increases and higher employer healthcare costs, while 2) a $1.9 million decrease for scholarships, fellowships and other aid, is the result of decreased enrollments for 2017. Operating expenses, for 2017 and 2016 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages:

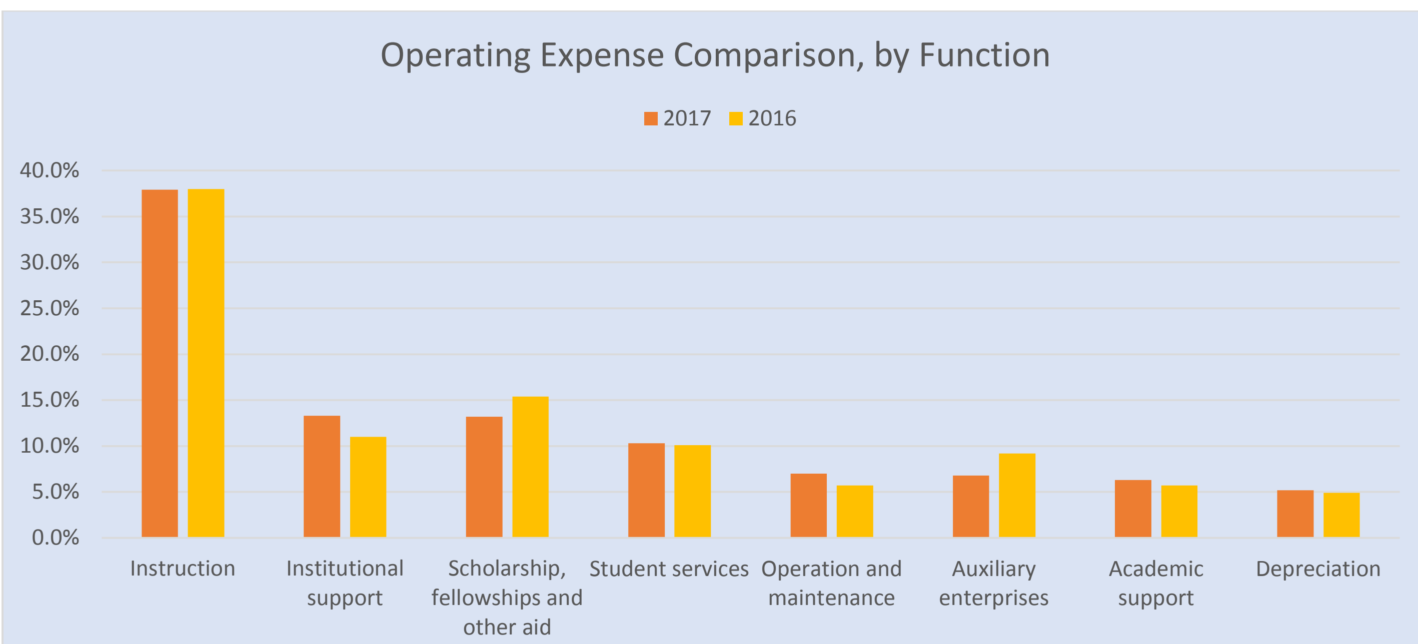
Operating Expenses

For the years ended June 30 (dollars in thousands)	2017	2016
Salaries and wages	$ 33,706	$ 31,744
Employee benefits	11,090	10,174
Supplies, materials and services	9,971	10,092
Scholarships, fellowships and other aid	9,226	11,147
Depreciation	3,587	3,339
Utilities	1,167	1,078
Other	974	986
Total operating expenses	$ 69,721	$ 68,560



Salaries and wages, supplies materials and services, benefits are the major support cost for the College's programs, followed by scholarships, fellowships and other aid.

The following chart shows functional reporting of expenses, in percentage terms, for 2017 and 2016.



Capital Improvements and Related Debt

The College spent about $10 million for capital related purposes in 2017, primarily for the construction of the Health and Wellness Center, for which the College entered into certificate of participation (COP) with the Washington State Treasurer in October 2015 in the amount of $9.7 million, and repayment fund by student assessed fees. With a total cost of about $15 million, construction was completed on the Health and Wellness Center in the summer of 2017. More information on this can be found in footnote 9 to the financial statements.

Financial Summary and Economic Factors That Will Affect the Future

Overall, the state of Washington's (WA) economy is stronger than the United States (U.S.) as a whole, as per capita personal income has been growing faster than the U.S., and is expected to continue to grow slightly faster than the U.S., but not all parts of the state are equal, as outside the Seattle Metro area, most other WA metro areas lag behind the U.S. in personal income growth. To illustrate, 60% of the recent statewide employment growth was in the Seattle metro area, and while WA employment is expected to grow faster than the U.S., both are forecasted to slow. Residential construction activity is mixed in WA, with a higher than historical number of building permits, though the percentage of these building permits are lower than average for multi-family dwellings, factoring that the state's population growth is higher than the national average, resulting in continued pressure on housing costs. This all bodes well for revenue collections for WA, and the ability of WA to fund important social, health and educational programs.

While a strong state and national economy are generally good, along with low levels of unemployment, this has a negative effect on higher education enrollment, as typically students are driven to higher education when job prospects are weaker. Also, the College is one of the pilot colleges that has implemented ctcLink, a PeopleSoft ERP, three years ago. While making some progress, ctcLink continues to have technical and functional issues that are adversely affecting the College's operations and student's experience using ctcLink. Therefore, it is not surprising that the College has experienced declining enrollments for the last several years, and expects to continue to have declining enrollment, in part because of ctcLink related issues. The College has recently hired Ivan L. Harrell, Ph.D. as its new President earlier this year, and with President Harrell's Leadership team, and support from the Board of Trustees, we are addressing these and other issues facing the College.

Statement of Net Position

June 30, 2017

Assets	College	Foundation
Current Assets		
Cash and cash equivalents	$ 19,130,545	$ 3,249,713
Accounts receivable, net	15,722,445	61,037
Inventories	661,891	-
Prepaid expenses	9,538	10,946
Total current assets	35,524,419	3,321,696
Non-Current Assets		
Restricted cash and cash equivalents	560,957	-
Other (INVISTA)	565,241	-
Investments	5,418,448	5,618,245
Land and construction in progress	16,828,872	-
Capital assets, net of depreciation	98,118,357	-
Total non-current assets	121,491,875	5,618,245
Total Assets	157,016,294	8,939,941
Deferred Outflows (related to pension and retirement plans)	2,247,610	-
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	9,181,906	602,834
Compensated absences	1,233,377	-
Unearned revenues	1,272,774	-
Current portion of notes payable	425,000	-
Total current liabilities	12,113,057	602,834
Non-Current Liabilities		
Compensated absences	1,134,542	-
Long-term portion of notes payable	10,824,763	-
Net pension liability (PERS and TRS plans)	8,943,532	-
Total pension liability (SBRP)	3,270,443	-
Total non-current liabilities	24,173,280	-
Total Liabilities	36,286,337	602,834
Deferred Inflows (related to pension and retirement plans)	1,160,354	-
Net Position		
Net investment in capital assets	103,697,466	-
Restricted:		
Nonexpendable	-	3,609,663
Expendable	3,456,747	4,427,019
Unrestricted	14,663,000	300,425
Total Net Position	$ 121,817,213	$ 8,337,107

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2017

	College	Foundation
Operating Revenues		
Student tuition and fees	$ 30,496,917	$ -
(Less scholarship discounts and allowances)	(10,188,891)	-
State and local grant and contracts	14,066,220	717,046
Auxiliary enterprise sales	2,754,032	-
Federal grants and contracts	1,040,592	-
Contributions	-	671,357
Other operating revenues	16,780	70,807
Total operating revenue	38,185,650	1,459,210
Operating Expenses		
Salaries and wages	33,705,627	-
Employee benefits	11,090,277	-
Supplies, materials and services	9,970,856	-
Scholarships, fellowships and other aid	9,226,311	-
Depreciation	3,587,279	-
Administrative expenses	-	2,322,168
Utilities	1,166,375	-
Other	974,310	-
Total operating expenses	69,721,035	2,322,168
Operating loss	(31,535,385)	(862,958)
Non Operating Revenues (Expenses)		
State operating appropriations	25,908,558	-
Federal Pell grant revenue	9,051,390	-
Investment income	61,836	669,823
Interest expense	(376,486)	-
Tuition remittance	(2,610,180)	-
Net non operating revenues	32,035,118	669,823
Gain before capital appropriations	499,733	(193,135)
Capital appropriations	2,543,962	-
Increase in net position	3,043,695	(193,135)
Net Position		
Net position, beginning of year, as previously reported	122,845,211	8,530,242
Cumulative effect of change in accounting principle (Note 1)	(4,071,693)	-
Net position, beginning of year, as restated	118,773,518	8,530,242
Net position, end of year	$ 121,817,213	$ 8,337,107

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended June 30, 2017

	College
Cash Flows From Operating Activities	
Student tuition and fees, net	$ 19,190,682
Grants and contracts	17,093,261
Auxiliary enterprise sales, net	2,588,232
Other revenues	16,780
Payments for employees	(45,010,746)
Payments to vendors	(13,520,935)
Payments for scholarships and fellowships	(9,226,311)
Net cash used by operating activities	(28,869,037)
Cash Flows From Noncapital Financing Activities	
State appropriations	24,333,287
Federal Pell grant receipts	9,051,390
Tuition remittance to the State	(954,843)
Net cash provided by noncapital financing activities	32,429,834
Cash Flows From Capital Related Financing Activities	
Capital appropriations	2,400,245
Purchase of capital assets	(9,807,834)
Principal paid on capital debt	(450,000)
Interest paid on capital debt	(444,569)
Net cash used by capital related financing activities	(8,302,158)
Cash Flows From Investing Activities	
Purchase of investments	(2,004,337)
INVISTA	(565,241)
Sales and maturities of investments	2,000,000
Investment income	152,005
Net cash used by investing activities	(417,573)
Decrease in Cash and Cash Equivalents	(5,158,934)
Cash and Cash Equivalents, Beginning of Year	24,850,436
Cash and Cash Equivalents, End of Year	$ 19,691,502
Reconciliation of Cash and Cash Equivalents:	
Cash and cash equivalents	$ 19,130,545
Restricted cash and cash equivalents	560,957
Total cash and cash equivalents	$ 19,691,502

The accompanying notes are an integral part of these financial statements.

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	$	(31,535,385)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense		3,587,279
Changes in assets, liabilities and deferrals		
Accounts receivable		1,667,231
Inventories		(158,195)
Compensated absences		134,132
Accounts payable and accrued expenses		(1,241,661)
Pension obligations		400,282
Deferred resources		(749,256)
Prepaid expenses		(9,538)
Unearned revenues		(963,926)
Net cash used by operating activities	$	(28,869,037)

Supplemental Non Cash Activities Information:

Change in Due from State Treasurer (Capital related)	$	143,717
Change in Due from State Treasurer (Noncapital related)		1,575,271
Change in Due to State Treasurer (Noncapital related)		(1,655,237)

Notes to the Financial Statements

June 30, 2017

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

Tacoma Community College ("College") is a comprehensive community college offering open-door academic transfers, workforce education and basic skill programs as well as community service and continuing education courses. The College confers applied baccalaureate degrees, associate degrees, certificates and high school diplomas. The College is an agency of the State of Washington, and is governed by a five-member Board of Trustees appointed by the Governor with consent by the state Senate.

The financial activity of the College is included in the State's Comprehensive Annual Financial Report.

Financial Statement Presentation

The financial statements of the College as of, and for the year ending June 30, 2017 have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted accounting standard setting body for establishing governmental accounting and financial reporting principles. These financial statements have been prepared in accordance with GASB Statement No. 35*, Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*, and GASB Statements No. 37 and No. 38.

The Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amended GASB Statement No. 14, *The Financial Reporting Entity*. This provides additional guidance to determine whether certain organizations are component units for which the primary government is not financially accountable but should be reported based on the nature and significance of their relationship with the primary government.

Under GASB Statement No. 39 criteria, the Tacoma Community College Foundation ("Foundation") is considered a legally separate component unit of the College, and its financial statements are discretely presented in the College's financial statements. Inter-entity transactions and balances between the College and Foundation are not eliminated for financial statement presentation purposes.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 and as such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

New Accounting Pronouncements Implemented by the College, Effective July 1, 2016

The Governmental Accounting Standards Board (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*, effective for the year ended June 30, 2017.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

The effect of Statement No. 73 to the College requires the recognition of a proportionate share of the State Board Retirement Plan (SBRP) total pension liability, deferred inflows and deferred outflows, if any, and to restate net position for all periods, record the actuarial determined pension expense, along with associated required supplementary information and is addressed in Notes 16 and 17 to the financial statements and required supplementary information.

The Governmental Accounting Standards Board (GASB) issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No.67, No. 68, and No. 73*, effective for the year ended June 30, 2017.

Prior to issuance of this Statement, Statements 67 and 68 required the presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plans, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered-employee payroll, defined as the payroll which contributions to pension plans are based, and the ratios that use that measure.

The College has evaluated the effect of this Statement on financial reporting, and has modified the presentation of information presented in the Required Supplementary Information section of this report to comply with the provisions of this Statement.

Change in Accounting Principle

Net position, as of July 1, 2016, has been restated for the implementation of GASB Statement No. 73:

Net Position as previously reported at June 30, 2016:	$	122,845,211
Prior Period Adjustment:		
Total Pension Liability		(4,071,693)
Net Position as restated, July 1, 2016:	$	118,773,518

Basis of Accounting

For financial reporting purposes, the College is considered a special purpose government entity engaged in business type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met.

The College reports capital assets, net of accumulated depreciation in the Statement of Net Position, and reports depreciation expense in the Statement of Revenues, Expenses and Changes in Net Position.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity date of 90 days or less to be cash equivalents. Funds invested through the State Treasurer's Local Government Investment Pool are also considered cash equivalents. Cash and cash equivalents that are held with the intent to fund capital projects are classified as non-current assets.

Inventories

Inventories consist of merchandise held by auxiliary departments. Inventories are valued at cost, using the First-in First-out (FIFO) valuation method.

Accounts Receivable

Accounts receivable consists of student tuition and fees and other charges for services provided to students, faculty and staff. Accounts receivable also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenses made in accordance with sponsored agreements, and includes a provision of an amount estimated by management deemed as uncollectible.

Capital Assets

Land, buildings, equipment, and library resources are stated at cost or, if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs and renovations are also capitalized.

The capitalization threshold is $5,000 or greater for equipment and library resources, $100,000 or greater for infrastructure, buildings and improvements other than buildings, and $1 million for intangibles. Land is capitalized regardless of cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 7 years for equipment; 15 to 50 years for buildings and 20 to 50 years for infrastructure and improvements other than buildings.

Investments

Investments are comprised of U.S. Government sponsored enterprise bonds, with laddered maturities ranging from 25 months up to 48 months. When investments are purchased, a discount or premium will also be factored into the purchase price, depending on the stated or face rate of the bond, versus the market interest rate at the time of the bond purchase. Bond premiums and discounts are amortized over the life of the bond using the straight-line method and reflected in the investment balances in the statement of net position. In addition, when an investment is purchased between its semi-annual interest payment dates, the purchase price will also include the number of days of accrued interest from the date the bond is purchased and when the last bond's last interest payment occurred. The purchase of interest is realized when the bond makes its' next semi-annual interest payment.

Unearned Revenue

Unearned revenue occurs when funds have been collected in advance of an event, such as summer quarter tuition revenue, and unspent cash advances on certain grants.

Compensated Absences

College employees accrue annual leave at rates based on employment status and length of service and sick leave at the rate of one day (8 hours) per month for full-time employees with both recorded as liabilities. Employees are entitled to either 25% of the present value of his/her unused sick leave balance on retirement or 25% of his/her net accumulation for the year in which it exceeds 480 hours.

Scholarship Discounts and Allowances

Student tuition and fee revenue received from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charges for goods and services charged by the College, and the amount that is paid by the students and/or third parties on the students' behalf. Certain government grants, e.g. Federal Pell grant, State Need grant and other revenues are recorded as either operating or non-operating revenues from these programs in the College's financial statement. To the extent that revenues from these programs are used to pay tuition, fees and other student charges, the College has recorded a scholarship discount and allowance. Included in the scholarship discounts and allowances are tuition waivers which alone will not generate a refund. The amount of tuition waivers for 2017 is $5,378,211.

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 Statement of Revenues, Expenses and Changes in Net Position, and recognized as such when the related expenses are incurred.

Use of Estimates

Allowances for uncollectible accounts are estimated based on aging and historical data on collection of various receivables. Actual results could differ from these estimates, though the College believes these allowances are adequate.

Operating Revenues and Expenses

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

Tuition Remittance

A portion of every tuition dollar collected by the College is remitted to the Washington State Treasurer to be held and appropriated in two different funds. The tuition remittance is used to fund 1) the Community and Technical College's Capital Projects Fund "060" and 2) the Community and Technical College's Innovation Fund "561". Fund 060 is used to fund capital projects for the community and technical college system, while fund 561 is used to fund technological upgrades and enhancements to the community and technical college system. In 2017, the College collected $2,091,491 and $518,689 for funds 060 and 561, respectively, for a total of $2,610,180. These remittances are reported in the non-operating revenues and expenses section of the statements of revenues, expenses and changes in net positon.

Net Pension Liability

The College records an aggregate pension liability equal to the net pension liabilities for its PERS and TRS pension plans. The net pension liability is measured as the College's proportionate share of the total pension liabilities, less the amount of the pension plans' fiduciary net positions. These net pension liabilities are associated with pension plans administered by the Washington State Department of Retirement System.

Total Pension Liability

The College records a total pension liability equal to College's proportionate share of the total of the State Board Retirement Supplemental Pension (SBRP) liability. There are no assets backing this pension liability.

Deferred Outflows/Deferred Inflows

Deferred outflows represent a consumption of net position by the College that is applicable to future reporting periods. Deferred inflows represent an acquisition of net position by the College that is applicable to future reporting periods. All the deferred inflows and outflows are related to the College's pension and retirement plans.

Net Position

The College reports net position in the following three categories:

Net investment in capital assets – The College's total investment in property, plant and equipment, net of accumulated depreciation and any outstanding debt related to those capital assets. To the extent of restricted cash and cash equivalents for capital projects collected, but not yet spent, these amounts are not included as a component of capital assets, instead are included as a component of restricted net position, expendable described below.

Restricted net position, expendable – Includes resources in which the College is legally or contractually obligated to spend in accordance with restrictions placed by the donor or external parties.

Unrestricted net position – These represent all the other resources available to the College for general and educational obligations to meet expenses for any lawful purpose. Unrestricted net positon is not subject to externally imposed stipulations, however the College has designated the majority of the unrestricted net position for various academic and support functions.

Tax Exemption

The College is a tax-exempt organization under Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income. The Foundation is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

Violations

The College does not have any material violations of finance-related legal or contractual provisions.

Note 2. Component Unit

The Tacoma Community College Foundation ("Foundation") is considered a legally separate component unit of the College and is discretely presented in the College's financial statements. The Foundation reports information on its financial position and activities according to the following three classes of net assets:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations they be maintained in perpetuity by the Foundation.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation or by passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations, including certain amounts designated by the Board of Directors.

The Foundation's financial statements can be obtained by contacting the Foundation at (253) 566-5003.

Note 3. Deposits

Deposits are comprised of cash and cash equivalents and includes bank demand deposits, money market accounts, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP), administered by the Washington State Treasurer.

Bank balances are insured through the Federal Deposit Insurance Corporation (FDIC), or by a collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The LGIP measures its investments at amortized cost in accordance with guidance set forth by GASB, as amended by Statements No. 72 and No. 79, and the investments are limited to high quality obligations with limited and average maturities, which minimizes both credit and market risks. The College records its investment in the LGIP at the LGIP's amortized cost-based net asset value per share, times the number of unit shares in the LGIP. The LGIP has a minimum transaction size, deposit or withdraw, of $5,000, and while there is not currently a maximum transaction size, the LGIP does request pool participants to provide them with at least a one day prior notice for deposits or withdrawals of $10 million or more. The LGIP participants are limited to one transaction per day.

Deposits at year-end consists of the following:

	June 30, 2017
Petty cash and change funds	$ 6,565
Bank demand deposits	10,655,482
Local government investment pool	9,029,455
	$ 19,691,502

Cash and cash equivalents includes restricted cash and cash equivalents of $560,957 at June 30, 2017.

Note 4. Accounts Receivable

Accounts receivable for 2017 consists of the following:

	June 30, 2017
Federal, state, local and private grants	$ 8,114,896
Student tuition and fees	4,930,363
State appropriations	3,382,186
Subtotal	16,427,445
Allowance for uncollectibles	(705,000)
	$ 15,722,445

Note 5. Investments

There are several factors that affect the value of investments. GASB Statement No. 40 requires disclosure of College investments, through its investment policy, on how the College manages its exposure to risks, such as custodial credit risk, concentration (and quality) of credit risk, and interest rate risk.

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. All of the College's securities are registered in the College's name by the custodial bank. As a result, custodial credit risk for such investments is not applicable.

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the College to greater risks resulting from adverse economic, political, regulatory, geographic and credit developments. Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Management believes that obligations of the U.S. government sponsored enterprise (GSE) bonds, such as Fannie Mae (FNMA), Federal Home Loan Bank and Federal Farm Credit Bank or those explicitly guaranteed by the U.S. government, are considered to have minimal concentrations of credit risk.

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. The College manages its exposure to interest rate risk by limiting the duration of investment and structuring the maturity of investments to mature at various times.

The College has $5.4 million in US Government sponsored enterprise bonds, with staggered maturities, in $1 million to $1.5 million. The original maturities ranged from 36 months to 60 months. The College has assessed the effects of Statement No. 72 on its investments, and reports investments at fair value. Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instruments 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, 2017:

	Total	Level 1	Level 2	Level 3
Fixed or variable income securities				
U.S. Government sponsored enterprises	$ 5,418,448	$ -	$ 5,418,448	$ -

The College's investments in fixed-income securities at June 30, 2017, along with the credit quality and average duration, in years, is summarized as follows:

Investment	Fair Value	Duration
U.S. GSE bonds	$ 5,418,448	3.15

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The College must then replace the called bond with a bond that may have a lower yield than the original yield. The call feature causes the fair value to be highly sensitive to changes in interest rates. Bond maturities, not factoring in any call provision they may contain, mature over the next three and one-half years as follows:

	Fair Value	Investment Maturities (in months)		
	June 30, 2017	0-12	13-24	25-48
Investments - Operating Funds				
U.S. GSE bonds	$ 5,418,448	$ -	$ -	$ 5,418,448

Note 6. Inventories

Inventories at year-end, stated at cost using the first-in, first-out (FIFO) method consists of the following:

	June 30, 2017
Bookstore	$ 656,155
Campus stores	5,736
Total	$ 661,891

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2017 is summarized as follows:

	June 30, 2016	Additions	Retirements	June 30, 2017
Non-depreciable Capital Assets				
Land	$ 1,450,071	$ -	$ -	$ 1,450,071
Construction in progress	7,628,708	7,750,093	-	15,378,801
Total non-depreciable assets	9,078,779	7,750,093	-	16,828,872
Depreciable Capital Assets				
Buildings	119,914,896	-	-	119,914,896
Improvements other than buildings	6,187,355	1,484,829	-	7,672,184
Furniture, fixtures and equipment	11,947,942	530,630	-	12,478,572
Library resources	2,919,672	42,282	-	2,961,954
Total depreciable assets	140,969,865	2,057,741	-	143,027,606
Accumulated Depreciation				
Buildings	28,544,582	2,343,906	-	30,888,488
Improvements other than buildings	2,005,891	308,651	-	2,314,542
Furniture, fixtures and equipment	7,952,388	903,043	-	8,855,431
Library resources	2,819,109	31,679	-	2,850,788
Total accumulated depreciation	41,321,970	3,587,279	-	44,909,249
Capital Assets, Net of Depreciation	$ 108,726,674	$ 6,220,555	$ -	$ 114,947,229

The College recorded depreciation expense of $3,587,279 for the year ending June 30, 2017.

Note 8. Compensated Absences

The accrued leave balances as of June 30, 2017 totaled $2,367,919. This consists of unused vacation leave earned by exempt and classified staff. It also includes a percentage of unused sick leave for faculty, exempt and classified staff. For financial reporting purposes, the College considers unused vacation leave to be a current liability and the unused sick leave to be a non-current liability.

At termination of employment, employees may receive a cash payment 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 may be used for future medical expenses and insurance purposes. The unused sick leave liability is recorded as an actuarial estimate of one-fourth the total balance of the payroll records.

Note 9. Notes Payable

The College financed two building projects through certificates of participation issued by the Washington State Treasurer. The College's debt service requirements for these two projects for the next five years, and thereafter, are as follows:

	Childcare Center		**Health and Wellness Center**	
Fiscal Year	Principal	Interest	Principal	Interest
2018	$ 95,000	$ 60,750	$ 330,000	$ 364,112
2019	95,000	56,950	350,000	347,113
2020	100,000	52,200	365,000	329,239
2021	105,000	47,200	385,000	310,488
2022	110,000	41,950	405,000	290,737
2023-2027	645,000	120,750	2,310,000	1,169,996
2028-2032	140,000	4,200	2,760,000	714,534
2033-2036	-	-	2,575,000	195,587
	1,290,000	384,000	9,480,000	3,721,806
Unamortized premium	479,763	-	-	-
Total	$ 1,769,763	$ 384,000	$ 9,480,000	$ 3,721,806

Interest expense for these notes payable totaled $376,486 for 2017.

Note 10. Long-term Liabilities

The following are the changes in these liabilities for the year-ended June 30, 2017:

	6/30/2016*	**Additions/ Amortizations**	**Decreases/ Retirements**	**6/30/2017**	**Current Portion**
Notes payable	$ 11,767,845	$ -	$ 518,082	$ 11,249,763	$ 425,000
Pension obligations*	11,813,215	3,197,840	2,797,080	12,213,975	-
	$ 23,581,060	$ 3,197,840	$ 3,315,162	$ 23,463,738	$ 425,000

*Restated for the implementation of GASB Statement No. 73

Note 11. Lease Obligations

The College leases copiers, printers and other equipment under a variety of agreements and non-cancelable operating leases. At June 30, 2017, the future minimum payments under these lease agreements are as follows:

Year	Amount
2018	$ 216,693
2019	206,441
2020	137,726
2021	31,090
	$ 591,950

The College lease expense totaled $281,497 in 2017.

Note 12. Risk Management

During the normal course of business, the College may become involved in various legal actions for which the outcome cannot be predicted. The College participates in the state's insurance program and is indemnified and will be paid for claims from the self-insurance program. It is the opinion of management that it will not materially affect the financial statements, in addition, the College purchases insurance from the Washington State's Department of Enterprise Services. These policies cover such areas as commercial property, athletics and medical malpractice liabilities. The College self-insures unemployment compensation for all employees, and is on a pay-as-you-go basis for paying unemployment compensation claims. Unemployment compensation claims paid totaled $125,971 for 2017.

Note 13. Commitments

Goods and services for operating and capital projects, contracted for, but not yet received, are considered commitments at year-end. The College encumbers only operating items to be received through June 30, 2017, liquidating unused balances, whereas capital projects have commitments that continue into the next fiscal year. The amount of capital project commitments at June 30, 2017 is $837,761. These commitments are mainly associated with completion of the Health and Wellness Center, and parking lot pavement.

Note 14. Operating Expenses by Function

Operating expenses, by functional category, for the year ended June 30, 2017 is summarized as follows:

Instruction	$ 26,451,047
Institutional support	9,236,303
Scholarship, fellowship and other aid	9,226,311
Student services	7,201,897
Operation and maintenance	4,895,514
Auxiliary enterprises	4,730,316
Academic support	4,392,368
Depreciation	3,587,279
Total operating expenses	$ 69,721,035

Instruction
Instruction includes expenses for all activities that are part the College's instruction program. Expenses for credit and not credit courses; academic, vocational/technical instruction, and running start are included in this category. The College's professional and continuing education programs are also included in this category.

Academic Support
Academic support includes expenses incurred to provide support services for the College's primary mission of instruction. The activities of the College's academic administration, libraries and information technology support are included in this category.

Student Services

The student services category includes the offices of registrar (enrollment), financial aid, advising and counseling and veteran services.

Scholarship, Fellowship and Other Aid
This category includes expenses for scholarship, fellowships and other financial aid not funded from existing college resources, and includes an offset to tuition revenues for scholarship discounts and allowances, which represents the difference between stated charged and the amount the student pays. Expenditures of amounts received from the Washington State Need Grant and Federal Pell Grant are also included in this category.

Institutional Support

Institutional support category includes central activities that manage long-range planning for the College, such as the office of the president, along with human resources, fiscal operations, and procurement, payroll, advancement and community relations.

Auxiliary Enterprises

Auxiliary enterprises furnish goods and services to students, staff and the general public much like a for-profit business does, along with activities for student body organizations and student athletics. Operating as a self-supporting activity, the activities of the College's Bookstore, Student Housing and Food Services are included in this category.

Operation and Maintenance

Operation and maintenance category includes administration, operation, maintenance, preservation and protection of the College's physical plant.

Depreciation

Depreciation reflects a periodic expensing of the cost of capital assets such as building and equipment over their estimated useful lives.

Note 15. Deferred Compensation

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 College employees. The deferred compensation is not available to employees until termination, retirement or unforeseen financial emergencies, and the College does not have access to these funds.

Note 16. Deferred Inflows and Deferred Outflows of Resources

<u>Plans Administered by DRS</u>

The following tables represent the components of the College's deferred (inflows) and outflows of resources for 2017 for plans administered by the department of retirement System (DRS):

Deferred (Inflows)	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**Total**
Changes in proportionate share of pension liability	$ -	$ (51,129)	$ -	$ -	$ (51,129)
Difference between expected versus actual experience	-	(155,558)	-	(17,918)	(173,476)
Total	$ -	$ (206,687)	$ -	$ (17,918)	$ (224,605)

Deferred Outflows	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**Total**
Net difference between projected versus actual earnings on pension plan investments	$ 90,822	$ 482,212	$ 26,315	$ 49,779	$ 649,128
Changes in proportionate share of pension liability	-	-	-	38,050	38,050
Difference between expected versus actual experience	-	250,922	-	30,548	281,470
Changes in assumptions	-	43,237	-	3,470	46,707
Contributions to pension plans after measurement date	451,513	577,447	98,263	105,032	1,232,255
Total	$ 542,335	$ 1,353,818	$ 124,578	$ 226,879	$ 2,247,610

The $1,232,255 reported as deferred outflows of resources for 2017 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, 2018, and is detailed in the following table:

Deferred Outflows	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**Total**
Deferred Outflows	$ 451,513	$ 577,447	$ 98,263	$ 105,032	$ 1,232,255

Other amounts reported as deferred outflows and inflows of resources represent the sum of, 1) net difference between projected and actual earnings on pension plan investments, 2) changes in proportionate share of pension liabilities, 3) expected versus actual experience, and changes in assumptions will be amortized over the next five years and recognized in pension expense as follows for each plan, followed by individual amortization schedules for, 1) net difference between projected and actual earnings on pension plan investments, 2) changes in proportionate share of pension liabilities, 3) differences between expected versus actual experience, and changes in assumptions:

Net difference between projected and actual earnings on pension plan investments*:

Year Ended June 30:	PERS 1	PERS 2/3	TRS 1	TRS 2/3
2018	$ (22,362)	$ (57,116)	$ (6,801)	$ (5,202)
2019	(22,362)	(57,116)	(6,801)	(5,202)
2020	83,410	362,121	24,618	36,524
2021	52,136	234,323	15,299	23,659
2022	-	-	-	-
Total	$ 90,822	$ 482,212	$ 26,315	$ 49,779

Changes in proportionate liability:

Recognition Period (Years)**	1.0	4.2	1.0	5.4
Year Ended June 30:	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**
2018	$ -	$ (12,174)	$ -	$ 7,046
2019	-	(12,174)	-	7,046
2020	-	(12,174)	-	7,046
2021	-	(12,174)	-	7,046
2022	-	(2,433)	-	7,046
2023	-	-	-	2,820
Total	$ -	$ (51,129)	$ -	$ 38,050

Changes in assumptions:

Recognition Period (Years)**	1.0	4.2	1.0	5.4
Year Ended June 30:	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**
2018	$ -	$ 13,863	$ -	$ 797
2019	-	13,863	-	797
2020	-	13,020	-	797
2021	-	2,491	-	777
2022	-	-	-	302
Total	$ -	$ 43,237	$ -	$ 3,470

Difference between expected and actual experience	PERS 2/3		TRS 2/3	
Recognition Period (Years)**	**4.2**	**4.2**	**5.4**	**5.4**
Year Ended June 30:	**(Inflows)**	**Outflows**	**(Inflows)**	**Outflows**
2018	$ (48,612)	$ 104,551	$ (4,072)	$ 8,728
2019	(48,612)	104,551	(4,072)	8,728
2020	(48,612)	41,820	(4,072)	8,728
2021	(9,722)	-	(4,072)	4,364
2022	-	-	(1,630)	-
Total	$ (155,558)	$ 250,922	$ (17,918)	$ 30,548

*The recognition period is a closed, five-year period for all plans.

**The recognition period for each plan is equal to the average of the expected remaining service lives of all employees provided with pensions through the pension plan, which was determined at the beginning of the measurement period.

Plan Administered by SBCTC

The following tables represent the components of the College's deferred (inflows) of resources for 2017 for the State Board Retirement Plan (SBRP) administered by the State Board for Community and Technical Colleges (SBCTC):

Deferred (Inflows)	SBRP
Difference between expected and actual experience	$ (757,070)
Changes in assumptions	(178,679)
Transactions subsequent to the measurement date	-
Total	$ (935,749)

Amounts reported as deferred (inflows) and outflows, if any, will be recognized in pension expense in the fiscal years end June 30:

Fiscal Year	Amount
2018	$ (141,794)
2019	(141,794)
2020	(141,794)
2021	(141,794)
2022	(141,794)
Thereafter	(226,779)
	$ (935,749)

Note 17. Pension and Retirement Plans

The College offers three contributory pension and retirement plans which cover eligible faculty, staff and administrative employees: The Washington State Public Employees' Retirement System (PERS) plan, the Washington State Teachers' Retirement System (TRS) plan and the State Board Retirement Plan (SBRP).

PERS and TRS Plans

Plan Descriptions

PERS and TRS are multiple-employer, defined benefit pension plans administered by the state of Washington, Department of Retirement System (DRS).

PERS and TRS Plan 1

These plans provides retirement and disability benefits, and minimum benefit increases beginning at any age, with 30 years of service, or at age 55, with 25 years of service, or at age 60, with five years of service to eligible members hired prior to October 1, 1977.

PERS and TRS Plan 2

These plans provides retirement and disability benefits, and a cost-of-living allowance, beginning at age 65 with at least five years of service, or at age 55, with 20 years of service to eligible members hired on or after October 1, 1977.

PERS and TRS Plan 3

These plans are a hybrid defined benefit and defined contribution plans. The College contributions fund the defined benefit component, provides retirement and disability benefits. In addition, the plans have a defined contribution component, which is funded by employee contributions. Vesting in these plans occur if the employee has a) ten years of service credits, or b) five years of service credits and at least 12 of those months were earned after age 44, or c) five years of service credit earned in PERS Plan 2 prior to June 1, 2003 or five years of service credit earned in TRS Plan 2 prior to July 1, 1996. Once vested, the employee is eligible for full retirement benefits at age 65. If the employee has at least 10 years of service credit and are age 55 or older, they can retire early, but their benefit may be reduced. The components of the net pension liabilities for PERS 1, PERS 2/3, TRS 1 and TRS 2/3 for 2017 are as follows:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3
Total pension liability	$ 8,394,533	$ 29,386,467	$ 2,187,345	$ 3,011,879
Plan fiduciary net position	(4,787,402)	(25,219,466)	(1,357,685)	(2,672,139)
Net pension liability	$ 3,607,131	$ 4,167,001	$ 829,660	$ 339,740
Plan fiduciary net position as percentage of total pension liability	57.03%	85.82%	62.07%	88.72%

As of the date of the latest valuation, total system membership in the PERS and TRS pension plans consists of the following:

	PERS Plan 1	PERS Plan 2	PERS Plan 3	TRS Plan 1	TRS Plan 2	TRS Plan 3
Inactive plan members or beneficiaries currently receiving benefits	48,268	46,675	4,276	34,225	5,076	10,289
Inactive plan members entitled to but not yet receiving benefits	663	27,835	5,601	188	2,532	8,568
Active plan members vested	2,397	81,168	14,499	687	7,995	37,286
Active plan members nonvested	196	41,222	19,959	10	11,138	17,201
Total membership	51,524	196,900	44,335	35,110	26,741	73,344

The number of participating employers in the PERS and TRS pension plans consists of the following:

	PERS Plan 1	PERS Plan 2	PERS Plan 3	TRS Plan 1	TRS Plan 2	TRS Plan 3
Component units of the state of Washington	110	155	148	26	26	40
Counties/Municipalities	115	280	217	-	-	-
School districts	172	-	-	162	306	312
Other political subdivisions	105	527	342	-	-	-
Total	502	962	707	188	332	352

Employers can participate in multiple systems and/or plans. Information on these retirement plans and benefits is available in a Comprehensive Annual Financial Report publicly available from the Department of Retirement Systems' Fiscal Office, PO Box 48380, Olympia, WA 98504-8380.

Funding Policy

Each biennium, the Office of State Actuary, using funding methods prescribed by statute to determine the actuarially required contribution rates for PERS and TRS plans, except where employee contribution rates are set by statute. Employers are required to contribute at the level established by state law.

The required contribution rates, expressed as percentages for the years 2017, 2016 and 2015, are as follows:

	2017		2016		2015	
Plan	**Member**	**College**	**Member**	**College**	**Member**	**College**
PERS 1	6.00%	11.18%	6.00%	11.18%	6.00%	9.21%
PERS 2	6.12%	11.18%	6.12%	11.18%	4.92%	9.21%
PERS 3	5% -15%	11.18%	5% - 15%	11.18%	5% -15%	9.21%
TRS 1	6.00%	13.13%	6.00%	13.13%	6.00%	10.39%
TRS 2	5.95%	13.13%	5.95%	13.13%	4.96%	10.39%
TRS 3	5% -15%	13.13%	5% -15%	13.13%	5% -15%	10.39%

The rates presented above for the College (employer) contributions, include an administrative fee of 0.18% charged by the Department of Retirement System for their administrative costs.

Investment Policy

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

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invest in fixed income, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

For the years ended June 30, 2017 and 2016, the annual money weighted rate of return on the pension investments, net of pension plan expenses are as follows:

	Rate of Return	
Pension Plan	**2017**	**2016**
PERS Plan 1	13.84%	2.19%
PERS Plan 2/3	14.11%	2.47%
TRS Plan 1	14.45%	2.09%
TRS Plan 2/3	14.10%	2.51%

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

The PERS and TRS target asset allocation, actual asset allocation and long-term expected real rate of return are summarized in the following table as of June 30, 2017:

Asset Class	Target Allocation	Actual Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	19.31%	1.70%
Tangible Assets	5.00%	3.81%	4.90%
Real estate	15.00%	16.99%	5.80%
Global Equity	37.00%	39.38%	6.30%
Private Equity	23.00%	20.40%	9.30%
Innovation	0.00%	0.03%	0.00%
Cash	0.00%	0.08%	0.00%
Total	**100.00%**	**100.00%**	

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

Pension Expense

Pension expense, included in "Employee benefits" expense in the statements of revenues, expenses and changes in net position, totaled $748,984 for 2017. The following table shows the components of each pension plan expense:

2017 Pension Expense	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarial determined pension expense	$ 210,977	$ 568,464	$ 53,276	$ 92,634	$ 925,351
Amortization of change in proportionate liability	(170,810)	(4,858)	(15,006)	14,307	(176,367)
Total pension expense	$ 40,167	$ 563,606	$ 38,270	$ 106,941	$ 748,984

Changes in Proportionate Shares of Pension Liabilities

The following table shows the changes in each pension plan liability for 2017:

Net Pension Liability	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Balance, June 30, 2016	$ (3,675,356)	$ (3,060,931)	$ (783,830)	$ (221,405)	$ (7,741,522)
Changes in proportionate share of liability	170,810	103,798	15,006	12,657	302,271
Difference between expected versus actual experience and changes in assumptions	-	191,710	-	19,139	210,849
Net difference between projected versus actual earnings on pension plan investments	(291,906)	(1,299,336)	(84,332)	(135,678)	(1,811,252)
Deferred Outflows (Employer contributions)	400,298	466,222	76,772	78,181	1,021,473

Pension expense	(210,977)	(568,464)	(53,276)	(92,634)	(925,351)
Balance, June 30, 2017	**$ (3,607,131)**	**$ (4,167,001)**	**$ (829,660)**	**$ (339,740)**	**$ (8,943,532)**

The changes, increases or (decreases), to the College's proportionate share of pension liabilities from 2015 to 2016 were (0.003096%), (0.002905%), (0.000441%) and (0.001500%) for PERS 1, PERS 2/3, TRS 1 and TRS 2/3, respectively as noted in the following table:

	2015	**2016**
PERS Plan 1	0.070262%	0.067166%
PERS Plan 2/3	0.085667%	0.082762%
TRS Plan 1	0.024741%	0.024300%
TRS Plan 2/3	0.026239%	0.024739%

Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3 and TRS Plan 2/3, whose rates include a component for the PERS Plan 1 and TRS Plan 1 liabilities, respectively). 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.

The following represents the net pension liability of the College using the (current) discount rate of 7.5 percent, as well as what the College's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

Pension Plan	**1% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
PERS Plan 1	4,349,837	3,607,131	2,967,987
PERS Plan 2/3	7,672,198	4,167,001	(2,169,165)
TRS Plan 1	1,019,905	829,660	665,792
TRS Plan 2/3	768,878	339,740	(394,675)

At June 30, 2017, the College reported a total collective of $8,943,532 for its proportionate shares of the net pension liabilities for the PERS and TRS pension plans.

The total pension liabilities were determined by an actuarial valuation as of June 30, 2015 with the results rolled forward to June 30, 2016, using the following actuarial assumptions applied for both PERS and TRS plans, to all prior periods included in this measurement:

- Inflation - 3.0% total economic inflation, 3.75% salary inflation
- Salary Increases - In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotion and longevity
- Investment Rate of Return - 7.5%

State Board Retirement Plan (SBRP)

The State Board Retirement Plan (SBRP), created for the SBCTC, the 34 community and technical colleges in the state of Washington, and the Student Achievement Council, is a tax deferred multiple-employer defined contribution plan which covers most faculty, professional and exempt staff. Contributions to the plan are invested in annuity contracts or mutual funds offered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). Employees have at all times, a 100% vested interest in their accumulations. Benefits are available upon employee separation or retirement. The SBRP, operating under section 401(a) of the Internal Revenue Code, has a contract with the TIAA-CREF to administer records, investments and benefits.

The benefit goal for the SBRP is 2% of the employee's average annual salary for each year of full-time service up to a maximum of 25 years of service. However, if the employee does not elect to make the 10% contribution at age 50, the benefit goal is reduced to 1.5% for each year of full-time service. Members are eligible to receive benefits under this plan, starting at age 62 with 10 years of credited services. The plan has a supplemental payment plan component which guarantees a minimum retirement benefit based on a one-time calculation at each employee's retirement date. Effective for employees hired on or after July 1, 2011, state law no longer offers this supplemental component benefit.

Effective January 1, 2012, state law establishes a higher education retirement plan supplemental benefit fund for the purpose of funding future benefit obligations of higher education retirement plan supplemental benefits which the State Investment Board has authority to manage this fund. The funding for this is an employer contribution based on a percentage of salary for active plan participants. From January 1, 2012 through June 30, 2013, the employer required contribution was one-quarter percent (0.25%) of salary. Beginning July 1, 2013, the employer required contribution increased to one-half percent (0.5%) of salary. For the year-end June 30, 2017, the College contributed $95,247 to this fund.

Discount Rate

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017, measurement date.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016 with the results rolled forward to the June 30, 2017 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25% - 6.25%

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.

Most actuarial assumptions used in the June 30, 2016, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Plan Membership

Membership for the College in the SBRP consisted of the following at June 30, 2016, the date of the latest actuarial valuation for the plan:

Inactive members, or beneficiaries, currently receiving benefits	3
Inactive members entitled to receive, but not yet receiving benefits	-
Active members	239
Total members	242

Pension Expense

For the year ended June 30, 2017, the College recorded $165,535 for pension expense associated with the supplemental SBRP.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following table presents the total pension liability/(asset), calculated using the discount rate of 3.58 percent, as well as what the College's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

Total Pension Liability			
Plan	1% Decrease	Current Discount Rate	1% Increase
Tacoma Community College	$ 3,757,276	$ 3,270,443	$ 2,867,255

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017 supplemental benefits were paid by the SBCTC on behalf of all the community and technical colleges totaled $902,000, of this, the College's proportionate share of this is $31,036.

Proportionate Share of Total Pension Liability.

The College's proportionate share of total pension liabilities for the year ended June 30, 2017 was 3.44%. This portion was based on an actuarial projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating colleges.

The following table shows the change for the College's portion of the SBRP total supplemental pension plan liability for 2017:

Change in Total Supplemental Pension Liability

Total Pension Liability - Beginning	$ 4,071,693
Service cost	186,386
Interest	120,908
Changes of benefit terms	-
Differences between expected and actual experience	(871,751)
Changes in assumptions	(205,757)
Benefit payments	(31,036)
Other	-
Total Pension Liability - Ending	$ 3,270,443

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016 with the results rolled forward to the June 30, 2017 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25% - 6.25%

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.

Most actuarial assumptions used in the June 30, 2016, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Funding Policy

Employee contribution rates, based on age, varies from 5% for participants under 35 years of age, 7.5% for participants 35 to 49 years of age and 10% for participants age 50 and over. Employees have, at all times, a 100% vested interest in their accumulations. Employee and employer contributions to the SBRP for the year-end June 30, 2017 were $1,635,181 and $1,647,181, respectively. All required employer and employee contributions have been made by the College.

Note 18. Other Post-Employment Benefits (OPEB)

In addition to pension benefits as described in Note 16, the state, through the Health Care Authority (HCA) administers an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan.

The Public Employees' Benefits Board (PEBB), created within HCA, is authorized to design and determine the terms and conditions of employee and retired employee participation and coverage. PEBB established eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

The relationship between PEBB OPEB and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. The understanding is based on communication between the HCA, employers and plan members, and the historical pattern of practice with regard to sharing of benefit costs.

An actuarial study performed by the Office of the State Actuary (OSA) calculated the net OPEB obligation of the State of Washington at January 1, 2017 to be $3.2 billion. The OSA allocated the statewide disclosure information for OPEB to the State Board for Community and Technical College (SBCTC) system level. The SBCTC further allocated these amounts among the individual colleges. The OSA also calculated the GASB Statement No. 45 total OPEB actuarially accrued liability (AAL) of the State of Washington at $5.5 billion, with the College's share being $23,182,347 at January 1, 2017, with an annual required contribution (ARC) of $2,088,777 for 2017. The College's net OPEB obligation (NOO) is $6,110,437. This NOO amount is not included in the College's financial statement, rather the total statewide net OPEB obligation is recorded in the State's Comprehensive Annual Financial Report (CAFR), which is available online by going to www.ofm.wa.gov/cafr/. The College was billed and paid approximately $6 million for active and retiree healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at $448,170 in 2017.

The PEBB 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 on active employee headcounts; the agencies pay the premium for active employees to the HCA. Agencies may charge employees for certain higher costs options selected by the employee. Retirees may elect coverage through the HCA, for which they pay less than the full cost of the benefits, based on their age and other demographics factors. The healthcare premiums for active employees, which are paid by the agency during the employees' working career, subsidize the "underpayments" of retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums to 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 PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement systems: PERS, TRS and Higher Education are the retirement plans currently used by College employees and retirees.

Retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between age-base claims cost and the premium. In calendar year 2017, the average weighted implicit subsidy is projected at $328 per member per month. Retirees who are enrolled in both Part A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the

HCA administrator recommends an amount for next year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2016, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar year 2017.

For information on the results of an actuarial valuation of the employer subsidies associated with the PEBB plan, refer to:

http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

Note 19. Related-Party Transactions

Tacoma Community College Foundation

Based on their inter-relationship, the College and the Foundation have a number of transactions with each other during the course of the year. Under a formal agreement between the College and Foundation, the College provides printing, postage, office space, staff services and supplies, which the value totaled a net of $189,218 for 2017, while the Foundation provides fundraising and financial services, along with payment of scholarship and grants on behalf of the College in the amount of $341,250 for 2017. Inter-entity transactions and balances between the College and Foundation are not eliminated for financial statement presentation purposes.

INVISTA LLP

INVISTA Performance Solutions (IPS) is a joint venture of the three Pierce county community and technical colleges: Clover Park Technical College, Pierce College District, and Tacoma Community College. At June 30, 2017, the College's portion of equity in this joint venture is $565,241. The College's equity in this joint venture is reflected in these financial statements as a non-current other asset.

Required Supplementary Information

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

	2017	2016	2015	2014
Contractually Required Contributions	$ 445,761	$ 380,894	$ 322,924	$ 314,705
Employer Contributions related to covered payroll of employees participating in PERS Plan 1	11,555	14,635	18,105	15,088
Employer UAAL Contributions related to covered payroll of employees participating in PERS Plan 2/3	434,206	366,259	304,819	299,617
Total Contributions in relation to Actuarially Determined Contributions	445,761	380,894	322,924	314,705
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll of employees participating in PERS Plan 1	$ 103,354	$ 130,903	$ 196,579	$ 163,821
Covered payroll of employees participating in PERS Plan 2/3	9,102,851	7,678,385	7,620,475	7,490,425
Total Covered-Employee Payroll	$ 9,206,205	$ 7,809,288	$ 7,817,054	$ 7,654,246
Contributions as a percentage of covered-employee payroll	4.84%	4.88%	4.13%	4.11%

***These schedules are to be built prospectively until they contain ten years of data.**

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

	2017	2016	2015	2014
Contractually Required Contributions	$ 567,105	$ 477,780	$ 381,605	$ 367,669
Contributions in relation to Contractually Determined Contributions	567,105	477,780	381,605	367,669
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 9,102,809	$ 7,669,021	$ 7,586,581	$ 7,309,523
Contributions as a percentage of covered-employee payroll	6.23%	6.23%	5.03%	5.03%

***These schedules are to be built prospectively until they contain ten years of data.**

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

	2017	2016	2015	2014
Contractually Required Contributions	$ 98,535	$ 73,851	$ 55,364	$ 44,811
Employer Contributions related to covered payroll of employees participating in TRS Plan 1	-	-	-	6
Employer UAAL Contributions related to covered payroll of employees participating in TRS Plan 2/3	98,535	73,851	55,364	44,805
Total Contributions in relation to Actuarially Determined Contributions	98,535	73,851	55,364	44,811
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll of employees participating in TRS Plan 1	$ -	$ -	$ -	$ 57
Covered payroll of employees participating in TRS Plan 2/3	1,581,621	1,185,409	1,235,803	1,000,111
Total Covered-Employee Payroll	$ 1,581,621	$ 1,185,409	$ 1,235,803	$ 1,000,168
Contributions as a percentage of covered-employee payroll	6.23%	6.23%	4.48%	4.48%

***These schedules are to be built prospectively until they contain ten years of data.**

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

	2017	2016	2015	2014
Contractually Required Contributions	$ 106,285	$ 80,748	$ 69,730	$ 59,955
Contributions in relation to Contractually Determined Contributions	106,285	80,748	69,730	59,955
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 1,581,622	$ 1,201,607	$ 1,216,928	$ 1,046,335
Contributions as a percentage of covered-employee payroll	6.72%	6.72%	5.73%	5.73%

***These schedules are to be built prospectively until they contain ten years of data.**

Schedule of Contributions
State Board Retirement Plan (SBRP)
Fiscal Year Ended June 30*

		2017
Contractually Required Contributions	$	1,647,181
Contributions in relation to Contractually Determined Contributions		1,647,181
Contribution deficiency (excess)	$	-
Covered-Employee Payroll	$	19,200,963
Contributions as a percentage of covered-employee payroll		8.58%

***These schedules are to be built prospectively until they contain ten years of data.**

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

	2016	2015	2014
TCC PERS 1 Employers' proportion of the net pension liability	0.067166%	0.070262%	0.071009%
TCC PERS 1 Employers' proportionate share of the net pension liability	$ 3,607,131	$ 3,675,357	$ 3,577,112
TCC PERS 1 Employers' covered-employee payroll	$ 7,809,288	$ 7,817,054	$ 7,654,246
TCC PERS 1 Employers' proportionate share of net pension liability as a percentage of its covered-employee payroll	46.19%	47.02%	46.73%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%

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.

***These schedules are to be built prospectively until they contain ten years of data.**

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

	2016	2015	2014
TCC PERS 2/3 Employers' proportion of the net pension liability	0.082762%	0.085667%	0.087035%
TCC PERS 2/3 Employers' proportionate share of the net pension liability	$ 4,167,001	$ 3,060,931	$ 1,759,292
TCC PERS 2/3 Employers' covered-employee payroll	$ 7,669,021	$ 7,586,581	$ 7,309,523
TCC PERS 2/3 Employers' proportionate share of net pension liability as a percentage of its covered-employee payroll	54.34%	40.35%	24.07%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%	93.29%

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.

***These schedules are to be built prospectively until they contain ten years of data.**

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

	2016	2015	2014
TCC TRS 1 Employers' proportion of the net pension liability	0.024300%	0.024741%	0.022661%
TCC TRS 1 Employers' proportionate share of the net pension liability	$ 829,660	$ 783,830	$ 668,376
TCC TRS 1 Employers' covered-employee payroll	$ 1,185,409	$ 1,235,803	$ 1,000,168
TCC TRS 1 Employers' proportionate share of net pension liability as a percentage of its covered-employee payroll	69.99%	63.43%	66.83%
Plan fiduciary net position as a percentage of the total pension liability	62.07%	65.70%	68.77%

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.

***These schedules are to be built prospectively until they contain ten years of data.**

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

	2016	2015	2014
TCC TRS 2/3 Employers' proportion of the net pension liability	0.024739%	0.026239%	0.024435%
TCC TRS 2/3 Employers' proportionate share of the net pension liability	$ 339,740	$ 221,405	$ 78,922
TCC TRS 2/3 Employers' covered-employee payroll	$ 1,201,607	$ 1,216,928	$ 1,046,335
TCC TRS 2/3 Employers' proportionate share of net pension liability as a percentage of its covered-employee payroll	28.27%	18.19%	7.54%
Plan fiduciary net position as a percentage of the total pension liability	88.72%	92.48%	96.81%

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.

***These schedules are to be built prospectively until they contain ten years of data.**

Schedule of Changes in Total Pension Liability and Related Ratios
State Board Retirement Plan (SBRP)
Fiscal Year Ended June 30*

	2017
Total Pension Liability - Beginning	$ 4,071,693
Service cost	186,386
Interest	120,908
Changes of benefit terms	-
Differences between expected and actual experience	(871,751)
Changes in assumptions	(205,757)
Benefit payments	(31,036)
Other	-
Total Pension Liability - Ending	$ 3,270,443
Covered-Employee payroll	$ 19,200,963
Total Pension Liability as a percentage of covered-employee payroll	17.03%

***These schedules are to be built prospectively until they contain ten years of data.**

Notes to Required Supplementary Information

The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for retirement (pension) funds. The WSIB may invest as provided by statute (chapter 43.33A RCW) and WSIB policy in the following:

- U.S. Treasury Bills
- Discount notes
- Repurchase agreements
- Reverse repurchase agreements
- Bankers' acceptances
- Commercial paper
- Guaranteed investment contracts
- U.S. government and agency securities
- Non-U.S. dollar bonds
- Investment grade corporate bonds
- Noninvestment grade corporate bonds
- Publicly traded mortgage-backed securities
- Privately placed mortgages
- Private placements of corporate debt
- U.S. and foreign common stock
- U.S. preferred stock
- Convertible securities
- Private equity, not limited to investment corporations, partnerships and limited liability corporations for venture capital, leveraged buyouts, real estate and other tangible assets, or other forms of private equity
- Asset backed securities
- Derivative securities, including futures, options and options on futures, forward contracts and swap transactions

For pension investment purposes, the PERS and TRS target asset allocation and actual asset allocations made by the WSIB are summarized in the following table for 2017 and 2016:

Asset Class	Target Allocation	2017 Actual Allocation	2016 Actual Allocation
Fixed Income	20.00%	19.31%	22.04%
Tangible Assets	5.00%	3.81%	2.94%
Real Estate	15.00%	16.99%	15.78%
Public Equity	37.00%	39.38%	37.95%
Private Equity	23.00%	20.40%	20.96%
Innovation	0.00%	0.03%	0.07%
Cash	0.00%	0.08%	0.26%
Total	100.00%	100.00%	100.00%

ADDITIONAL AUDITOR'S REPORT

IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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 unit of the Tacoma Community College (the College), which comprise the statement of financial position as of and for the year ended June 30, 2017, 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 August 29, 2018.

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 unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, 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 as item 2017-001, that we consider to be a material weakness.

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
August 29, 2018

TACOMA COMMUNITY COLLEGE

Schedule of Findings
For the Year Ended June 30, 2017

Finding 2017-001 - Material Weakness in Internal Control Over Financial Reporting (Repeat of Prior Year Finding)

Issue:	As noted in the prior year audit, the College continues to have difficulties reconciling accounts and producing timely accounting information due to the implementation of ctcLink and PeopleSoft as well as staff turnover. As a result, the College is having difficulty providing timely, accurate accounting information to management and the College's Board of Trustees. In addition, and is having to expend considerable resources verifying and adjusting reported balances.
Recommendation:	We recommend the College continue to work on resolving these issues with the Washington State Board of Community and Technical Colleges (SBCTC). We also recommend considering requesting an audit or agreed-upon procedures engagement performed of SBCTC given the challenges the College has encountered getting timely, accurate information from SBCTC.

Graduation Day

Tacoma Community College

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

tacomacc.edu