Tacoma Community College

2018 Comprehensive
Annual Financial Report

Tacoma Community College College, located in Tacoma, Washington

Everyone is Welcome to Come to Tacoma Community College

Acknowledgements go out to the College's Financial Services staff for their work in producing this report.

Tacoma Community College
2018 Financial Report

Board of Trustees and Administrative Officers	2
Letter from the President	3
Independent Auditor’s Report	4
Management’s Discussion and Analysis	7
Statement of Net Position	14
Statement of Revenues, Expenses and Changes in Net Position	15
Statement of Cash Flows	16
Notes to the Financial Statements	18
Required Supplementary Information	44
Independent Auditor’s 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*	57

Tacoma Community College Titans - 2018 NWAC Soccer Champions

TACOMA COMMUNITY COLLEGE

Trustees and Administrators

Appointed Board of Trustees

Non-Voting Representatives

College Leadership

TACOMA COMMUNITY COLLEGE

March 22nd, 2019

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

Dear Chair Curtis:

I am proud to submit our 2018 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. Through hard work and collaboration with the State Board, we have demonstrated how the new system can help other community and technical colleges meet their financial reporting responsibilities. We are at the forefront of the ctcLink project and for the first time, TCC has been compliant with Northwest Commission on Colleges and Universities Standard 2.F.7, which requires the completion of an annual financial audit within nine months of fiscal-year end.

Our 2018 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 financial statements. 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-end.

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, 2018, 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 audit 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.

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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, 2018, 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, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2018, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. 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, Net Other Postemployment Benefits Liability, and Schedules of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019 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
March 22, 2019

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, 2018 with comparative information for the year ended June 30, 2017. 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 (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 2018.

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 confers associate degrees and certificates in a variety of programs, as well as baccalaureate degrees in Health Information Management, and starting Fall quarter 2018 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 serves Pierce County with a population of 850,000 from its main campus in Tacoma and its 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 in this financial report.

In 2018, the College adopted GASB Statement No. 75. This statement requires the College to record its proportionate share of retiree healthcare liabilities, deferred outflows and inflows of resources. This is done by restating 2017 net position, other post-employment pension liabilities and deferral of resources as a change in accounting principle.

The change in accounting principle is noted as follows:

(In thousands)		
Net Position as previously reported at June 30, 2017:	$	121,817
Prior period adjustment:		
Deferred outflows (related to OPEB)		416
OPEB liability (current)		(416)
OPEB liability (non-current)		(27,147)
Total prior period adjustment		(27,147)
Net Position as restated, July 1, 2017:	$	94,670

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, 2018 and 2017, follows:

Condensed Statements of Net Position				
As of June 30 (In thousands)		**2018**		**2017**
ASSETS				
Current assets	$	34,472	$	35,524
Capital assets		113,460		114,947
Other non-current assets		6,497		6,545
Total assets		154,429		157,016
DEFERRED OUTFLOWS		2,727		2,247
LIABILITIES				
Current liabilities		16,100		12,113
Other non-current liabilities		45,498		24,173
Total liabilities		61,598		36,286
DEFERRED INFLOWS		6,361		1,160
NET POSITION	$	89,197	$	121,817

Current assets consist of cash, accounts receivable and inventories. The $1 million decrease was the net result of amounts owed the College for accounts receivables.

Capital assets decreased by $1.5 million, as depreciation expense of $4 million, exceeded capital asset additions of $2.5 million. More information on the College's capital assets can be found in footnote 7 to the financial statements.

Non-current assets consisting of investments, in 1) INVISTA Performance Solutions, a joint venture with Pierce College and Clover Park Technical College for a corporate education partnership, and 2) government bonds, which had a slight dip in 2018, due to the market value of bonds decreasing, resulting from increasing interest rates, and lastly 3) 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 2018 increased as a result of the implementation of Statement No. 75 in the amount of $403,525 at June 30, 2018. More information can be found on this in footnote 16 to the financial statements.

Current liabilities include accounts payable, accrued payroll and associated liabilities and unearned revenues. The $4 million increase was the result of items, 1) a $2.5 million other post-employment benefits liability for 2018, as a result of the College's implementation of Statement No. 75, and 2) increases in unpaid building and innovation fees owed the State of Washington.

Other non-current liabilities are made up of other post-employment benefits, pension liabilities, and long-term portion of debt and compensated absences. The increase of more than $21 million for 2018 was entirely the result of the implementation of Statement No. 75, with a long-term liability of $23 million for 2018.

Deferred inflows increased by more than $5 million in 2018, from 1) the implementation of Statement No. 75, effective for the year ended June 30, 2018 with a deferred inflow recognition of $3.7 million, and 2) better than expected investment returns on pension assets in the amount of $1.2 million. 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 (In thousands)	2018	2017
Investment in capital assets	$ 102,711	$ 103,697
Restricted expendable	3,343	3,457
Unrestricted	(16,857)	14,663
Total Net Position	$ 89,197	$ 121,817

Several factors are involved in the change in net position, 1) the $1 million decrease in net investment in capital assets is the result of the depreciation expense exceeding capital asset additions in the amount of $1.5 million and the reduction of notes payable in 2018 in the amount of $500,000 and 2) the $31.5 million decrease in unrestricted net position in 2018 was the mainly the result of the implementation of GASB Statement No. 75, which itself resulted in a $27.1 million decrease to unrestricted net position as a result of a prior period adjustment and a $1.7 million expense charged in 2018, that did not occur in 2017, for retiree health care benefits resulting from Statement No. 75.

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, 2018 and 2017, follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30 (In thousands)	2018*	2017
Operating revenues	$ 36,659	$ 38,186
Operating expenses	73,964	69,721
Net operating loss	(37,305)	(31,535)
Non-operating revenues	33,739	35,022
Non-operating expenses	2,278	2,987
Income (Loss) before capital appropriations	(5,844)	500
Capital appropriations	370	2,544
Increase (Decrease) in net position	(5,474)	3,044
Net position, beginning of year*	94,671	118,773
Net position, end of year	$ 89,197	$ 121,817

*Restated for the implementation of Statement No. 75. See footnote 1 to these financial statements for more information.

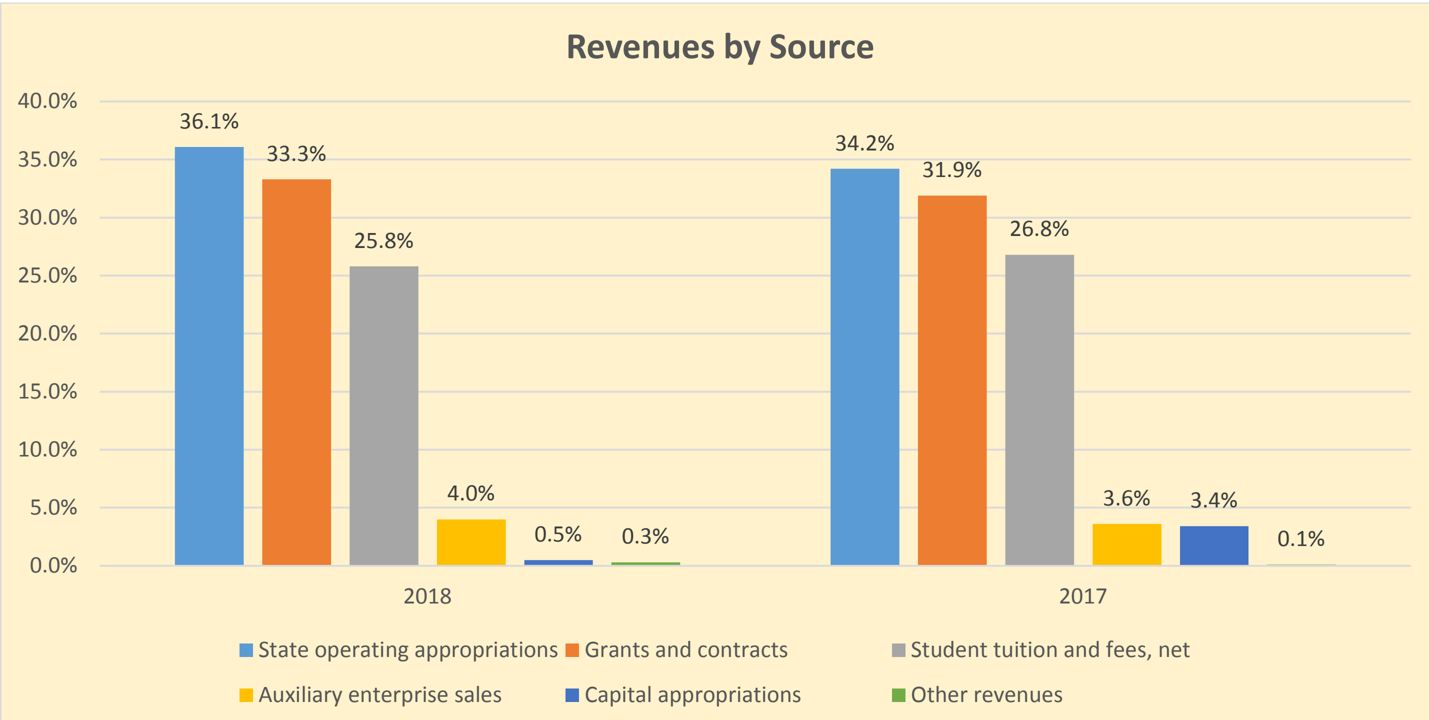
Operating and Non-Operating Revenues

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, 2018 and 2017:

Revenues by Source

For the years ended June 30 (In thousands)	2018	2017
Operating		
Student tuition and fees, net	$ 18,296	$ 20,308
Grants & contracts	15,525	15,107
Auxiliary enterprise sales, net	2,825	2,754
Other revenues	13	17
Non-operating		
State operating appropriations	25,535	25,909
Capital appropriations	370	2,544
Grants & contracts	8,019	9,051
Investment income	185	62
Total revenues	$ 70,768	$ 75,752

Revenues are down by $5 million from 2017 to 2018, 1) tuition and fee revenues are down reflecting lower enrollment levels in 2018, 2) a $1 million decrease in non-operating grants & contract revenue, e.g. Federal Pell, because of reduced enrollment levels in 2018, and 3) a $2.2 million decrease in state capital appropriations, reflecting lower capital appropriations for the College in the 1719 Biennium, and lower spending on capital appropriations, which is common in the first year of a biennium. 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, 2018 and 2017, in percentage terms:

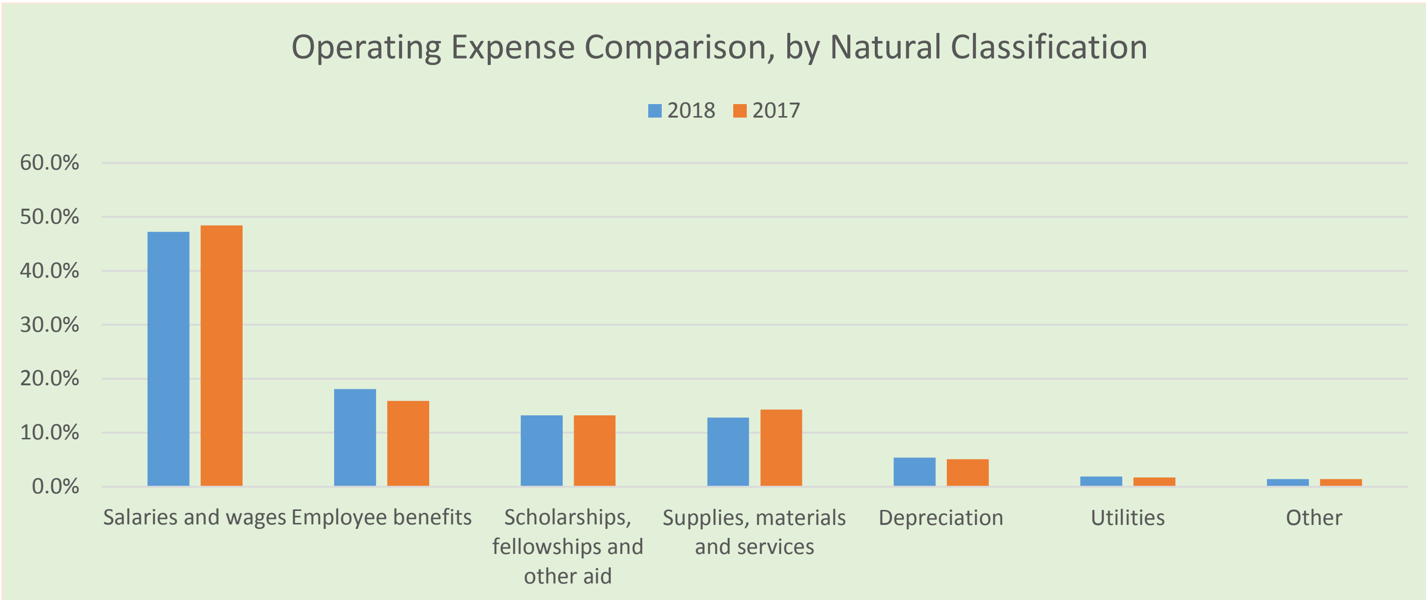


Operating Expenses

Operating expenses for 2018 increased by $4.2 million over 2017. Several factors were involved in this increase, 1) in 2018, the College implemented GASB Statement No. 75, which resulted in $1.7 million of retiree health care benefits expense, and 2) a 2% cost of living increase resulted in higher salaries and wage expense in 2018, and 3) increased employer health care premiums and increased employer contributions for retirement plans, that are mandated by state law. Operating expenses, for 2018 and 2017 are noted below, by natural classification, followed by a bar chart that shows the comparative percentages:

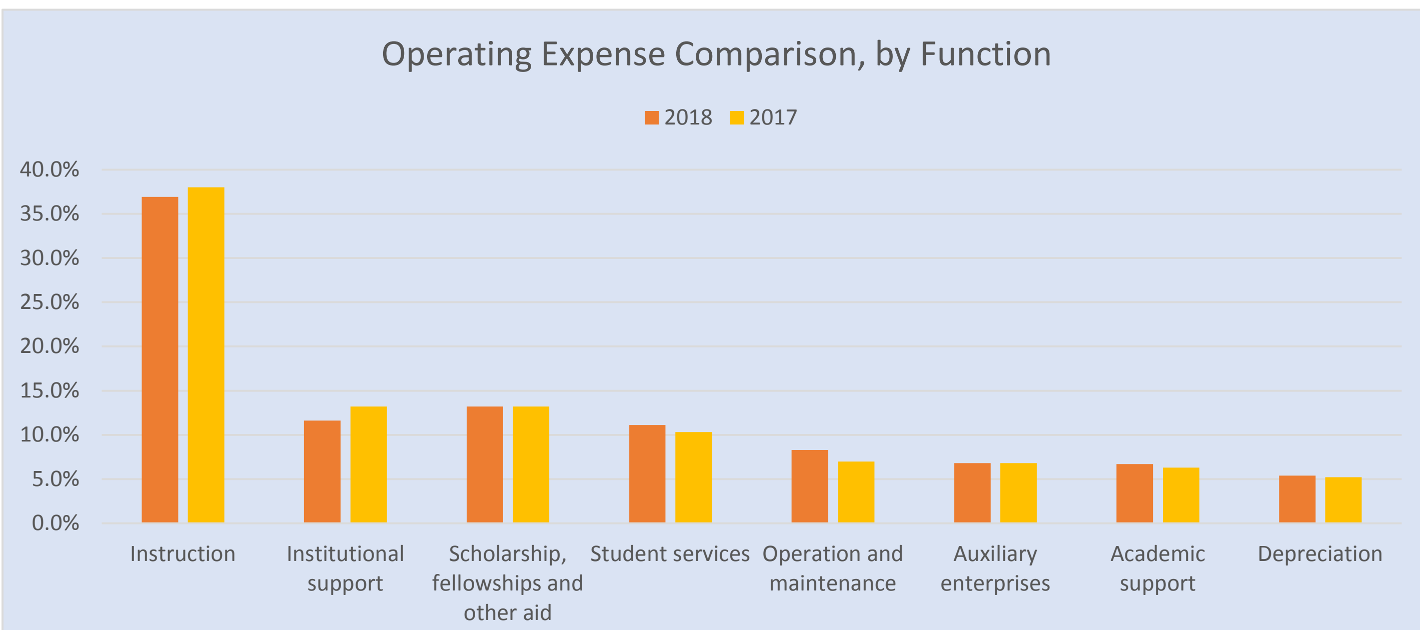
Operating Expenses

For the years ended June 30 (In thousands)	2018	2017
Salaries and wages	$ 34,891	$ 33,706
Employee benefits	13,384	11,090
Supplies, materials and services	9,478	9,971
Scholarships, fellowships and other aid	9,759	9,226
Depreciation	4,013	3,587
Utilities	1,368	1,167
Other	1,071	974
Total operating expenses	$ 73,964	$ 69,721



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

The following chart shows functional reporting of expenses, in percentage terms, for 2018 and 2017.



Capital Improvements and Related Debt

The College spent about $2.5 million for capital related purposes in 2018, down from $10 million in 2017. The decrease is primarily because of the completion of the Health and Wellness Center in 2017, for which the College entered into a $9.7 million certificate of participation (COP) with the Washington State Treasurer in October 2015. Repayment of the

COP is funded by student assessed fees. The balance of this debt at June 30, 2018 was $9.15 million, more information on this can be found in footnote 9 to these 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. 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. However, not all parts of the state are experiencing the same growth. 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. 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. The State's population growth is higher than the national average, which has resulted 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, low levels of unemployment have a negative effect on higher education enrollment. 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 and one-half years ago. While making some progress, ctcLink continues to have technical and functional issues that are adversely affecting the College's operations and student 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 Board of Trustees hired Ivan L. Harrell II, Ph.D. as its new president in May 2018, 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, 2018

Assets	College	Foundation
Current Assets		
Cash and cash equivalents	$ 19,144,524	$ 2,938,792
Accounts receivable, net	14,655,167	72,349
Inventories	579,353	-
Prepaid expenses	93,086	500
Total current assets	34,472,130	3,011,641
Non-Current Assets		
Restricted cash and cash equivalents	524,209	-
Other (INVISTA)	617,524	-
Investments	5,355,586	5,962,037
Land and construction in progress	1,996,154	-
Capital assets, net of depreciation	111,463,906	-
Total non-current assets	119,957,379	5,962,037
Total Assets	154,429,509	8,973,678
Deferred Outflows (related to pension plans and OPEB)	2,726,759	-
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	9,772,899	41,776
Compensated absences	1,484,826	-
Unearned revenues	1,841,151	-
Current portion of notes payable	445,000	-
Total pension liability	53,492	-
Other post-employment benefits	2,502,989	-
Total current liabilities	16,100,357	41,776
Non-Current Liabilities		
Compensated absences	1,472,411	-
Long-term portion of notes payable	10,303,863	-
Net pension liability	7,859,888	-
Total pension liability	2,867,016	-
Other post-employment benefits	22,995,225	-
Total non-current liabilities	45,498,403	-
Total Liabilities	61,598,760	41,776
Deferred Inflows (related to pension plans and OPEB)	6,360,827	-
Net Position		
Net investment in capital assets	102,711,197	-
Restricted:		
Nonexpendable	-	3,839,953
Expendable	3,342,350	4,773,592
Unrestricted	(16,856,866)	318,357
Total Net Position	$ 89,196,681	$ 8,931,902

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, 2018

	College	Foundation
Operating Revenues		
Student tuition and fees	$ 27,793,730	$ -
(Less scholarship discounts and allowances)	(9,497,496)	-
State and local grant and contracts	14,617,846	748,093
Auxiliary enterprise sales	2,824,536	-
Federal grants and contracts	907,476	-
Contributions	-	859,459
Other operating revenues	12,726	98,723
Total operating revenue	36,658,818	1,706,275
Operating Expenses		
Salaries and wages	34,891,338	-
Employee benefits	13,383,723	-
Scholarships, fellowships and other aid	9,758,982	-
Supplies, materials and services	9,478,224	-
Depreciation	4,013,077	-
Administrative expenses	-	1,609,238
Utilities	1,367,896	-
Other	1,070,763	-
Total operating expenses	73,964,003	1,609,238
Operating income (loss)	(37,305,185)	97,037
Non Operating Revenues (Expenses)		
State operating appropriations	25,535,009	-
Federal Pell grant revenue	8,018,657	-
Investment income	185,094	497,758
Interest expense	(312,870)	-
Tuition remittance	(1,964,725)	-
Net non operating revenues	31,461,165	497,758
Gain (loss) before capital appropriations	(5,844,020)	594,795
Capital appropriations	370,321	-
Increase (decrease) in net position	(5,473,699)	594,795
Net Position		
Net position, beginning of year, as previously reported	121,817,213	8,337,107
Cumulative effect of change in accounting principle (Note 1)	(27,146,833)	-
Net position, beginning of year, as restated	94,670,380	8,337,107
Net position, end of year	$ 89,196,681	$ 8,931,902

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

Statement of Cash Flows

For the Year Ended June 30, 2018

	College	Foundation
Cash Flows From Operating Activities		
Student tuition and fees, net	$ 18,631,423	$ -
Grants and contracts	19,882,496	-
Auxiliary enterprise sales, net	2,978,402	-
Other revenues	12,726	1,226,480
Payments for employees	(46,046,617)	-
Payments to vendors	(13,291,621)	(1,969,132)
Payments for scholarships and fellowships	(9,758,982)	-
Net cash used by operating activities	(27,592,173)	(742,652)
Cash Flows From Noncapital Financing Activities		
State appropriations	22,170,947	-
Federal Pell grant receipts	8,018,657	-
Permanently restricted endowment contributions	-	230,290
Tuition remittance to the State	-	-
Net cash provided by noncapital financing activities	30,189,604	230,290
Cash Flows From Capital Related Financing Activities		
Capital appropriations	523,805	-
Purchase of capital assets	(2,525,908)	-
Principal paid on capital debt	(425,000)	-
Interest paid on capital debt	(388,770)	-
Net cash used by capital related financing activities	(2,815,873)	-
Cash Flows From Investing Activities		
Purchase of investments	-	(241,481)
Sales and maturities of investments	-	442,922
Investment income	195,673	-
Net cash provided by investing activities	195,673	201,441
Decrease in Cash and Cash Equivalents	(22,769)	(310,921)
Cash and Cash Equivalents, Beginning of Year	19,691,502	3,249,713
Cash and Cash Equivalents, End of Year	$ 19,668,733	$ 2,938,792
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	$ 19,144,524	$ 2,938,792
Restricted cash and cash equivalents	524,209	-
Total cash and cash equivalents	$ 19,668,733	$ 2,938,792

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

	College	Foundation
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Income (Loss)	$ (37,305,185)	$ 594,795
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	4,013,077	-
Changes in assets, liabilities and deferrals		
Accounts receivable	4,277,855	(11,312)
Inventories	82,538	-
Donated Investments and contribution activity	-	(390,277)
Net unrealized and realized gains from investments	-	(385,246)
Compensated absences	589,318	-
Accounts payable and accrued expenses	(1,373,728)	(561,058)
Pension obligations	(1,433,579)	-
Other post-employment benefits	(2,064,894)	-
Deferred resources	5,137,596	-
Prepaid expenses	(83,548)	10,446
Unearned revenues	568,377	-
Net cash used by operating activities	$ (27,592,173)	$ (742,652)

Supplemental Non Cash Activities Information:

	College
Change in Due from State Treasurer (Capital related)	$ (153,484)
Change in Due from State Treasurer (Noncapital related)	3,364,061
Change in Due to State Treasurer (Noncapital related)	(1,586,516)

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

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, 2018 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 Pronouncement Implemented by the College, Effective July 1, 2017

The Governmental Accounting Standards Board (GASB) issued Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions,* effective for the year ended June 30, 2018.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

This Statement revises existing standards for measuring and reporting retiree healthcare benefits provided by the College to its employees, and requires recognizing liabilities, current and non-current, deferred outflows of resources, deferred inflow of resources and expenses.

The College has evaluated the effect of this Statement on financial reporting, with most changes in retiree healthcare (OPEB) liability being included in "Employee benefits" expense in the statement of revenue, expenses and changes in net position.

Change in Accounting Principle

Net position, as of July 1, 2017, has been restated for the implementation of GASB Statement No. 75:

Net Position as previously reported at June 30, 2017	$	121,817,213
Prior Period Adjustment:		
Deferred outflows (related to OPEB)		416,272
OPEB liability (current)		(416,272)
OPEB liability (non-Current)		(27,146,833)
Net Position as restated, July 1, 2017	$	94,670,380

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 and fall 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 is 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 Colleges 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 2018 is $4,680,433.

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 2018, the College collected $1,562,343 and $402,382 for funds 060 and 561, respectively, for a total of $1,964,725. 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 Systems.

Total Pension Liability

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

Postemployment Benefits Other Than Pensions (OPEB) Liability

The College applies the provisions of GASB Statement No. 75. There are no assets backing this 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 either the College's pension and retirement plans, or postemployment benefits other than pensions.

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, 2018
Petty cash and change funds	$	8,230
Bank demand deposits		10,504,275
Local government investment pool		9,156,228
	$	19,668,733

Cash and cash equivalents includes restricted cash and cash equivalents of $524,209 at June 30, 2018.

Note 4. Accounts Receivable

Accounts receivable at June 30, 2018 consists of the following:

Student tuition and fees	$	6,272,884
State appropriations		6,459,604
Federal, state, local and private grants		2,190,263
Auxiliaries		262,416
Subtotal		15,185,167
Allowance for uncollectibles		(530,000)
	$	14,655,167

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 $5.36 million in U.S. Government sponsored enterprise bonds, with staggered maturities, in $1 million to $1.5 million amounts. 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 instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

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

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

The following table summarize the investments reported at fair value within the fair value hierarchy as of June 30, 2018:

	Total	Level 1	Level 2	Level 3
Fixed or variable income securities				
U.S. Government sponsored enterprises	$ 5,355,586	$ -	$ 5,355,586	$ -

The College's investments in fixed-income securities at June 30, 2018, along with the credit quality and average duration, in years, is summarized as follows:

Investment	Fair Value	Duration
U.S. GSE bonds	$ 5,355,586	2.13

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 years as follows:

	Fair Value June 30, 2018	Investment Maturities (in months)		
		0-12	13-24	25-48
Investments - Operating Funds				
U.S. GSE bonds	$ 5,355,586	$ -	$ 1,967,703	$ 3,387,883

Note 6. Inventory

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

	June 30, 2018
Bookstore	$ 579,353

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2018 is summarized as follows:

	June 30, 2017	Additions	Retirements	June 30, 2018
Non-depreciable Capital Assets				
Land	$ 1,450,071	$ -	$ -	$ 1,450,071
Construction in progress	15,378,801	546,083	(15,378,801)	546,083
Total non-depreciable assets	16,828,872	546,083	(15,378,801)	1,996,154
Depreciable Capital Assets				
Buildings	119,914,896	15,415,667	-	135,330,563
Improvements other than buildings	7,672,184	1,428,175	-	9,100,359
Furniture, fixtures and equipment	12,478,572	475,500	88,895	12,865,177
Library resources	2,961,954	39,284	-	3,001,238
Total depreciable assets	143,027,606	17,358,626	88,895	160,297,337
Accumulated Depreciation				
Buildings	30,888,488	2,588,838	-	33,477,326
Improvements other than buildings	2,314,542	434,976	-	2,749,518
Furniture, fixtures and equipment	8,855,431	957,861	88,895	9,724,397
Library resources	2,850,788	31,402	-	2,882,190
Total accumulated depreciation	44,909,249	4,013,077	88,895	48,833,431
Capital Assets, Net of Depreciation	$ 114,947,229	$ 13,891,632	$ (15,378,801)	$ 113,460,060

The College recorded depreciation expense of $4,013,077 for the year ending June 30, 2018.

Note 8. Compensated Absences

The accrued leave balances as of June 30, 2018 totaled $2,957,237. 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
2019	$ 95,000	$ 56,950	$ 350,000	$ 347,113
2020	100,000	52,200	365,000	329,238
2021	105,000	47,200	385,000	310,488
2022	110,000	41,950	405,000	290,738
2023	115,000	36,450	425,000	269,988
2024-2028	670,000	88,500	2,400,000	1,078,856
2029-2033	-	-	2,855,000	619,263
2034-2036	-	-	1,965,000	112,010
	1,195,000	323,250	9,150,000	3,357,694
Unamortized premium	403,863	-	-	-
Total	$ 1,598,863	$ 323,250	$ 9,150,000	$ 3,357,694

Interest expense for these notes payable totaled $312,870 for 2018.

Note 10. Long-term Liabilities

The following are changes in long-term liabilities for 2018:

	6/30/2017*	Additions/ Amortizations	Decreases/ Retirements	6/30/2018	Current Portion
Notes payable	$ 11,249,763	$ -	$ 500,900	$ 10,748,863	$ 445,000
Pension obligations	12,213,975	2,053,697	3,487,276	10,780,396	53,492
Other post employment benefits*	27,563,105	1,669,580	3,734,471	25,498,214	2,502,989
	$ 51,026,843	$ 3,723,277	$ 7,722,647	$ 47,027,473	$ 3,001,481

*Restated for the implementation of GASB Statement No. 75.

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, 2018, the future minimum payments under these lease agreements are as follows:

Year	Amount	
2019	$	164,025
2020		98,649
2021		33,171
2022		4,291
	$	300,136

The College lease expense totaled $216,015 in 2018.

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 $138,183 for 2018.

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, 2018, liquidating unused balances, whereas capital projects have commitments that continue into the next fiscal year. The amount of capital project commitments at June 30, 2018 is $482,918.

Note 14. Operating Expenses by Function

Operating expenses, by functional category, for the year ended June 30, 2018 is summarized as follows:

Instruction	$	27,272,949
Scholarship, fellowship and other aid		9,758,982
Institutional support		8,558,710
Student services		8,241,344
Operation and maintenance		6,102,105
Auxiliary enterprises		5,042,759
Academic support		4,974,077
Depreciation		4,013,077
Total operating expenses	$	73,964,003

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.

Scholarships, Fellowships and Other Aid

This category includes expenses for scholarships, 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, human resources, fiscal operations, procurement, payroll, advancement and community relations.

Student Services

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

Operation and Maintenance

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

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.

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.

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

The College has deferred inflows and outflows of resources related to pensions and other post-employment benefits (OPEB) other than pension that are summarized in the table below and explained in greater detail in this note to the financial statement:

	Deferred	
	Inflows	Outflows
Pension plans administered by the DRS	$ (1,361,119)	$ 2,323,234
Pension plan administered by the SBCTC	(1,277,984)	-
Other post-employment benefits	(3,721,724)	403,525
Total	$ (6,360,827)	$ 2,726,759

<u>Plans Administered by DRS</u>

The following tables represent the components of the College's deferred (inflows) and outflows of resources for 2018 for plans administered by the Department of Retirement Systems (DRS):

Deferred (Inflows)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Difference between projected versus actual earnings on pension plan investments	$ (140,603)	$ (949,829)	$ (40,243)	$ (110,338)	$ (1,241,013)
Difference between expected versus actual experience	-	(106,462)	-	(13,644)	(120,106)
Total	$ (140,603)	$ (1,056,291)	$ (40,243)	$ (123,982)	$ (1,361,119)

Deferred Outflows	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Changes in proportionate share of pension liability	$ -	$ 394,131	$ -	$ 84,813	$ 478,944
Difference between expected versus actual experience	-	327,993	-	66,691	394,684
Changes in assumptions	-	29,185	-	2,573	31,758
Contributions to pension plans after measurement date	471,809	696,188	118,798	131,053	1,417,848
Total	$ 471,809	$ 1,447,497	$ 118,798	$ 285,130	$ 2,323,234

The $1,417,848 reported as deferred outflows of resources for 2018 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
Employer contributions	$ 471,809	$ 696,188	$ 118,798	$ 131,053	$ 1,417,848

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:

Difference between projected and actual earnings on pension plan investments					
Year Ended June 30*:	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**Total**
2019	$ 95,038	$ 488,962	$ 29,559	$ 55,380	$ 668,939
2020	(30,005)	(60,354)	(11,066)	(5,832)	(107,257)
2021	6,967	107,096	984	13,041	128,088
2022	68,603	414,125	20,766	47,749	551,243
Total	$ 140,603	$ 949,829	$ 40,243	$ 110,338	$ 1,241,013

Changes in proportionate liability:					
Recognition Period (Years)**	**1.0**	**7.3**	**1.0**	**9.8**	
Year Ended June 30:	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**Total**
2018	$ -	$ 62,561	$ -	$ 9,638	$ 72,199
2019	-	62,561	-	9,638	72,199
2020	-	62,561	-	9,638	72,199
2021	-	62,561	-	9,638	72,199
2022	-	62,561	-	9,638	72,199
2023	-	62,561	-	9,638	72,199
2024	-	18,765	-	9,638	28,403
2025	-	-	-	9,638	9,638
2026	-	-	-	7,709	7,709
Total	$ -	$ 394,131	$ -	$ 84,813	$ 478,944

Difference between expected and actual experience	PERS 2/3		TRS 2/3	
Recognition Period (Years)**	**7.3**	**7.3**	**9.8**	**9.8**
Year Ended June 30:	**(Inflows)**	**Outflows**	**(Inflows)**	**Outflows**
2019	$ (48,392)	$ 133,010	$ (4,013)	$ 13,736
2020	(48,392)	70,564	(4,013)	13,736
2021	(9,678)	28,934	(4,013)	9,436
2022	-	28,935	(1,605)	5,135
2023	-	28,935	-	5,135
Thereafter	-	37,615	-	19,513
Total	$ (106,462)	$ 327,993	$ (13,644)	$ 66,691

Changes in assumptions	PERS 2/3		TRS 2/3	
Recognition Period (Years)**	**7.3**	**7.3**	**9.8**	**9.8**
Year Ended June 30:	**(Inflows)**	**Outflows**	**(Inflows)**	**Outflows**
2019	$ -	$ 13,390	$ -	$ 762
2020	-	12,587	-	762
2021	-	2,565	-	744
2022	-	195	-	291
2023	-	195	-	3
Thereafter	-	253	-	11
Total	$ -	$ 29,185	$ -	$ 2,573

*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 2018 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	$ (930,396)
Changes in assumptions	(250,766)
Change in proportionate liability	(96,822)
Total	$(1,277,984)

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

Fiscal Year	Difference between expected and actual experience	Changes in assumptions	Change in proportionate liability	Total
2019	$ (155,066)	$ (41,794)	$ (13,832)	$ (210,692)
2020	(155,066)	(41,794)	(13,832)	(210,692)
2021	(155,066)	(41,794)	(13,832)	(210,692)
2022	(155,066)	(41,794)	(13,832)	(210,692)
2023	(155,066)	(41,795)	(13,832)	(210,693)
Thereafter	(155,066)	(41,795)	(27,662)	(224,523)
	$ (930,396)	$ (250,766)	$ (96,822)	$ (1,277,984)

Other Post-Employment Benefits

The following are elements of the deferrals for other post-employment benefits:

	Deferred	
	Inflows	Outflows
Changes in assumptions	$ (3,510,862)	$ -
Transactions subsequent to the measurement date	-	403,525
Changes in proportionate share of liability	(210,862)	-
Total	$ (3,721,724)	$ 403,525

The deferred outflow in the amount of $403,525 will be recognized as a reduction in the current portion of the other post-employment benefit liability in the subsequent period.

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

Year	Changes in Assumptions	Changes in proportionate share of liability
2019	$ (438,858)	$ (26,358)
2020	(438,858)	(26,358)
2021	(438,858)	(26,358)
2022	(438,858)	(26,358)
2023	(438,858)	(26,358)
2024	(438,858)	(26,358)
2025	(438,857)	(26,357)
2026	(438,857)	(26,357)
	$ (3,510,862)	$ (210,862)

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 Systems (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 2018 are as follows:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3
Total pension liability	$ 9,072,085	$ 35,725,626	$ 2,474,686	$ 3,858,435
Plan fiduciary net position	(5,555,745)	(32,499,602)	(1,623,394)	(3,592,203)
Net pension liability	$ 3,516,340	$ 3,226,024	$ 851,292	$ 266,232
Plan fiduciary net position as percentage of total pension liability	61.24%	90.97%	65.60%	93.10%

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
Retirees and beneficiaries currently receiving benefits	47,037	50,841	4,986	33,460	5,453	11,960
Terminated members entitled to but not yet receiving benefits	539	29,506	6,184	147	2,617	8,735

Active plan members vested	1,835	78,831	14,757	486	8,961	37,315
Active plan members nonvested	151	41,470	20,832	11	11,557	17,802
Total membership	49,562	200,648	46,759	34,104	28,588	75,812

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	101	154	147	22	26	41
Counties/Municipalities	100	280	217	-	-	-
School districts	155	-	-	140	302	312
Other political subdivisions	88	530	340	-	-	-
Total	444	964	704	162	328	353

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 2018, 2017 and 2016, are as follows:

	2018		2017		2016	
Plan	Member	College	Member	College	Member	College
PERS 1	6.00%	12.70%	6.00%	11.18%	6.00%	11.18%
PERS 2	7.38%	12.70%	6.12%	11.18%	6.12%	11.18%
PERS 3	5% -15%	12.70%	5% -15%	11.18%	5% - 15%	11.18%
TRS 1	6.00%	15.20%	6.00%	13.13%	6.00%	13.13%
TRS 2	7.06%	15.20%	5.95%	13.13%	5.95%	13.13%
TRS 3	5% -15%	15.20%	5% -15%	13.13%	5% -15%	13.13%

The rates presented above for the College (employer) contributions, include an administrative fee of 0.18% charged by the Department of Retirement Systems 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, 2018 and 2017, the annual money weighted rate of return on the pension investments, net of pension plan expenses are as follows:

	Rate of Return	
Pension Plan	**2018**	**2017**
PERS Plan 1	9.55%	13.84%
PERS Plan 2/3	9.56%	14.11%
TRS Plan 1	9.54%	14.45%
TRS Plan 2/3	9.57%	14.10%

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, 2018:

Asset Class	Target Allocation	Actual Allocation	Long-term Expected Real Rate of Return
Fixed income	20.00%	23.52%	1.70%
Tangible assets	7.00%	4.36%	4.90%
Real estate	18.00%	17.17%	5.80%
Global equity	32.00%	34.24%	6.30%
Private equity	23.00%	20.59%	9.30%
Innovation	0.00%	0.04%	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.

Changes in Proportionate Shares of Pension Liabilities

The changes, increases or (decreases), to the College's proportionate share of pension liabilities from 2016 to 2017 were 0.006939%, 0.010086%, 0.003858% and 0.004107% for PERS 1, PERS 2/3, TRS 1 and TRS 2/3, respectively as noted in the following table:

	2016	**2017**
PERS Plan 1	0.067166%	0.074105%
PERS Plan 2/3	0.082762%	0.092848%
TRS Plan 1	0.024300%	0.028158%
TRS Plan 2/3	0.024739%	0.028846%

The following table shows the changes in each pension plan liability for 2018:

Net Pension Liability	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Balance, June 30, 2017	**$ (3,607,131)**	**$ (4,167,001)**	**$ (829,660)**	**$ (339,740)**	**$ (8,943,532)**
Changes in proportionate share of liability	(372,656)	(507,821)	(131,721)	(56,401)	(1,068,599)
Difference between expected versus actual experience	-	(126,167)	-	(40,417)	(166,584)
Changes in assumptions	-	14,052	-	897	14,949
Net difference between projected versus actual earnings on pension plan investments	231,424	1,432,041	66,557	160,115	1,890,137
Deferred outflows (Employer contributions)	451,513	577,447	98,263	105,032	1,232,255
Pension expense	(219,490)	(448,575)	(54,731)	(95,718)	(818,514)
Balance, June 30, 2018	**$ (3,516,340)**	**$ (3,226,024)**	**$ (851,292)**	**$ (266,232)**	**$ (7,859,888)**

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	$ 4,283,574	$ 3,516,340	$ 2,851,751
PERS Plan 2/3	8,691,246	3,226,024	(1,251,915)
TRS Plan 1	1,058,563	851,292	671,885
TRS Plan 2/3	904,220	266,232	(251,934)

At June 30, 2018, the College reported a total collective liability of $7,859,888 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, 2016 with the results rolled forward to June 30, 2017, 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%

Pension Expense

Pension expense, included in "Employee benefits" expense in the Statement of Revenues, Expenses and Changes in Net Position, totaled $1,395,090 for 2018. The following table shows the components of each pension plan expense:

2018 Pension Expense	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarial determined pension expense	$ 219,490	$ 448,575	$ 54,731	$ 95,718	$ 818,514
Amortization of change in proportionate liability	372,656	62,561	131,721	9,638	576,576
Total pension expense	$ 592,146	$ 511,136	$ 186,452	$ 105,356	$1,395,090

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, 2018, the College contributed $107,044 to this fund.

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, 2018 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%

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 3.87 percent for the June 30, 2018, measurement date.

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 3.58 percent to 3.87 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, 2018, 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, 2018, the College recorded $(7,701) 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 3.87 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 (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

Total Pension Liability			
Plan	1% Decrease	Current Discount Rate	1% Increase
Tacoma Community College	$ 3,331,080	$ 2,920,508	$ 2,579,018

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2018 supplemental benefits were paid by the SBCTC on behalf of all the community and technical colleges totaled $1.3 million, of this, the College's proportionate share of this is $43,553.

Proportionate Share of Total Pension Liability

The College's proportionate share of total pension liabilities for the year ended June 30, 2018 was 3.35%. 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 2018:

Change in Total Pension Liability

Total Pension Liability - Beginning	$ 3,270,443
Service cost	128,214
Interest	117,828
Differences between expected and actual experience	(348,492)
Changes in assumptions	(117,895)
Benefit payments	(43,553)
Change in proportionate share of total pension liability	(86,037)
Total Pension Liability - Ending	$ 2,920,508

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, 2018 were $1,623,076 and $1,633,093, respectively. All required employer and employee contributions have been made by the College.

Note 18. Other Post-Employment Benefits (OPEB)

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending June 30, 2018. This Statement replaces Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Other post-employment benefits (OPEB) are those that are provided to retired employees beyond their pensions. The difference between Statement No. 75 and Statement No. 45 valuations are that Statement No. 75 requires the valuation results be prepared using the Entry Age Normal actuarial cost method, whereas under Statement No. 45, the valuation was presented using the Project Unit Credit actuarial cost method, an acceptable method under Statement No. 45.

In addition to pension benefits as described in Note 17, the State, through the Health Care Authority (HCA), administers an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan. At June 30, 2018, the State of Washington reported a total OPEB liability of $5.83 billion, and the College's proportionate share of this liability is $25,498,214. This liability was determined based on measurement date of June 30, 2017. The basis for the allocation of this liability is the number of active and eligible employees of the College divided by total State of Washington active and eligible employees at June 30, 2017.

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. The PEBB OPEB plan is administered by the State, is funded on a pay-as-you-go basis, does not issue a publicly available financial report and has no assets.

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 they belong to. 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 and 2018. This will increase in calendar year 2019 up to $168 per member per month.

For calendar years 2017 and 2018, the estimated monthly cost for PEBB benefits for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium	**2017**	**2018**
Medical	$ 1,025	$ 1,071
Dental	79	80
Life	4	4
Long-term disability	2	2
Total	$ 1,110	$ 1,157

Required Premium	**2017**	**2018**
Employer contribution	$ 959	$ 1,001
Employee contribution	151	156
Total	$ 1,110	$ 1,157

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go-basis. For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:

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

Projection of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between employer and the plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	3%
Projected salary increases	3.75% Plus Service-Based Salary Increases
Health care trend rates	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 7%, reaching an ultimate rate of approximately 5% in 2080
Post-retirement participation percentage	65%
Percentage with spouse coverage	45%

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy is assumed to grow at the health care trend rates. The Legislature determines the value of the cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap is assumed.

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 the lifetime.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-employments participation percentage with spouse coverage, were reviewed in the 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2015 Economic Experience Study.

The total OPEB liability was determined using the following methodologies:

Actuarial valuation date	1/1/2017
Actuarial measurement date	6/30/2017
Actuarial cost method	Entry Age
Amortization method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset valuation method	N/A - No Assets

In order to calculate the beginning total OPEB liability under statement No. 75, the January 1, 2017 actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017 valuation forward to June 30, 2017. Both the forward and backward projections reflect the plan's assumed service cost, assumed interest, and expected benefit payments. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set to equal the Bond Buyer General Obligation 20-Bond Municipal Index, or 2.85% for the June 30, 2016 measurement date and 3.58% for the June 30, 2017 measurement date.

At June 30, 2018, the components of the calculation of total OPEB Liability determined in accordance with Statement No. 75 for the College is as follows:

Total OPEB liability - Beginning	$	27,563,105
Service cost		1,728,623
Interest cost		809,698
Difference between expected and actual experience		-
Changes in assumptions*		(3,949,720)
Changes in benefit terms		-
Benefit payments		(412,635)
Changes in proportionate share		(240,857)
Other		-
Total OPEB liability - Ending	$	25,498,214

*The recognition period for these changes is nine years, which is equal to the average expected remaining service lives of all active and inactive members.

The following represents the total OPEB liability of the College, calculated using the discount rate of 3.58%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current rate.

		Sensitivity of Discount Rate			
1% Decrease		Current Discount Rate		1% Increase	
$	31,110,969	$	25,498,214	$	21,154,843

The following represents the total OPEB liability of the College, calculated using healthcare trend rates of 7%, decreasing to 5%, as well as what the total OPEB liability would be if it were calculated using healthcare trend rates of 1 percentage point lower (6% decreasing to 4%) or 1 percentage point higher (8% decreasing to 6%) than the current rate:

		Sensitivity of Healthcare Cost Trend Rate			
1% Decrease		Current Discount Rate		1% Increase	
$	20,599,048	$	25,498,214	$	32,073,332

For the year ended June 30, 2018, the College will recognize OPEB expense of $1,669,580. OPEB expense consists of the following elements:

OPEB Expense		
Service cost	$	1,728,623
Interest cost		809,698
Amortization of changes in assumption		(438,858)
Amortization of changes in proportionate liability		(26,358)
Amount deferred to future periods		(403,525)
Net OPEB expense	$	1,669,580

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 2018, while the Foundation provides fundraising and financial services, along with payment of scholarship and grants on behalf of the College in the amount of $378,486 for 2018. 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, 2018, the College's portion of equity in this joint venture is $617,524. 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*

	2018	2017	2016	2015	2014
Contractually required contributions	$ 467,361	$ 445,761	$ 380,894	$ 322,924	$ 314,705
Employer contributions related to covered payroll of employees participating in PERS Plan 1	1,716	11,555	14,635	18,105	15,088
Employer UAAL contributions related to covered payroll of employees participating in PERS Plan 2/3	465,645	434,206	366,259	304,819	299,617
Total contributions in relation to actuarially determined contributions	467,361	445,761	380,894	322,924	314,705
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll of employees participating in PERS Plan 1	$ 13,511	$ 103,354	$ 130,903	$ 196,579	$ 163,821
Covered payroll of employees participating in PERS Plan 2/3	9,257,355	9,102,851	7,678,385	7,620,475	7,490,425
Total covered-employee payroll	$ 9,270,866	$ 9,206,205	$ 7,809,288	$ 7,817,054	$ 7,654,246
Contributions as a percentage of covered-employee payroll	5.04%	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*

	2018	2017	2016	2015	2014
Contractually required contributions	$ 690,007	$ 567,105	$ 477,780	$ 381,605	$ 367,669
Contributions in relation to contractually determined contributions	690,007	567,105	477,780	381,605	367,669
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 9,212,377	$ 9,102,809	$ 7,669,021	$ 7,586,581	$ 7,309,523
Contributions as a percentage of covered-employee payroll	7.49%	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*

	2018	2017	2016	2015	2014
Contractually required contributions	$ 117,486	$ 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	117,486	98,535	73,851	55,364	44,805
Total contributions in relation to actuarially determined contributions	117,486	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	1,634,019	1,581,621	1,185,409	1,235,803	1,000,111
Total covered-employee payroll	$ 1,634,019	$ 1,581,621	$ 1,185,409	$ 1,235,803	$ 1,000,168
Contributions as a percentage of covered-employee payroll	7.19%	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*

	2018	2017	2016	2015	2014
Contractually required contributions	$ 130,556	$ 106,285	80,748	$ 69,730	$ 59,955
Contributions in relation to contractually determined contributions	130,556	106,285	80,748	69,730	59,955
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 1,667,382	$ 1,581,622	$ 1,201,607	$ 1,216,928	$ 1,046,335
Contributions as a percentage of covered-employee payroll	7.83%	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*

	2018	2017
Contractually required contributions	$ 1,633,093	$ 1,647,181
Contributions in relation to contractually determined contributions	1,633,093	1,647,181
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 18,923,508	$ 19,200,963
Contributions as a percentage of covered-employee payroll	8.63%	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*

	2017	2016	2015	2014
TCC PERS 1 Employers' proportion of the net pension liability	0.074105%	0.067166%	0.070262%	0.071009%
TCC PERS 1 Employers' proportionate share of the net pension liability	$ 3,516,340	$ 3,607,131	$ 3,675,357	$ 3,577,112
TCC PERS 1 Employers' covered-employee payroll	$ 9,206,205	$ 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	38.20%	46.19%	47.02%	46.73%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	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*

	2017	2016	2015	2014
TCC PERS 2/3 Employers' proportion of the net pension liability	0.092848%	0.082762%	0.085667%	0.087035%
TCC PERS 2/3 Employers' proportionate share of the net pension liability	$ 3,226,024	$ 4,167,001	$ 3,060,931	$ 1,759,292
TCC PERS 2/3 Employers' covered-employee payroll	$ 9,102,809	$ 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	35.44%	54.34%	40.35%	24.07%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	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*

	2017	2016	2015	2014
TCC TRS 1 Employers' proportion of the net pension liability	0.028158%	0.024300%	0.024741%	0.022661%
TCC TRS 1 Employers' proportionate share of the net pension liability	$ 851,292	$ 829,660	$ 783,830	$ 668,376
TCC TRS 1 Employers' covered-employee payroll	$ 1,581,621	$ 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	53.82%	69.99%	63.43%	66.83%
Plan fiduciary net position as a percentage of the total pension liability	65.60%	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*

	2017	2016	2015	2014
TCC TRS 2/3 Employers' proportion of the net pension liability	0.028846%	0.024739%	0.026239%	0.024435%
TCC TRS 2/3 Employers' proportionate share of the net pension liability	$ 266,232	$ 339,740	$ 221,405	$ 78,922
TCC TRS 2/3 Employers' covered-employee payroll	$ 1,581,622	$ 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	16.83%	28.27%	18.19%	7.54%
Plan fiduciary net position as a percentage of the total pension liability	93.10%	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*

	2018	2017
Total Pension Liability - Beginning	$ 3,270,443	$ 4,071,693
Service cost	128,214	186,386
Interest cost	117,828	120,908
Changes of benefit terms	-	-
Differences between expected and actual experience	(348,492)	(871,751)
Changes in assumptions	(117,895)	(205,757)
Benefit payments	(43,553)	(31,036)
Change in proportionate share of total pension liability	(86,037)	-
Total Pension Liability - Ending	$ 2,920,508	$ 3,270,443
Covered-employee payroll	$ 18,923,508	$ 19,200,963
Total Pension Liability as a percentage of covered-employee payroll	15.43%	17.03%

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

Schedule of Change in Total OPEB Liability and Related Ratios
Fiscal Year Ended June 30*

	2018
Total OPEB Liability - Beginning	$ 27,563,105
Service cost	1,728,623
Interest cost	809,698
Difference between expected and actual experience	-
Changes in assumptions	(3,949,720)
Changes in benefit terms	-
Benefit payments	(412,635)
Changes in proportionate share	(240,857)
Other	-
Total OPEB Liability - Ending	$ 25,498,214
OPEB Net Position**	$ -
Ratio of OPEB net position to total OPEB Liability	0.0%
Covered-employee payroll	$ 29,927,821
Total OPEB Liability as a percentage of covered-employee payroll	85.20%

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

****No net position exists for this liability.**

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*

Clark Nuber PS

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

Independent Auditor's Report

To the Board of Trustees
Tacoma Community College
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the Tacoma Community College (the College), which comprise the statement of financial position as of and for the year ended June 30, 2018, 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 March 22, 2019.

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, 2018, 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.

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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 2018-001, 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 describe 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
March 22, 2019

TACOMA COMMUNITY COLLEGE

Schedule of Findings
For the Year Ended June 30, 2018

Finding 2018-001 - 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, the College 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

This publication was prepared by Financial Services. Published March 2019.

For more information on this report, contact Financial Services at financialreporting@tacomacc.edu.

Tacoma Community College

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