TACOMA COMMUNITY COLLEGE

2014 Financial Statement Report
Fiscal Year ended June 30, 2014
Prepared by Financial Services Office

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BOARD OF TRUSTEES AND ADMINISTRATIVE OFFICERS

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Tacoma Community College
July 1, 2013 through June 30, 2014

Board of Trustees
Tacoma Community College
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Tacoma Community College, Pierce County, Washington, as of and for the year ended June 30, 2014, 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 did not audit the financial statements of the Tacoma Community College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Tacoma Community College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Tacoma Community College Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the Tacoma Community College, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Tacoma Community College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The Trustees and Administrative Officers is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Troy X Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

June 20, 2016

Tacoma Community College
Statement of Net Position
June 30, 2014

Assets	Primary Government College	Component Unit Foundation
Current assets		
Cash and cash equivalents	22,977,133	4,300,258
Accounts Receivable	3,837,796	31,156
Inventories	512,645	
Prepaid Expenses	45,012	370,190
Total current assets	**27,372,586**	**4,701,604**
Non-Current Assets		
Long-term investments	4,970,928	5,500,920
Capital assets, net of depreciation	67,839,866	
Capital assets, non-depreciable	31,075,940	
Total non-current assets	**103,886,734**	**5,500,920**
Total assets	**$ 131,259,320**	**$ 10,202,524**
Liabilities		
Current Liabilities		
Accounts Payable	2,291,112	156,553
Accrued Liabilities	1,251,154	
Deposits Payable	97,188	
Unearned Revenue	3,370,594	
Certificates of Participation Payable	308,000	
Total current liabilities	**7,318,048**	**156,553**
Noncurrent Liabilities		
Compensated Absences	2,902,072	
Certificates of Participation Payable	1,925,000	
Total non-current liabilities	**4,827,072**	**-**
Total liabilities	**12,145,119**	**156,553**
Net Position		
Net Investment in Capital Assets	96,682,807	
Restricted for:		
Foundation		9,854,689
Institutional Financial Aid Funds	389,733	
Unrestricted	22,041,661	191,282
Total Net Position	**119,114,201**	**10,045,971**
Total Liabilities and Net Position	**$ 131,259,320**	**$ 10,202,524**

See accompanying notes to Financial Statements

Tacoma Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	Primary Government College	Component Unit Foundation
Operating Revenues		
Student tuition and fees, net	20,982,580	
Auxiliary enterprise sales	4,221,056	
State and local grants and contracts	14,270,965	712,642
Federal grants and contracts	941,222	
Contributions		1,219,507
Other operating revenues	194,084	27,384
Total operating revenue	**40,609,907**	**1,959,533**
Operating Expenses		
Academic & administrative expenses	6,169,503	1,666,137
Salaries and wages	30,026,881	
Benefits	9,692,833	
Scholarships and fellowships	15,699,606	
Supplies and materials	3,290,391	
Depreciation	2,657,055	
Purchased services	1,144,280	
Utilities	1,024,942	
Total operating expenses	**69,705,491**	**1,666,137**
Operating income (loss)	**(29,095,584)**	**293,396**
Non-Operating Revenues		
State appropriations	18,996,127	
Federal Pell grant revenue	14,603,822	
Investment income, gains and losses	50,205	763,323
Net non-operating revenues	**33,650,154**	**763,323**
Non-Operating Expenses		
Interest on indebtedness	101,797	
Net non-operating expenses	**101,797**	**-**
Income or (loss) before Capital Appropriations	**4,452,773**	**1,056,719**
Capital Revenues		
Capital appropriations	15,217,810	
Increase (Decrease) in net position	**19,670,583**	**1,056,719**
Net Position		
Net position, beginning of year	95,061,392	8,989,252
Prior year adjustment	4,382,226	
Restated net position, beginning of year	99,443,618	8,989,252
Net position, end of year	**$ 119,114,201**	**$ 10,045,971**

See accompanying notes to Financial Statements

Tacoma Community College

Statement of Cash Flows

For the Year Ended June 30, 2014

	Primary Government College
Cash flow from operating activities	
Student tuition and fees	21,050,489
Grants and contracts	15,217,336
Payments to vendors	(4,455,304)
Payments for utilities	(923,108)
Payments to employees	(30,246,694)
Payments for benefits	(9,746,884)
Auxiliary enterprise sales	4,215,247
Payments for scholarships and fellowships	(15,699,606)
Other receipts (payments)	(7,024,395)
Net cash used by operating activities	**(27,612,918)**
Cash flow from noncapital financing activities	
State appropriations	18,996,127
Pell grants	14,603,822
Amounts for other than capital purposes	0
Net cash provided by noncapital financing activities	**33,599,948**
Cash flow from capital and related financing activities	
Capital appropriations	15,217,810
Purchases of capital assets	(14,316,984)
Certificate of participations proceeds	0
Principal paid on capital debt	(173,000)
Interest paid	(101,797)
Net cash used by capital and related financing activities	**626,030**
Cash flow from investing activities	
Purchase of investments	(3,838,756)
Proceeds from sales and maturities of investments	0
Income of investments	50,205
Net cash provided by investing activities	**(3,788,551)**
Increase in cash and cash equivalents	**2,824,509**
Cash and cash equivalents at the beginning of the year	20,152,624
Cash and cash equivalents at the end of the year	**$ 22,977,133**

See accompanying notes to Financial Statements

Tacoma Community College

Statement of Cash Flows

For the Year Ended June 30, 2014

		Primary Government College
Reconciliation of Operating Loss to Net Cash used by Operating Activities:		
Operating Loss		(29,095,584)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		2,657,055
Changes in assets and liabilities:		
Receivables , net		(1,382,995)
Inventories		(84,242)
Other assets		48,853
Accounts payable		(110,931)
Accrued liabilities		(16,709)
Unearned revenue		209,214
Compensated absences		144,176
Deposits payable		18,246
Net cash used by operating activities	**$**	**(27,612,918)**

See accompanying notes to Financial Statements

Notes to the Financial Statements

June 30, 2014

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Tacoma Community College is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

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

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

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

Since the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

This report represents the Foundation's financial condition and activities as a discretely presented separate component unit in this financial statement. The Foundation reports its financial results in accordance with Financial Accounting Standards Board (FASB) pronouncements and guidance. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the college's financial statements for these differences. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2014, the Foundation distributed approximately $299,465 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at:

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

Basis of Presentation

The college follows all GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements

There were no new accounting pronouncements implemented by the college for Fiscal Year 2014.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Cash, Cash Equivalents and Investments
Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, and cash equivalent at cost, which approximates fair value. Investments are recorded at market value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated for general operating needs of the College. The internal investment pool is comprised of cash, cash equivalents and investments and securities as authorized by RCW 39.60.50.

Accounts Receivable
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

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

Capital Assets
In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, only equipment with a unit cost of $5,000 or greater are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and components, 20 to 25 years for infrastructure and land improvements, 7 years for library resources and 5 to 7 years for equipment.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2014, no assets had been written down.

Unearned Revenues
Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded summer quarter tuition and fees as unearned revenues.

Tax Exemption
The College is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Net Position
The College's net position is classified as follows.

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

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

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

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

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2014 are $8,096,106.

State Appropriations
The State of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Operating Revenues and Expenses
Operating revenues consist of tuition and fees, grants and contracts, sales and service of educational activities and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as nonoperating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

2. Cash and Investments
Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $22,977,133 as represented in the table below.

Cash and Cash Equivalents	**June 30, 2014**
Petty Cash and Change Funds	19,090
Bank Demand and Time Deposits	3,637,525
Local Government Investment Pool	19,320,518
Total Cash and Cash Equivalents	**22,977,133**

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

Investment Maturities	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years	10 or More Years
U.S. Agency Obligations Other	$ 4,970,928		$4,970,928		
Total Investments	**$ 4,970,928**	**$ -**	**$ 4,970,928**	**$ -**	**$ -**

Custodial Credit Risks—Deposits
Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with Key Bank. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Interest Rate Risk—Investments
The College manages its exposure to fair value losses resulting from changes in interest rates by structuring the entire portfolio time horizon. Unless matched to a specific cash flow, the college generally will not directly invest in securities maturing more than five years from the date of purchase.

Concentration of Credit Risk—Investments
State law limits College operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. College policy does not limit the amount the College may invest in any one issuer.

Custodial Credit Risk—Investments
Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2014, $4,970,928 of the College's operating fund investments, held by US Bank in the bank's name as agent for the College, are exposed to custodial credit risk as follows:

Investments Exposed to Custodial Risk	Fair Value
Federal Home Loan Bank	$ 995,951
Federal Nat'l Mortgage Assn	998,650
Federal Nat'l Mortgage Assn	996,549
Federal Nat'l Mortgage Assn	991,090
Federal Farm Credit Bank	988,688
Total Investments Exposed to Custodial Risk	**$ 4,970,928**

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2014 were $474.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2014, accounts receivable were as follows:

Accounts Receivable	**Amount**
Student Tuition and Fees	$ 1,386,192
Due from the Federal Government	1,325,756
Due from Other State Agencies	613,744
Auxiliary Enterprises	80,034
Business Contract Training	344,853
Other	88,931
Subtotal	$ 3,839,510
Less Allowance for Uncollectible Accounts	(1,714)
Accounts Receivable, net	**$ 3,837,796**

4. Loans Receivable

The College does not have any loans as of June 30, 2014.

5. Inventories

Merchandise inventory, stated at cost using the FIFO method, consisted of $512,645 as of June 30, 2014.

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $2,657,055.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 1,450,071	$ -	$ -	$ 1,450,071
Construction in progress	14,238,363	15,387,506	-	29,625,869
Total nondepreciable capital assets	**15,688,434**	**15,387,506**	**-**	**31,075,940**
Depreciable capital assets				
Buildings	87,463,489	0	(94,266)	87,369,223
Other improvements and infrastructure	4,622,078	0	(198,022)	4,424,056
Equipment	8,404,401	261,259	(484,562)	8,181,098
Library resources	2,930,277	16,305	(67,043)	2,879,539
Subtotal depreciable capital assets	**103,420,245**	**277,564**	**(843,893)**	**102,853,916**
Less accumulated depreciation				
Buildings	22,865,050	1,868,794	(64,263)	24,669,581
Other improvements and infrastructure	1,455,065	202,464	(105,943)	1,551,586
Equipment	5,957,660	550,883	(459,703)	6,048,840
Library resources	2,811,723	34,914	(102,594)	2,744,043
Total accumulated depreciation	**33,089,498**	**2,657,055**	**(732,503)**	**35,014,050**
Total depreciable capital assets	**$ 70,330,747**	**($2,379,491)**	**($111,390)**	**67,839,866**
Capital assets, net of accumulated depreciation	**$ 86,019,181**	**$ 13,008,015**	**($111,390)**	**$ 98,915,806**

7. Deferred Outflows

The College does not have any deferred outflows as of June 30, 2014.

8. Accounts Payable, Accrued Liabilities, and Deposits Payable

At June 30, 2014, accounts payable and accrued liabilities are the following:

Accounts Payable, Accrued Liabilities & Deposits Payable	Amount
Amounts Owed to Employees	$ 961,768
Accounts Payable	1,231,093
Amounts Held for Others and Retainage	1,446,593
Total	**$ 3,639,454**

9. Unearned Revenue
Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, for Summer Quarter Tuition & Fees are $3,370,594.

10. Risk Management
The College, in accordance with state policy, self-insures unemployment compensation for all employees. Payments made for claims from July 1, 2013 through June 30, 2014, totaled $120,121.

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

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to $10 million for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

11. Compensated Absences
At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $1,407,281 at June 30, and accrued sick leave totaled $1,494,791 at June 30, 2014.

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

12. Leases Payable

The College leases office equipment with two vendors. The leases are classified as operating leases. The College does not have any capital leases at this time. As of June 30, 2014, the minimum lease payments consist of the following:

Leases Payable Fiscal year	Operating Leases - Equipment
2014	$ 74,508
2015	64,836
2016	16,208
2017	
Total minimum lease payments	$ 155,552
Less Amount representing interest	-
Net present value	**$ 155,552**

13. Notes Payable

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

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

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

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

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

14. Annual Debt Service Requirements

Future debt service requirements at June 30, 2014 are as follows:

Annual Debt Service Requirements

Certificates of Participation

Fiscal year	Principal	Interest	Total
2015	308,000	90,647	398,647
2016	240,000	79,553	319,553
2017	255,000	68,913	323,913
2018	105,000	59,612	164,612
2019	110,000	55,313	165,313
2020-2024	625,000	201,281	826,281
2025-2028	590,000	54,226	644,226
Total	**$2,233,000**	**$ 609,545**	**$ 2,842,545**

15. Schedule of Long Term Debt

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Certificates of Participation	$ 2,526,392	-	$ (293,392)	$2,233,000	$ 308,000
Compensated Absences	$2,757,896	$ 144,176		$2,902,072	

16. Deferred Inflows

The College does not have any deferred inflows as of June 30, 2014.

17. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are a cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY 2013-14, the payroll for the College's employees was:

- $ 7,604,273 for PERS
- $ 1,054,227 for TRS
- $17,621,469 for SBRP

Total covered payroll was $17,808,431.

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested when an employee completes five or ten years of eligible service, depending on employee age and service credit, and include an annual cost of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The college also has 1 faculty member with pre-existing eligibility who continues to participate in TRS plan 1.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made the required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the year ending June 30, 2014 are as follows:

Contribution Rates at June 30, 2014						
	FY2012		FY2013		FY 2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.08%	6.00%	7.21%	6.00%	9.19-9.21%
Plan 2	4.64%	7.08%	4.64%	7.21%	4.92%	9.19-9.21%
Plan 3	5-15%	7.08%	5-15%	7.21%	5-15%	9.19-9.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	8.05-10.39%
Plan 3	5-15%	8.04%	5-15%	8.05%	5-15%	8.05%

Required Contributions						
	FY 2012		FY 2013		FY 2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 12,720	$ 15,247	$ 13,455	$ 16,168	$ 10,132	$ 15,546
Plan 2	280,391	434,936	278,298	432,632	314,640	591,568
Plan 3	42,710	48,177	56,136	66,029	67,056	96,808
TRS						
Plan 2	524	667	380	510	1,466	3,071
Plan 3	11,174	12,930	51,486	58,299	67,743	103,172

State Board Retirement Plan

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA-CREF. The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are 100% matched by the College. Employee and employer contributions for the year ended June 30, 2014 were $1,499,805 and employee $1,509,078.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid in the amount of $ 3,344. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $ 87,065 As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 of the fund balance.

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

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment

Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The state of Washington funds OPEB obligations at a state-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB Statement No. 45, does not exist at department levels, and as a result, the Actuarial Accrued Liability (AAL) is not available for the College. The state of Washington's Comprehensive Annual Financial Report (CAFR) includes the state's measurement and recognition of OPEB expense/expenditures, liabilities, note disclosures, and required supplementary information specified by GASB Statement No. 45. The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

The College paid $ 4,974,506 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

18. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Assets, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2014.

Expenses by Functional Classification

Instruction	$ 24,652,633
Academic Support Services	3,635,751
Student Services	5,698,822
Institutional Support	6,481,328
Operations and Maintenance of Plant	5,550,680
Scholarships and Other Student Financial Aid	16,024,672
Auxiliary Enterprises	5,004,550
Depreciation	2,657,055
Total operating expenses	**$ 69,705,491**

19. Prior Year Adjustments

An adjustment was made to reduce prior year's net position by $177,029. This modification was made due to a discrepancy between the ending balance of FY13 and beginning balance of FY14.

The College entered into an Interlocal Cooperation Agreement between Pierce College District, Clover Park Technical College and Tacoma Community College to form a corporate education limited liability partnership to provide business outreach that encourages efficiency in operation along with creativity and imagination in education training and services. TCC is the fiscal agent for the LLP. The funds from the corporation are not TCC's and should be treated as agency funds. This $341,777 reduction in net position is an adjustment for prior year's net activities by the LLP.

Building 16 improvements for fiscal years 04, 05, 06, and 07 were depreciated with a 15 year life and should have been with a 50 year life. The difference in accumulated depreciation between FY04, FY05, FY06, and FY07 and FY13 at 50 year life and 15 year life was $4,895,848. This adjustment was made in prior year adjustments increasing the net position.

20. Commitments and Contingencies

There is a class action filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

Additionally, the College is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statement.

The College has commitments of $7,491,000 for various capital improvement projects that include construction and completion of new buildings, renovations of existing buildings and improvements other than building.

The Joe Harned Center for Health Careers	$ 5,619,000
Health & Wellness Center	$ 1,179,000
Building 9 Remodel	$ 693,000

21. Subsequent Events

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