

**Lehigh Carbon Community
College**

Financial Statements and Required
Supplementary Information

Years Ended June 30, 2018 and 2017
with Independent Auditor's Report

MaherDuessel

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LEHIGH CARBON COMMUNITY COLLEGE

YEARS ENDED JUNE 30, 2018 AND 2017

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Independent Auditor's Report

**Board of Trustees
Lehigh Carbon
Community College**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Lehigh Carbon Community College (College), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2018 and 2017 , and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the College's proportionate share of the net pension liability, schedule of the College's pension contributions, schedule of the College's proportionate share of PSERS' net OPEB liability and the contributions to PSERS' premium assistance (Schedules), and notes to required supplementary information as listed in the table of contents 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 Schedules 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the College's 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.

Maier Duessel

Harrisburg, Pennsylvania
November 9, 2018

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

This section of Lehigh Carbon Community College's (College) annual financial report presents our discussion and analysis of the financial performance of the College for the fiscal years ended June 30, 2018 and 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.

The financial statements of the College are prepared in accordance with Governmental Accounting Standards Board (GASB) Statements 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's Discussion and Analysis - for Public Colleges and Universities”*. For reporting purposes, the College is considered a special purpose government engaged only in business-type activities.

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 61, *“The Financial Reporting Entity – Omnibus an amendment of GASB Statements No. 14 and NO. 34”*, the College has determined that the Lehigh Carbon Community College Foundation (Foundation) should be included as a discretely presented component unit in the College's financial statements. See notes 1 and 17 for further detail. Separately issued financial statements for the Foundation are available through the Foundation's office.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the College's finances from all sources of revenue, in a manner similar to the private sector. The GASB reporting model is comprised of three basic statements.

The Statement of Net Position reflects the financial position of the College at June 30, 2018 and 2017. It presents information on all the College's assets and liabilities, with the difference between the two reported as net position (equity). Over time, increases or decreases in the College's net position is one indication of whether its financial health is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year on an accrual basis. The statement presents the various operating and non-operating revenues and expenses that reconcile the beginning net assets to the ending net assets amount which is shown on the Statement of Net Position described above.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

The Statement of Cash Flows is prepared using the direct method of cash flows. The statement shows net cash flows from operations, noncapital and capital financing and investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes contain details on the accounting policies that the College has adopted and further information for certain amounts reported in the financial statements.

Founded in 1966, Lehigh Carbon Community College serves more than 9,000 students from Lehigh, Carbon, Schuylkill, and surrounding counties offering more than 90 programs of study including healthcare, information technology, criminal justice, education, business administration, science, engineering, and math.

From the main campus in Schnecksville and modern satellite sites in Allentown, Tamaqua, Jim Thorpe, and Lehigh Valley International Airport, the College offers two-year associate degrees, certificate and specialized diploma programs and workforce training for students studying either fulltime, part-time or online.

Consistent with its mission of "providing high quality education that is affordable and accessible," the College offers educational, career and lifelong learning opportunities through innovation partnerships which enhance the lives of community residents. Major funding sources supporting all functions of the College include tuition and fees, local sponsor appropriations and the Commonwealth of Pennsylvania appropriation and federal and state grants.

Financial Statement Highlights

Overall net position increased by \$1.2 million in 2018 compared to an increase of \$2.1 million in 2017.

At June 30, 2018, the College assets of \$78.3 million exceeded its liabilities of \$24.8 million by \$53.5 million, an increase over prior year of 2.9%.

Tuition and fee revenue increased by \$0.9 million to \$21.8 million compared to \$20.9 million in 2017. The increase is attributable to the increase in credit hours.

Total credit full time equivalents (FTE's) were 9,856 and 9,627 in 2018 and 2017, respectively.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

The fiscal year 2017-2018 credit hours were 126,394 compared to 123,789 in fiscal year 2016-2017 driven by increases in part-time hours by sponsored and dual enrollment students.

The following is a Condensed Statement of Net Position as of June 30, 2018 and 2017 (dollars are in thousands).

	2018	2017	Increase/ Decrease	Percentage Change
Assets:				
Current assets	\$ 30,980	\$ 29,892	\$ 1,088	3.64%
Non-current assets	47,323	49,159	(1,836)	-3.73%
Total assets	78,303	79,051	(748)	
Deferred outflow of resources	462	659	(197)	-29.89%
Liabilities:				
Current liabilities	5,690	6,582	(892)	-13.55%
Non-current liabilities	19,074	20,449	(1,375)	-6.72%
Total liabilities	24,764	27,031	(2,267)	-8.39%
Deferred inflow of resources	664	452	212	46.90%
Net position:				
Investment in capital assets	29,435	30,892	(1,457)	-4.72%
Unrestricted	23,902	21,335	2,567	12.03%
Restricted	-	-	-	0.00%
Total net position	\$ 53,337	\$ 52,227	\$ 1,110	2.13%

The College's assets amounted to \$78.3 and \$79.1 million as of June 30, 2018 and 2017, respectively.

- The \$1.8 million decrease in non-current assets was caused by current year depreciation of \$3.5 million exceeding new asset additions by \$1.8 million.
- Total liabilities decreased \$2.3 million. The majority of the decrease was notes payable obligation payments of \$1.8 million and a decrease in net pension liability of \$0.5 million.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

- Deferred outflows of resources and deferred inflows of resources arise due to timing differences in investment plan earnings and pension contributions. More detailed information about the College's pension liabilities and deferred outflows and inflows of resources is presented in Note 11.
- Current assets increased by \$1.1 million as a result of the \$1.2 million increase in net position.
- Although the College's unrestricted net position is not subject to externally imposed restrictions, the College's \$23.9 million of unrestricted net position is designated for purposes to fulfill its various fiduciary responsibilities, including maintaining reserves for capital improvements and operation projects, and a reserve for future operations.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

The following is a Condensed Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2018 and 2017 (dollars are in thousands):

	2018	2017	Increase/ Decrease	Percentage Change
Operating revenues:				
Tuition and fees	\$ 21,769	\$ 20,886	\$ 883	4.23%
Auxiliary services	493	434	59	13.59%
Other	1,109	1,173	(64)	-5.46%
Nonoperating revenues:				
Commonwealth and local sponsor appropriations	22,368	22,977	(609)	-2.65%
Government/local grant and contracts	3,472	4,164	(692)	-16.62%
Capital grants and contracts	-	-	-	0%
Investment income	279	227	52	22.91%
Total revenues	49,490	49,861	(371)	-0.74%
Operating expenses:				
Educational and general	43,849	42,911	938	2.19%
Depreciation and amortization	3,511	3,516	(5)	-0.14%
Loss on disposal of capital assets	10	(2)	12	-50%
Auxiliary services	173	178	(5)	-2.81%
Nonoperating expenses:				
Interest on indebtedness	727	1,115	(388)	-34.80%
Total expenses	48,270	47,718	552	1.16%
Increase in net position	1,220	2,143	(923)	-43.07%
Net position, beginning period	52,227	50,084	2,143	4.28%
Effect of GASB 75 adoption	(110)	-	(110)	
Net position, ending	\$ 53,337	\$ 52,227	\$ 1,110	2.13%

Revenue recognized from appropriations amounted to \$22.4 million and \$23.0 million in 2018 and 2017, respectively.

LEHIGH CARBON COMMUNITY COLLEGE

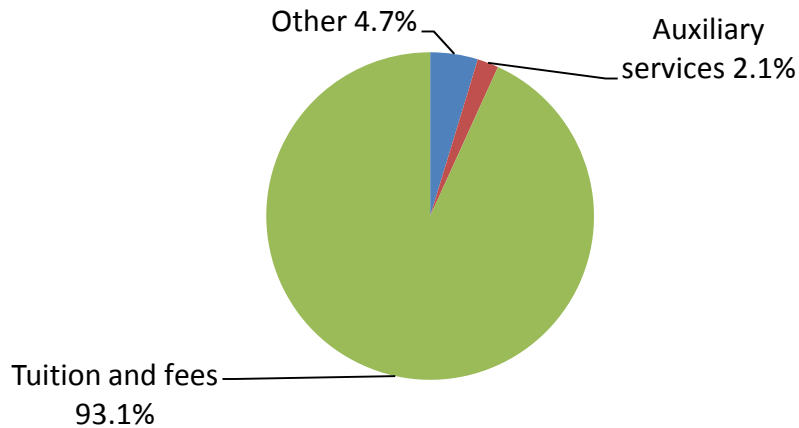
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

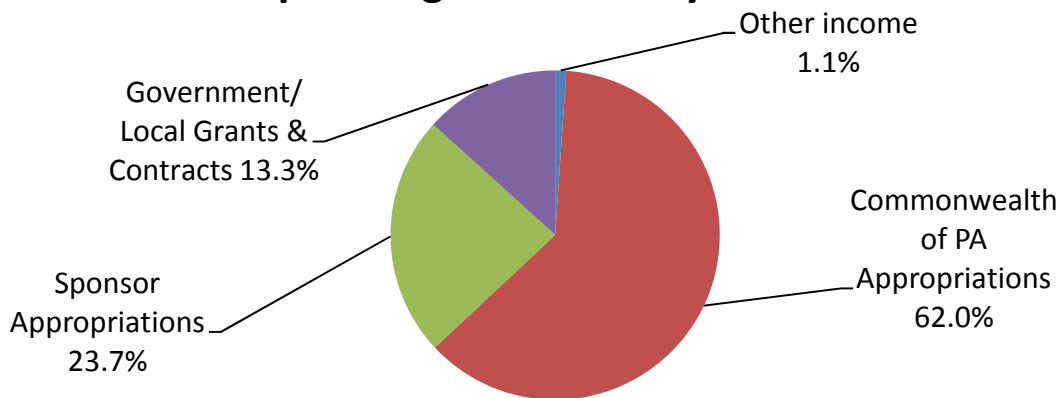
- Operating expenses decreased \$0.9 million or 2.0% over prior year. Non-operating expenses decreased \$0.2 million or 1.0% over prior year.
- Approximately, 57.6% of the College's total operating expenses in fiscal year 2017-2018 directly support instruction compared to 57.9% in fiscal year 2016-2017.

Revenue by Sources

Operating Revenues by Source 2017-18



Non-Operating Revenues by Source 2017-18



LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

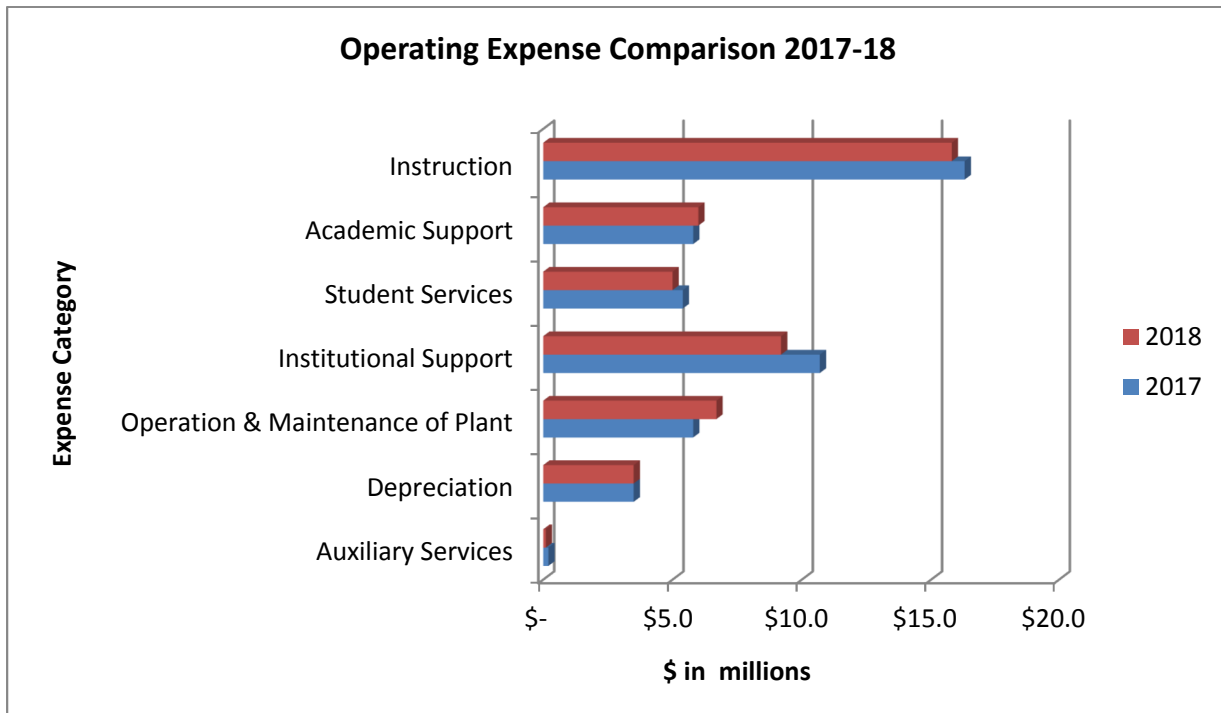
- The College received student financial assistance of approximately \$9.5 million from the Pell Grant and Supplemental Educational Opportunity Grant in 2017-2018 for a decrease of 14.2% over 2016-2017.
- Pennsylvania Higher Education Assistance Agency (PHEAA) awarded grants of approximately \$1.0 million dollars for the year, which is consistent with the prior year.
- There were approximately 2,200 of Federal Direct Loan recipients for a total of \$9.4 million disbursed in 2017-2018.
- The Commonwealth of Pennsylvania's operating appropriation for fiscal year 2017-2018 was \$14,133,362. Expectations are that Commonwealth funding will remain at that level over the next few years.
- The Local Sponsor operating appropriation for fiscal year 2017-2018 was 0.9% higher than the prior fiscal year appropriation. The 2017-2018 total appropriation is expected to remain flat.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

Expense Comparison



- Instruction direct expenses include faculty and instructional support staff salaries, benefits and their related expenses. Instruction expenses increased \$0.4 million or 2.3% from prior year primarily due to promotions and pay increases in accordance with the collective bargaining agreement.
- Academic support, student services, and public services comprise the education support activities expense. These support activities increased less than \$0.1 million or 0.4% over prior year.
- Institutional support and operation maintenance of plant expenses consist of administrative and facility operating costs. These expenses increased \$0.5 million or 3.3% overall due to \$0.3 million of increased technology improvements and increased utility costs.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

Capital Assets

The College continues to place emphasis on the designation of funds for the Facility Master Plan and the replacement of facilities and equipment. This provides the College with a prudent strategy for equipment and facilities replacement and renewal. During the current year, the College's capital outlays totaled \$1.7 million primarily due to the computer and equipment replacement. Depreciation expense on capital expenditures was \$3.5 million.

Noteworthy capital asset purchases/projects that took place in 2018 were as follows:

- \$0.5 million – Parking lot refurbishing
- \$0.3 million – Computers and equipment
- \$0.2 million – Equipment purchased under the various grants
- \$0.2 million – Veterinary tech building

Additional information of the College's Capital Assets can be found in Note 5.

Debt Administration

The College refinanced the 2007 and 2010 general obligation bond issues in July 2016 resulting in a savings to the College of \$1.4 million over the life of the bonds.

At June 30, 2018, the College had two general obligation bond issues totaling \$14.5 million. The debt issues are funded by the Commonwealth capital appropriation, local sponsor capital appropriation and College capital funds. The fiscal year 2017-2018 debt payments were funded from the following sources:

- 47% from the Commonwealth appropriation
- 47% from the local sponsor capital appropriation
- 6% from College capital funds

As of August 2016, the bond debt has been rated as A2 stable by Moody's Investor Services. This is an upgrade from A2 negative due resolution of the Commonwealth's 2017-2018 budget impasse and the timely passing of the subsequent Commonwealth budgets.

More detailed information about the College's long-term debt is presented in Note 6.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

Economic Factors

The College's financial position is closely tied to the economy and the State's budget. Changes in the economy, unemployment rates, high school graduating yield rates, and retention efforts have all affected student enrollments.

The enrollment statistics indicate that part-time FTEs increased 8.3% over the prior fiscal year while the full-time FTEs decreased 4.0% for an overall increase of 2.4%.

Summary

Overall, the College's financial position remains strong as evidenced by the 2018 financial statements. The current College structure is aligned to streamline operations and create efficiencies to continue to provide accessible, affordable, high-quality educational programs and services to our communities.

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 10,508,168	\$ 12,010,963
Certificates of deposit	17,261,320	15,198,219
Accounts receivable:		
Students and other, net	1,800,875	1,045,755
Grants	537,211	429,987
Prepaid expenses and other assets	872,280	1,207,027
Total current assets	<u>30,979,854</u>	<u>29,891,951</u>
Noncurrent assets:		
Funds held by the Foundation	727,528	719,331
Capital assets, not being depreciated	2,760,195	2,703,714
Capital assets, net of accumulated depreciation	43,835,666	45,735,853
Total noncurrent assets	<u>47,323,389</u>	<u>49,158,898</u>
Total Assets	<u>78,303,243</u>	<u>79,050,849</u>
<hr/>		
Deferred Outflows of Resources		
Deferred outflows of resources for pension	457,714	659,251
Deferred outflows of resources for OPEB	4,499	-
Total Deferred Outflows of Resources	<u>462,213</u>	<u>659,251</u>

(Continued)

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

Liabilities	2018	2017
Current liabilities:		
Accounts payable	1,099,579	1,443,382
Accrued expenses and other liabilities	1,577,455	1,382,053
Accrued interest payable	101,097	105,148
Unearned revenue	1,406,170	1,198,663
Accrued partial retirement benefits	81,387	26,493
Notes payable, current portion	1,035,000	1,820,000
Capital lease obligation, current portion	389,500	607,243
Total current liabilities	<u>5,690,188</u>	<u>6,582,982</u>
Noncurrent liabilities:		
Accrued partial retirement benefits, less current portion	317,973	97,920
Notes payable, less current portion	15,076,722	16,142,445
Capital lease obligation, less current portion	388,222	476,148
Net OPEB liability	92,000	-
Net pension liability	3,199,535	3,731,834
Total noncurrent liabilities	<u>19,074,452</u>	<u>20,448,347</u>
Total Liabilities	<u>24,764,640</u>	<u>27,031,329</u>
Deferred Inflows of Resources		
Deferred inflows of resources for pension	648,820	452,100
Deferred inflows of resources for OPEB	15,000	-
Total Deferred Inflows of Resources	<u>663,820</u>	<u>452,100</u>
Net Position		
Net investment in capital assets	29,434,637	30,891,649
Unrestricted	23,902,359	21,335,022
Total Net Position	<u>\$ 53,336,996</u>	<u>\$ 52,226,671</u>
		(Concluded)

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

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF NET POSITION - COMPONENT UNIT LEHIGH CARBON COMMUNITY COLLEGE FOUNDATION

JUNE 30, 2018 AND 2017

	2018	2017
Assets		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 623,203	\$ 249,809
Promise to give	115,584	224,333
Accounts receivable	-	10,835
Prepaid expenses	6,251	6,340
Total current assets	745,038	491,317
Noncurrent assets:		
Promise to give	54,392	205,005
Deferred rent	3,749	17,274
Investments:		
Investments	13,045,835	11,525,015
Investments - held for College	727,528	719,331
Total investments	13,773,363	12,244,346
Land and buildings, net	5,296,154	5,387,757
Total noncurrent assets	19,127,658	17,854,382
Total Assets	\$ 19,872,696	\$ 18,345,699
Liabilities and Net Assets		
<hr/>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 238,215	\$ 41,299
Deferred revenue	30,700	63,390
Total current liabilities	268,915	104,689
Noncurrent liabilities:		
Funds held for College	727,528	719,331
Total Liabilities	996,443	824,020
Net Assets:		
Unrestricted:		
Undesignated	2,641,480	1,956,832
Invested in land and buildings	5,296,154	5,387,757
Designated	2,192,672	3,473,723
Total unrestricted	10,130,306	10,818,312
Temporarily restricted	2,465,060	2,229,348
Permanently restricted	6,280,887	4,474,019
Total Net Assets	18,876,253	17,521,679
Total Liabilities and Net Assets	\$ 19,872,696	\$ 18,345,699

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

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Student tuition and fees, net of scholarship allowance of \$5,214,842 in 2018 and \$3,649,694 in 2017	\$ 21,768,675	\$ 20,886,092
Auxiliary enterprises	493,204	434,070
Other operating revenues	1,109,331	1,173,330
Total operating revenues	<u>23,371,210</u>	<u>22,493,492</u>
Operating Expenses:		
Educational and general:		
Instruction	16,259,103	15,890,142
Academic support	5,748,832	6,009,058
Student services	5,385,511	5,083,546
Institutional support	10,671,421	9,206,160
Operation and maintenance of plant	5,784,159	6,721,804
Depreciation	3,511,374	3,516,527
(Gain) loss on disposal of capital assets	10,056	(1,350)
Auxiliary expenses	172,531	177,949
Total operating expenses	<u>47,542,987</u>	<u>46,603,836</u>
Operating loss	<u>(24,171,777)</u>	<u>(24,110,344)</u>

(Continued)

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

	<u>2018</u>	<u>2017</u>
Non-operating Revenues (Expenses):		
Appropriations:		
Local	\$ 4,176,869	\$ 4,140,080
Commonwealth of Pennsylvania	14,133,362	14,095,007
Federal grants and contracts	2,854,897	3,206,767
Commonwealth of Pennsylvania grant and contracts	474,512	925,647
Local grants and contracts	142,746	31,511
Other non-operating revenues	-	210
Investment income	279,558	226,555
Interest on indebtedness	<u>(727,247)</u>	<u>(1,115,039)</u>
Total non-operating revenues	<u>21,334,697</u>	<u>21,510,738</u>
Change in Net Position Before Other Revenues	<u>(2,837,080)</u>	<u>(2,599,606)</u>
Capital Contributions:		
Capital appropriations:		
Local	2,009,468	2,046,256
Commonwealth of Pennsylvania	<u>2,047,937</u>	<u>2,695,928</u>
Total capital contributions	<u>4,057,405</u>	<u>4,742,184</u>
Change in Net Position	<u>1,220,325</u>	<u>2,142,578</u>
Net Position:		
Beginning of year - as originally stated	52,226,671	50,084,093
Effect of implementation of GASB Statement No. 75	<u>(110,000)</u>	<u>-</u>
End of year	<u>\$ 53,336,996</u>	<u>\$ 52,226,671</u>
		(Concluded)

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

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF ACTIVITIES - COMPONENT UNIT LEHIGH CARBON COMMUNITY COLLEGE FOUNDATION

JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:								
Contributions	\$ 413,423	\$ 610,604	\$ 230,000	\$ 1,254,027	\$ 178,303	\$ 320,757	\$ 295,000	\$ 794,060
Special event revenue	99,212	-	-	99,212	65,707	-	-	65,707
Rental income	548,677	-	-	548,677	535,541	-	-	535,541
Investment return	487,072	28,560	260,936	776,568	817,301	45,545	307,275	1,170,121
Net assets released from restrictions, satisfying of program restrictions	468,630	(403,452)	(65,178)	-	260,221	(209,028)	(51,193)	-
Total revenues and other support	<u>2,017,014</u>	<u>235,712</u>	<u>425,758</u>	<u>2,678,484</u>	<u>1,857,073</u>	<u>157,274</u>	<u>551,082</u>	<u>2,565,429</u>
Expenses:								
Program services	1,082,092	-	-	1,082,092	979,345	-	-	979,345
Supportive services								
Management and general	186,202	-	-	186,202	181,889	-	-	181,889
Fundraising	55,616	-	-	55,616	35,060	-	-	35,060
Total expenses	<u>1,323,910</u>	<u>-</u>	<u>-</u>	<u>1,323,910</u>	<u>1,196,294</u>	<u>-</u>	<u>-</u>	<u>1,196,294</u>
Transfers	(1,381,110)	-	1,381,110	-	-	-	-	-
Change in Net Assets	(688,006)	235,712	1,806,868	1,354,574	660,779	157,274	551,082	1,369,135
Net Assets, Beginning	<u>10,818,312</u>	<u>2,229,348</u>	<u>4,474,019</u>	<u>17,521,679</u>	<u>10,157,533</u>	<u>2,072,074</u>	<u>3,922,937</u>	<u>16,152,544</u>
Net Assets, Ending	<u>\$ 10,130,306</u>	<u>\$ 2,465,060</u>	<u>\$ 6,280,887</u>	<u>\$ 18,876,253</u>	<u>\$ 10,818,312</u>	<u>\$ 2,229,348</u>	<u>\$ 4,474,019</u>	<u>\$ 17,521,679</u>

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

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Student tuition and fees	\$ 21,221,056	\$ 20,805,992
Payments to employees	(23,714,261)	(22,865,920)
Payments for benefits	(7,505,093)	(7,688,164)
Payments to suppliers and utilities	(12,482,445)	(13,086,063)
Auxiliary enterprises	493,204	434,070
Other receipts	1,109,331	1,173,330
Net cash used in operating activities	(20,878,208)	(21,226,755)
Cash Flows From Non-capital Financing Activities:		
Local appropriations	4,176,869	4,140,080
Commonwealth appropriations	14,133,362	14,095,007
Other non-operating revenues	-	210
Grants and contracts for other than capital purposes	3,364,931	4,196,684
Net cash provided by non-capital financing activities	21,675,162	22,431,981
Cash Flows From Capital and Related Financing Activities:		
Local and commonwealth capital appropriations	4,057,405	4,742,184
Proceeds from bond issuance	-	12,915,000
Purchases of capital assets	(1,376,149)	(1,049,461)
Principal paid on capital debt	(1,850,724)	(13,201,017)
Interest paid on capital debt	(731,298)	(1,134,022)
Payments on capital lease obligation	(607,243)	(626,407)
Net cash provided by (used in) capital and related financing activities	(508,009)	1,646,277
Cash Flows From Investing Activities:		
Sale (purchase) of certificates of deposit	(2,063,101)	(7,698,219)
Funds held by the Foundation	(8,197)	(31,330)
Interest on investments	279,558	226,555
Net cash used in investing activities	(1,791,740)	(7,502,994)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,502,795)	(4,651,491)
Cash and Cash Equivalents:		
Beginning of year	12,010,963	16,662,454
End of year	\$ 10,508,168	\$ 12,010,963

(Continued)

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

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (24,171,777)	\$ (24,110,344)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,511,374	3,516,527
Bad debt expense	455,679	451,379
(Gain) loss on disposal of capital assets	10,056	(1,350)
Effects of changes in operating assets and liabilities:		
Accounts receivable	(1,210,799)	(399,930)
Prepaid and other current assets	334,747	(745,570)
Deferred outflows - pension	201,537	(234,576)
Deferred outflows - OPEB	(4,499)	-
Accounts payable	(343,803)	564,985
Accrued expenses and other liabilities	195,402	(461,194)
Accrued partial retirement benefits	274,947	55,904
Net pension liability	(532,299)	162,883
Net OPEB liability	(18,000)	-
Deferred inflows - pension	196,720	-
Deferred inflows - OPEB	15,000	104,730
Unearned revenue	207,507	(130,199)
Net cash used in operating activities	<u>\$ (20,878,208)</u>	<u>\$ (21,226,755)</u>
Supplementary Disclosure of Noncash Capital, Financing Activity:		
Capital leases	<u>\$ 301,574</u>	<u>\$ 78,870</u>

(Concluded)

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

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS - COMPONENT UNIT LEHIGH CARBON COMMUNITY COLLEGE FOUNDATION

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,354,574	\$ 1,369,135
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	91,603	91,604
Discount on promise to give	(18,312)	(10,510)
Realized gain on investments	(376,015)	(614,442)
Unrealized (gain) loss on investments	(196,073)	(436,620)
Contributions restricted for long-term use	(230,000)	(295,000)
(Increase) decrease in assets:		
Accounts receivable	10,835	(10,835)
Prepaid expenses	89	(5,340)
Deferred rent	13,525	13,193
Promises to give	50,532	207,367
Increase (decrease) in liabilities:		
Accounts payable	196,916	18,394
Deferred revenue	(32,690)	10,529
Funds held for college	8,197	31,330
Net cash provided by operating activities	873,181	368,805
Cash Flows From Investing Activities:		
Proceeds from sales of investments	1,401,577	5,159,482
Purchases of investments	(2,358,506)	(6,619,028)
Net cash used in investing activities	(956,929)	(1,459,546)
Cash Flows From Financing Activities:		
Contributions restricted for long-term use	457,142	895,776
Net Increase (Decrease) in Cash and Cash Equivalents	373,394	(194,965)
Cash and Cash Equivalents:		
Beginning of year	249,809	444,774
End of year	\$ 623,203	\$ 249,809

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

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

1. Nature of Operations and Reporting Entity

Lehigh Carbon Community College (College) was founded in response to a need for a two-year collegiate institution to serve citizens within the Lehigh and Carbon County area of Pennsylvania who would benefit from an experience in higher education. The Board of Trustees is the College's governing body, which establishes the policies and procedures by which the College is governed. The College is funded through a diversified financial support system consisting of local school districts, the Commonwealth of Pennsylvania (Commonwealth), and the students.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14, the College has determined that the Lehigh Carbon Community College Foundation (Foundation) should be included in the College's financial statements as a discretely presented component unit. A component unit is a legally separate organization for which the primary institution is closely related.

Under Section 501(c)(3) of the Internal Revenue Code, the Foundation is a legally separate tax-exempt organization. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the College by the donors. Since these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements as of June 30, 2018 and 2017.

Complete financial statements for the Foundation may be obtained at the College's administrative office.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) accounting standards codification. 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.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Basis of Presentation

The College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The College functions as a business type activity, as defined by the GASB.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investments readily converted to cash with original maturities of three months or less. The College maintains its cash accounts in various commercial banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) to the maximum insured amount. Amounts in excess of the FDIC maximum are collateralized in accordance with Act 72 of 1971.

Investments

The College recognizes certificates of deposit with maturities of more than three months as investments. Certificates of deposit are insured by the FDIC to the maximum insured amount. Amounts in excess of the FDIC maximum are collateralized in accordance with Act 72 of 1971.

The College categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant to other observable inputs. Level 3 inputs are significant unobservable inputs.

Accounts Receivable

Accounts receivable consists of tuition and fees charged to current and former students, or third parties, amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants and contracts and other miscellaneous sources.

Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the College's historical losses and periodic review of individual accounts. The allowance for doubtful accounts was approximately \$112,000 and \$87,000 as of June 30, 2018 and 2017, respectively.

Funds Held by the Foundation on Behalf of the College

The Foundation serves as custodian for the College's radio station proceeds fund. The fund is managed along with all of the Foundation's endowment accounts and is invested in accordance with the Foundation's investment policy. The College has the right to withdraw funds at any time and receives an annual disbursement from the Foundation equal to up to seventy-five (75%) percent of the investment earnings on, or five (5%) percent of, the balance of the fund principal, whichever is greater, or some other amount as determined by the College with approval of the Board of Trustees.

Capital Assets

Capital assets are stated at cost or at fair value at date of donation if received by gift. The College provides for depreciation using the straight-line method over the estimated useful lives of the related asset as follows:

	<u>Years</u>
Land improvements	4 - 30
Building and building improvements	3 - 50
Furniture and equipment	3 - 30
Library books	10

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

The College capitalizes assets with a useful life in excess of one year and an original cost exceeding \$4,000.

At each statement of financial position date, management evaluates whether any property and equipment have been impaired. The College made no adjustments to carrying values of property and equipment during the years ended June 30, 2018 and 2017.

Compensated Absences

Liability for compensated absences (unused vacation leave) is accounted for in accordance with the provisions of GASB Statement No. 16, *“Accounting for Compensated Absences”*, and, accordingly, the liability for employees’ rights to receive compensation for future absences is recorded as a liability and is included in accrued expenses and other liabilities in the statements of net position. Total compensated absences for the years ended June 30, 2018 and 2017 totaled \$626,208 and \$576,475, respectively.

Unearned Revenues

Unearned revenues include: (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from grant and contract sponsors that have not been earned.

Deferred Cost of Refunding

The College has deferred the difference between the reacquisition price (the amount deposited into escrow to pay off the notes) and the net carrying amount of previously refunded debt. This deferred cost of refunding is being amortized into interest expense on a straight-line basis over the shorter of the life of the new and old bonds.

Long-Term Obligations

Long-term liabilities related to postemployment benefits, including pensions, health insurance, and life insurance are calculated based on actuarial valuations as described in Notes 11 and 12.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Deferred Inflows and Outflows of Resources Related to Pensions and OPEBs

In conjunction with pension and OPEB accounting requirements, differences between expected and actual experience, changes in assumptions, the effect of the change in the College's proportion, the net difference between expected and actual investment earnings, and payments made to SERS and PSERS subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions or a deferred inflow or outflow of resources related to OPEBs. These amounts are determined based on the actuarial valuations performed for the SERS and PSERS plans. Notes 11 through 12 present additional information about SERS and PSERS and the College's pension and OPEB plans.

Net Position

Accounting standards require the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - capital assets, net of accumulated depreciation and outstanding principle balances of debt, plus restricted cash, attributable to the acquisition, construction, repair, or improvement of those assets.

Unrestricted - unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

When both restricted and unrestricted assets are available for expenditure, the decision as to which assets are used first is left to the discretion of the College.

Classification of Revenues

The College has classified its revenues as either operating or non-operating. Operating revenue include activities that have the characteristics of exchange transactions, such as (a) student tuition and fees, net of scholarship discounts and allowed and (b) sales and services of auxiliary enterprises. Nonoperating revenue includes transactions related to capital and financing activities, noncapital financing activities, investing activities, and activities that have the characteristics of non-exchange transactions. Nonoperating revenues include such items as (a) local and state appropriations, (b) most federal, state, and local grants and contracts, (c) gifts and contributions, and (d) investment income.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Tuition Revenue

Tuition revenue is recognized when instruction is provided. A receivable is recognized when a student application is processed and an invoice submitted, with revenue recognition deferred until the instruction starts.

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 statement 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 student's behalf. Certain governmental grants 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 allowance.

Income Taxes

The College is exempt from federal and state income taxes, as it is essentially a potential subdivision of the Commonwealth. The Foundation is exempt from taxation pursuant to Internal Revenue Code Section 501(c).

Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The college purchases commercial insurance coverage for general liability, property and casualty, workers' compensation, environmental and antitrust liabilities, and certain employee health benefits.

Unemployment Compensation

The College has elected to use the direct reimbursement method of paying for any unemployment compensation claims charged to it. There were no outstanding claims as of June 30, 2018 and 2017.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Advertising

Advertising expenses are recorded as incurred and were approximately \$472,000 and \$488,000 in 2018 and 2017, respectively.

Adoption of GASB Statements

The requirements of the following GASB Statements were adopted for the financial statements:

GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* was adopted in the current year by the College. As a result of this implementation, net position as of July 1, 2017 was restated with a decrease of \$110,000 to record the College’s proportionate share of PSERS’ net OPEB liability. PSERS’ net OPEB liability is further described in Notes 11 and 12.

GASB Statement No. 82, *“Pension Issues – An Amendment of GASB Statements No 67, No. 68, and No. 73),”* addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The provisions of this statement have been adopted and incorporated into these financial statements.

GASB Statement No. 85, *“Omnibus 2017,”* addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurements and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The provisions of this statement have been adopted and incorporated into these financial statements.

Pending Accounting Pronouncements

GASB has issued statements that will become effective in future years including Statement Nos. 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements), and 89 (Accounting for Interest Cost Incurred before the End of a Construction Period). Management has not yet determined the impact of these statements on the financial statements.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

Foundation

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets according to donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. The Board periodically designates certain unrestricted net assets to use for specific purpose.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that will be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on the related investments for general or specific purposes subject to limitations specified by Pennsylvania law.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Consequently, revenues are generally recognized when earned and expenditures are recognized when incurred.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash investments with an original maturity of three months or less are reported as cash and cash equivalents.

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash and cash equivalents held with financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Foundation had uninsured cash balances of \$267,215 and \$0 for the years ended June 30, 2018 and 2017, respectively.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using the expected rate of return of a market participant applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

The Foundation carries investments in mutual funds at fair value based on quoted market prices. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed limitations.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Land and Buildings

Land and buildings are stated at cost or at their estimated fair value at date of donation. Depreciation is provided for buildings using the straight-line method over their estimated useful lives of 67 years.

Additions and betterments of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Designation of Unrestricted Net Assets

It is the policy of the Board of the Foundation to review its plans for future uses of funds and to designate appropriate sums of unrestricted net assets for endowment and scholarship uses.

Restricted and Unrestricted Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Income Taxes

The Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code (Code) and is a publicly supported organization as described in Section 509(a)(1) of the Code. Contributions to the Foundation are deductible for federal income tax purposes because it is an organization described in Section 170(b)(1)(A). The Foundation files Form 990 - Return of Organization Exempt from Income Tax, on an annual basis.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

3. Cash and Certificates of Deposit

The College follows Section 440.1 of the Pennsylvania Public School Code for 1949, as amended, for investment of College funds. As such, the College is authorized to invest in U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, bank's acceptances, insured or collateralized time deposits, and certificates of deposit.

The book balance of the College's deposits was \$10,508,168 and \$12,010,963 as of June 30, 2018 and 2017, respectively. The bank balance totaled \$11,223,262 and \$12,777,763 as of June 30, 2018 and 2017, respectively. The difference represents outstanding checks payable and normal reconciling items.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a policy for custodial credit risk. Commonwealth of Pennsylvania Act 72 of 1971, as amended, allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover public funds on deposits in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party.

The balance of the College's cash deposits and certificates of deposit are categorized as follows to give an indication of the level of risk assumed by the College at year-end.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents:		
Insured	\$ 487,731	\$ 536,338
Collateralized, collateral held by pledging banks trust department not in the College's name	<u>10,735,531</u>	<u>12,241,425</u>
Total	<u>\$ 11,223,262</u>	<u>\$ 12,777,763</u>
Investments:		
Insured	\$ 645,299	\$ 698,384
Collateralized, collateral held by pledging banks trust department not in the College's name	<u>16,616,021</u>	<u>14,499,835</u>
Total	<u>\$ 17,261,320</u>	<u>\$ 15,198,219</u>

The College's investments have maturities of less than one year.

As of June 30, 2018 and 2017, the College's certificates of deposits in the amounts of \$17,261,320 and \$15,198,219, respectively, are classified as Level 1 investments.

4. Accounts Receivable

Accounts receivable represent amounts due for tuition fees from currently enrolled and former students and grants from other entities. The College extends unsecured credit to students and other entities in connection with their studies and other educational services provided. Accounts receivable consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts receivable, student	\$ 986,371	\$ 636,743
Accounts receivable, other	926,796	496,129
Less allowance for doubtful accounts	<u>(112,292)</u>	<u>(87,117)</u>
	1,800,875	1,045,755
Accounts receivable, grants	<u>537,211</u>	<u>429,987</u>
Total	<u>\$ 2,338,086</u>	<u>\$ 1,475,742</u>

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

5. Capital Assets, Net

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2018</u>
Non-depreciable assets:				
Land	\$ 2,531,117	\$ -	\$ -	\$ 2,531,117
Construction in progress	172,597	166,481	(110,000)	229,078
Total non-depreciable assets	<u>2,703,714</u>	<u>166,481</u>	<u>(110,000)</u>	<u>2,760,195</u>
Depreciable assets:				
Land improvements	7,580,608	554,243	-	8,134,851
Buildings and building improvements	63,085,439	71,643	-	63,157,082
Furniture and equipment	21,695,196	962,661	(20,040)	22,637,817
Library books	1,518,137	32,695	-	1,550,832
Total depreciable assets	<u>93,879,380</u>	<u>1,621,242</u>	<u>(20,040)</u>	<u>95,480,582</u>
Less: accumulated depreciation	<u>(48,143,528)</u>	<u>(3,511,373)</u>	<u>9,985</u>	<u>(51,644,916)</u>
Net Capital Assets	<u>\$ 48,439,566</u>	<u>\$ (1,723,650)</u>	<u>\$ (120,055)</u>	<u>\$ 46,595,861</u>
	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2017</u>
Non-depreciable assets:				
Land	\$ 2,531,117	\$ -	\$ -	\$ 2,531,117
Construction in progress	95,233	127,770	(50,406)	172,597
Total non-depreciable assets	<u>2,626,350</u>	<u>127,770</u>	<u>(50,406)</u>	<u>2,703,714</u>
Depreciable assets:				
Land improvements	7,580,607	-	-	7,580,607
Buildings and building improvements	62,746,845	338,594	-	63,085,439
Furniture and equipment	21,022,681	672,517	-	21,695,198
Library books	1,480,281	37,856	-	1,518,137
Total depreciable assets	<u>92,830,414</u>	<u>1,048,967</u>	<u>-</u>	<u>93,879,381</u>
Less: accumulated depreciation	<u>(44,627,001)</u>	<u>(3,516,527)</u>	<u>-</u>	<u>(48,143,528)</u>
Net Capital Assets	<u>\$ 50,829,763</u>	<u>\$ (2,339,790)</u>	<u>\$ (50,406)</u>	<u>\$ 48,439,567</u>

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

As of June 30, 2018, the College has committed to approximately \$289,000 of additional capital expenditures related to the above construction in progress.

6. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2018 and 2017 was as follows:

	Balance July 1, 2017	Additions	Payments/ Settlements	Balance June 30, 2018	Current Portion
Accrued partial retirement benefits	\$ 124,413	\$ 369,060	\$ (94,113)	\$ 399,360	\$ 81,387
Lease obligations	1,083,391	301,574	(607,243)	777,722	389,500
Notes payable, net	17,962,445	-	(1,850,719)	16,111,726	1,035,000
	<u>\$ 19,170,249</u>	<u>\$ 670,634</u>	<u>\$ (2,552,075)</u>	<u>\$ 17,288,808</u>	<u>\$ 1,505,887</u>
	Balance July 1, 2016	Additions	Payments/ Settlements	Balance June 30, 2017	Current Portion
Accrued partial retirement benefits	\$ 68,509	\$ 122,400	\$ (66,496)	\$ 124,413	\$ 26,493
Lease obligations	1,632,928	76,870	(626,407)	1,083,391	607,243
Notes payable, net	18,248,462	12,915,000	(13,201,017)	17,962,445	1,820,000
Total	<u>\$ 19,949,899</u>	<u>\$ 13,114,270</u>	<u>\$ (13,893,920)</u>	<u>\$ 19,170,249</u>	<u>\$ 2,453,736</u>

LEHIGH CARBON COMMUNITY COLLEGE

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7. Notes Payable

Notes payable as of June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
General Obligation Note, Series of 2016, evidencing the College's obligation to pay the required debt service on the Lehigh County General Purpose Authority Bonds, Series of 2016, due serially through November 1, 2030 at interest rates ranging from 1.2% to 5.0%.	\$ 11,600,000	\$ 12,915,000
General Obligation Note, Series of 2013, evidencing the College's obligation to pay the required debt service on the Commonwealth of Pennsylvania State Public School Building Authority Bonds, Series of 2013, due serially through November 1, 2033 at interest rates ranging from 0.65% to 3.75%.	<u>2,950,000</u>	<u>3,455,000</u>
	14,550,000	16,370,000
Unamortized premium on notes payable	1,599,284	1,632,565
Unamortized discount on notes payable	<u>(37,562)</u>	<u>(40,120)</u>
	<u>\$ 16,111,722</u>	<u>\$ 17,962,445</u>

All of the above obligations require the College to pledge as collateral its unrestricted gross revenues not previously pledged.

In July 2016, the College issued College Revenue Bonds, Series of 2016 in the amount of \$11,180,000 and College Revenue Bonds, Series A of 2016 in the amount of \$1,735,000. The proceeds of the Series 2016 bonds were used to advance refund the outstanding College Revenue Bonds, Series of 2007 and 2010 and to pay related costs and expenses, including costs of issuing the bonds. The advanced refunding of the College's General Obligation Notes, Series of 2007 and 2010 decreased the College's total debt service by \$1,395,051 through the year 2026 and resulted in an economic gain (difference between present values of the old and new debt service payments) in the amount of \$1,371,163.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

The aggregate future principal and interest on the notes payable are as follows:

Years ending June 30:	Principal	Interest	Total
2019	\$ 1,035,000	\$ 590,786	\$ 1,625,786
2020	1,085,000	550,384	1,635,384
2021	1,135,000	499,631	1,634,631
2022	1,185,000	446,059	1,631,059
2023	1,240,000	389,697	1,629,697
2024-2028	6,220,000	1,016,107	7,236,107
2029-2033	2,420,000	193,221	2,613,221
2034	230,000	4,313	234,313
Total	<u>\$ 14,550,000</u>	<u>\$ 3,690,198</u>	<u>\$ 18,240,198</u>

8. Capital Lease Obligations

The College has entered into lease agreements for equipment under noncancelable leases that are classified as capital leases. The principle balance due under capital leases amounted to \$777,722 and \$1,083,391 as of June 30, 2018 and 2017, respectively. Future minimum lease payments under capital leases are as follows:

Years ending June 30:	
2019	\$ 406,297
2020	228,780
2021	93,822
2022	81,240
	<u>810,139</u>
Less amounts representing interest	<u>(32,417)</u>
Present value of net minimum lease payments	777,722
Portion reflected as current liability	<u>(389,500)</u>
	<u>\$ 388,222</u>

LEHIGH CARBON COMMUNITY COLLEGE

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The cost of equipment under capital leases is \$8,153,751 and \$7,805,569 as of June 30, 2018 and 2017, respectively. Accumulated depreciation for equipment under capital leases is \$7,407,135 and \$6,856,176 as of June 30, 2018 and 2017, respectively. Depreciation for equipment under capital leases is included with depreciation expense in the statement of revenues, expenses, and changes in net position.

9. Operating Leases

The College has entered into numerous operating lease agreements for the rental of classroom space and equipment. Future minimum annual rentals are as follows:

Years ending June 30:

2019	\$ 1,255,964
2020	815,790
2021	599,780
2022	609,529
2023	522,025
	<u>\$ 3,803,088</u>

Rent expense for the years ended June 30, 2018 and 2017 was approximately \$1,674,000 and \$1,678,000, respectively.

10. Related Party Transactions

The Foundation provided institutional support to the College of \$1,066,099 and \$942,367 for the years ended June 30, 2018 and 2017, respectively. There were no contributions to the Foundation by the College in the years ended June 30, 2018 and 2017.

The Foundation leases building space to the College under formal lease agreements. Rental expense for the College was \$548,677 and \$535,541 for the years ended June 30, 2018 and 2017, respectively. The following is a schedule of future minimum lease rental payments as of June 30, 2018:

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

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Years ending June 30:

2019	\$ 575,629
2020	579,770
2021	594,264
2022	609,121
2023	538,731
	<hr/>
	\$ 2,897,515
	<hr/>

11. Retirement Plans

Employees of the College are required to enroll in one of three available retirement plans immediately upon employment. Employees enroll in the Teachers Insurance and Annuity Association/College Retirement and Equity Fund (TIAA/CREF) or, if eligible, may elect to enroll in the Pennsylvania State Employees' Retirement Systems (SERS) or the Public School Employees' Retirement System (PSERS).

SERS and PSERS

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions or OPEBs, pension expense, and OPEB expense, information about the fiduciary net position of SERS and PSERS and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by SERS and PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

SERS is a governmental cost-sharing multiple-employer defined benefit pension plan that was established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. Membership in SERS is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option to participate. SERS issues a publicly available financial report that can be obtained at www.sers.pa.gov.

LEHIGH CARBON COMMUNITY COLLEGE

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PSERS administers a governmental cost-sharing, multi-employer defined benefit pension plan (Pension Plan) and a governmental cost-sharing, multi-employer defined benefit Health Insurance Premium Assistance Program (Premium Assistance), an OPEB plan, to public school employees of the Commonwealth of Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Employees eligible for PSERS benefits include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania.

Retirees can participate in the Premium Assistance if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the PSERS Health Options Program or an employer-sponsored health insurance program.

Benefits Provided - SERS

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Participants in SERS may receive retirement benefits after satisfying age and length of service requirements. Member retirement benefits are determined by taking years of credited service, multiplied by final average salary, multiplied by 2.0%, multiplied by class of service multiplier.

Benefits Provided – PSERS Pension Plan

Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally

LEHIGH CARBON COMMUNITY COLLEGE

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equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Benefits Provided – PSERS Premium Assistance

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Member Contributions

Employees who participate in SERS, dependent on membership class, are required to make a contribution equal to 5.00% or 9.30% of their gross pay.

The following illustrates the PSERS member's contribution as a percent of the member's qualifying compensation:

- Active members who joined PSERS prior to July 22, 1983:
 - Membership Class T-C 5.25%
 - Membership Class T-D 6.50%

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- Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:
 - Membership Class T-C 6.25%
 - Membership Class T-D 7.50%

- Members who joined PSERS after June 30, 2001, and before July 1, 2011:
 - Membership Class T-D 7.50%

- Members who joined PSERS after June 30, 2011:
 - Membership Class T-E* 7.50%
 - Membership Class T-F** 10.30%

*Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

**Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

Employer Contributions

Participating employer contributions for SERS are based upon an actuarially determined percentage of gross pay that is necessary to provide SERS with assets sufficient to meet the benefits to be paid to members. The College contribution rate at June 30, 2018 was 34.44% and 23.80% of gross pay for Class A and Class A3 employees, respectively. The College contribution rate at June 30, 2017 was 29.95% of gross pay for Class A employees. There were no Class A3 employees for the year ended June 30, 2017. According to the Commonwealth Retirement Code, all obligations of SERS will be assumed by the Commonwealth should SERS terminate. The contribution to SERS for the years ended June 30, 2018 and 2017 was \$110,895 and \$107,091, respectively.

The College's contractually required PSERS contribution rate for fiscal year ended June 30, 2018 was 32.57% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. This rate is composed of a 31.74% rate for the Pension Plan and a 0.83% rate for the Premium Assistance.

The combined rate for the fiscal year ended June 30, 2018 was an increase from the fiscal year ended June 30, 2017 combined rate of 30.03%. The combined contribution rate will

LEHIGH CARBON COMMUNITY COLLEGE

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increase to 33.43% in fiscal year 2019 and is projected to grow to 36.32% by fiscal year 2023.

The College contributed \$183,717 and \$4,499 towards pension benefits and premium assistance, respectively, which were recognized by PSERS for the year ended June 30, 2018. The College contributed \$160,931 towards pension benefits, which was recognized by PSERS for the year ended June 30, 2017. Approximately, \$51,000 and \$47,000 is owed to PSERS as of June 30, 2018 and 2017, respectively, which represents the College's required contribution for the end-of-year payroll. Contributions are remitted quarterly.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018 and 2017, the College reported a liability of \$3,199,535 and \$3,731,834 respectively, for its proportionate share of the SERS and PSERS net pension liabilities. The liability is allocated to the respective plans as follows for the year ended June 30:

	<u>2018</u>	<u>2017</u>
SERS	\$ 977,535	\$ 1,204,834
PSERS	<u>2,222,000</u>	<u>2,527,000</u>
Total	<u>\$ 3,199,535</u>	<u>\$ 3,731,834</u>

The SERS net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the SERS net pension liability was allocated by SERS to each employer based on a projected-contribution method. At December 31, 2016, the College's proportion was .0056%, which was a decrease from its proportion of .0063% measured as of December 31, 2015.

The PSERS net pension liability for June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2016 to June 30, 2017.

The PSERS net pension liability for June 30, 2017 was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2015 to June 30, 2016.

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The College's proportion of the PSERS net pension liability and PSERS' net OPEB liability were calculated utilizing the employer's one-year reported covered payroll as it relates to PSERS' total one-year reported covered payroll. At June 30, 2017 (measurement date), the College's proportion was 0.0045%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2016. At June 30, 2016, the College's proportion was 0.0051%, which was a decrease from its proportion of 0.0052% measured as of June 30, 2015.

The PSERS net pension liability for its proportionate share reflected a reduction for the State pension support provided to the College. Because these payments are made directly to PSERS, they qualify as a special funding situation. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College is as follows:

	<u>2018</u>	<u>2017</u>
The College's proportionate share of the net pension liability	\$ 2,222,000	\$ 2,527,000
State's proportionate share of the net pension liability associated with the College	<u>2,199,006</u>	<u>2,547,040</u>
Total	<u>\$ 4,421,006</u>	<u>\$ 5,074,040</u>

For the year ended June 30, 2018, the College recognized pension expenses of \$32,064 and \$143,658 for SERS and PSERS plans, respectively. For the year ended June 30, 2017, the College recognized pension expenses of \$174,373 and \$217,627 for SERS and PSERS plans, respectively.

LEHIGH CARBON COMMUNITY COLLEGE

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At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience - SERS	\$ 16,528	\$ 18,560
Differences between expected and actual experience - PSERS	23,000	13,000
Net difference between projected and actual earnings on pension plan investments - SERS	-	38,865
Net difference between projected and actual earnings on pension plan investments - PSERS	51,000	-
Change of assumptions - SERS	48,940	-
Change of assumptions - PSERS	60,000	-
Net difference between employer contributions and proportionate share of contributions - SERS	-	-
Changes in proportion and differences between College contributions and proportionate share of contributions - SERS	16,183	291,395
Changes in proportion and differences between College contributions and proportionate share of contributions - PSERS	-	287,000
College contributions subsequent to the measurement date - SERS	62,113	-
College contributions subsequent to the measurement date - PSERS	179,950	-
Total	<u>\$ 457,714</u>	<u>\$ 648,820</u>

\$242,063 was reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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

Years ending June 30:	SERS	PSERS
2019	\$ (78,927)	\$ (59,000)
2020	(74,014)	(21,000)
2021	(64,704)	(24,000)
2022	(46,172)	(62,000)
2023	(3,352)	-
Total	<u>\$ (267,169)</u>	<u>\$ (166,000)</u>

Actuarial Assumptions

SERS

The following methods and assumptions were used in the December 31, 2017 actuarial valuation. These methods and assumptions were applied to all periods included in the measurement period:

- Actuarial cost method - Entry age
- Amortization method - Straight-line amortization of difference between projected and actual earnings on pension plan investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Investment return - 7.25% net of expenses including inflation
- Salary increases - Average of 5.60% with range of 3.70% - 8.90% including inflation
- Asset valuation method – Fair (market) value
- Inflation – 2.60%
- Mortality rates - Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
- Cost-of-living adjustments - Ad hoc

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience*, which was published in March of 2016, analyzed

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experience from 2011 through 2015. The SERS Board accepted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting.

In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year. The next SERS review will occur in July 2018, and will be used for its 2018 annual valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Private Equity	16.00%	8.00%
Global Public Equity	43.00%	5.30%
Real Estate	12.00%	5.44%
Multi-Strategy	12.00%	5.10%
Legacy Hedge Funds	0.00%	0.00%
Fixed Income	14.00%	1.63%
Cash	3.00%	-0.25%
Total	<u>100.00%</u>	

The information above is based on a 7.50% assumed investment rate of return. At its April 2017 meeting, SERS Board approved a reduction in the assumed investment rate of return to 7.25%. As a result of a portfolio examination, several changes were made to the asset allocation during the fourth quarter of 2017. The portfolio was restructured to add Multi-Strategy as a new asset class. Targets will be updated to reflect the new assumed investment rate of return and asset classes in the 2018-2019 Investment Plan.

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PSERS

The total pension liability as of June 30, 2017 was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Changes in Assumptions

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its June 10, 2016 Board meeting and were effective beginning with the June 30, 2016 actuarial valuation. These changes included:

- The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of 3.00% for inflation and 2.50% for real wage growth and for merit or seniority increases, to an effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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Changes in Benefit Terms

With the passage of Act 5 on June 12, 2017, vested Class T-E and Class T-F members can now withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement. In addition, members hired on or after July 1, 2019 will be required to select one of three new plan design options: either one of two side-by-side hybrid defined benefit/defined contribution plans or a stand-alone defined contribution plan. No changes will be made to retirement benefits for current employees, but they would have the option to choose one of the new plan designs.

Pension Plan Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<u>100.0%</u>	

Discount Rate

The SERS discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

The PSERS discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. 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 on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LEHIGH CARBON COMMUNITY COLLEGE

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Sensitivity of the College's proportionate share of the net pension liability to changes in the discount rate

The following presents the College's proportionate share of the SERS and PSERS net pension liability, calculated using the discount rates described above, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>Increase (8.25%)</u>
College's proportionate share of the SERS net pension liability	\$ 1,240,790	\$ 977,535	\$ 752,017
College's proportionate share of the PSERS net pension liability	2,736,000	2,222,000	1,789,000

Pension Plan Fiduciary Net Position

Detailed information about SERS' fiduciary net position is available in the SERS Comprehensive Annual Financial Report, which can be found on the SERS' website at www.sers.pa.gov.

Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found on the PSERS' website at www.psers.pa.gov.

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF)

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employees hired after 1998 are required to contribute 3% to the plan. The College's contribution rate on June 30, 2018 and 2017 was between 3% and 9% of qualifying compensation. The College's contributions to TIAA-CREF for the years ended June 30, 2018 and 2017 were \$1,277,663 and \$1,239,583, respectively.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

12. Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

At June 30, 2018, the College reported a liability of \$92,000 for its proportionate share of PSERS' net OPEB liability. PSERS' net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate PSERS' net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017.

For the year ended June 30, 2018, the College recognized OPEB expense of \$3,000. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	4,000
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion	-	11,000
School District contributions subsequent to the measurement date	4,499	-
Total	\$ 4,499	\$ 15,000

\$4,499 reported as deferred outflows of resources resulting from the College's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30:</u>	
2019	\$ 3,000
2020	3,000
2021	3,000
2022	3,000
2023	3,000
Total	\$ 15,000

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward PSERS' total OPEB liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 3.13% - S&P 20-year Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Participation rate –
 - Eligible retirees will elect to participate pre-age 65 at 50%
 - Eligible retirees will elect to participate post-age 65 at 70%.

Changes in Assumptions

The actuarial assumptions used in the June 30, 2015 valuation determined the contribution rate for fiscal year 2017. These assumptions included:

- Actuarial cost method – Amount necessary to assure solvency of the Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method – market value
- Participation rate – 63% of eligible retirees were assumed to elect the Premium Assistance
- Mortality rates for healthy annuitants and dependent beneficiaries were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females. For disabled annuitants, rates were based on the RP-2000 Combined Disabled Table with age set back 7 years for males and 3 years for females.

Changes in Benefit Terms

There were no changes in benefit terms for the Premium Assistance.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

OPEB Plan Investments

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Employer contribution rates are established to provide reserves in the Health Insurance Account that are sufficient for the payment of the Premium Assistance for each succeeding year. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed income	23.6%	1.5%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13%. Under the Premium Assistance plan's funding policy, contributions are structured for short-term funding of the Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of the Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of the Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability. This previous discount rate used as of June 30, 2016 was 2.71%.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Sensitivity of the College's Proportionate Share of PSERS' Net OPEB Liability to Changes in the Discount Rate

The following presents the College's proportionate share of PSERS' net OPEB liability calculated using the discount rates described above, as well as what the College's proportionate share of PSERS' net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease (2.13%)</u>	<u>Current Discount Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
College's proportionate share of PSERS' net OPEB liability	<u>\$ 104,000</u>	<u>\$ 92,000</u>	<u>\$ 81,000</u>

Sensitivity of the College's Proportionate Share of PSERS' Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Healthcare cost trend rates were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on the healthcare cost trends as depicted below.

The following presents the College's proportionate share of PSERS' net OPEB liability calculated using current healthcare cost trend rates as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
College's proportionate share of PSERS' net OPEB liability	<u>\$ 92,000</u>	<u>\$ 92,000</u>	<u>\$ 92,000</u>

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found on the PSERS website at www.psers.pa.gov.

13. Contingencies

The College participates in both state and federally assisted grant programs and receives appropriations from the Commonwealth. These programs and appropriations are subject to program compliance audits by the grantors or their representatives. The College is potentially liable for any expenditure which may be disallowed pursuant to the terms of the grant and appropriation programs. Management is not aware of any material items of noncompliance which would result in the disallowance of expenditures.

14. Concentrations

Approximately 33% and 34% of the College's total revenue for the years ended June 30, 2018 and 2017, respectively, was provided by appropriations and contracts with the Commonwealth. A significant reduction in the amounts provided by the Commonwealth could have an adverse impact on the College's operations.

15. Designations of Unrestricted Net Position

Designations of unrestricted net position are not legally required segregations but are segregated by the College's management for specific purposes. As of June 30, 2018 and 2017, the College designated unrestricted net position as follows:

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Designated for capital projects	\$ 14,717,035	\$ 11,499,054
Designated for operating projects and auxiliary student operations	7,153,029	7,868,345
Reserve for future operations	<u>2,000,000</u>	<u>1,950,000</u>
Total unrestricted, board-designated	23,870,064	21,317,399
Unrestricted, undesignated	<u>32,295</u>	<u>17,623</u>
Total unrestricted net position	<u><u>\$ 23,902,359</u></u>	<u><u>\$ 21,335,022</u></u>

16. Commitments

The College employs approximately 900 employees. Approximately 30% of the College's employees are covered by collective bargaining agreements. The current contract with the Faculty Association expires August 2021. The contract with the Education Support Professionals expires June 30, 2020.

17. Component Unit Disclosures, Lehigh Carbon Community College Foundation

Promises to Give

Unconditional promises to give as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Scholarships	<u>\$ 175,584</u>	<u>\$ 453,258</u>
Receivable in less than one year	\$ 115,584	\$ 224,333
Receivable in one to five years	<u>60,000</u>	<u>228,925</u>
	175,584	453,258
Less discounts to net present value at 2.20% - 5.80%	<u>(5,608)</u>	<u>(23,920)</u>
	<u><u>\$ 169,976</u></u>	<u><u>\$ 429,338</u></u>

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Conditional promises to give are not included as support until the conditions are substantially met. Conditional promises to give for both years ended June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Technology Center Building and Leasehold Improvements	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>

The donor has committed to give the Technology Center to the Foundation in fiscal year ending June 30, 2019, contingent upon the building having a clear title as of the designated transfer date.

Investments

Financial assets and liabilities are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 – Quoted prices are available in the active markets for identical assets or liabilities as of the reported date.

Level 2 – Pricing inputs are other than quoted prices in active markets for identical assets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30:

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018			Total
	Level 1	Level 2	Level 3	
Money market accounts	\$ 455,617	\$ -	\$ -	\$ 455,617
Equity mutual funds:				
Large cap equity funds	4,141,260	-	-	4,141,260
Small and mid cap equity funds	1,011,462	-	-	1,011,462
International funds	2,365,830	-	-	2,365,830
Commodities	318,923	-	-	318,923
Real estate	321,476	-	-	321,476
Blended funds	910,879	-	-	910,879
Structured note	-	320,638	-	320,638
Fixed income mutual funds	3,927,278	-	-	3,927,278
	<u>\$ 13,452,725</u>	<u>\$ 320,638</u>	<u>\$ -</u>	<u>\$ 13,773,363</u>

	2017			Total
	Level 1	Level 2	Level 3	
Money market accounts	\$ 518,465	\$ -	\$ -	\$ 518,465
Equity mutual funds:				
Large cap equity funds	3,876,622	-	-	3,876,622
Small and mid cap equity funds	896,598	-	-	896,598
International funds	2,246,242	-	-	2,246,242
Commodities	297,769	-	-	297,769
Real estate	308,041	-	-	308,041
Structured note	-	302,407	-	302,407
Fixed income mutual funds	3,798,202	-	-	3,798,202
	<u>\$ 11,941,939</u>	<u>\$ 302,407</u>	<u>\$ -</u>	<u>\$ 12,244,346</u>

The structured note is a non-hedging derivative instrument. The fair value is measured daily and is based on various inputs including: changes in the underlying investment indices; the issuer's credit spread; and the remaining maturity period of the investment.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment income	\$ 204,480	\$ 119,059
Realized gains	376,015	614,442
Unrealized gains (losses)	<u>196,073</u>	<u>436,620</u>
	<u>\$ 776,568</u>	<u>\$ 1,170,121</u>

Land and Buildings

Land and buildings is comprised of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 572,725	\$ 572,725
Buildings	<u>6,106,892</u>	<u>6,106,892</u>
	6,679,617	6,679,617
Accumulated depreciation	<u>(1,383,463)</u>	<u>(1,291,860)</u>
	<u>\$ 5,296,154</u>	<u>\$ 5,387,757</u>

Depreciation expense of \$91,604 was recognized for the years ended June 30, 2018 and 2017.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Restrictions and Limitations on Net Assets

The Foundation's Board of Trustees has chosen to place the following limitations on unrestricted net assets:

	<u>2018</u>	<u>2017</u>
Endowments	\$ 812,897	\$ 770,360
Scholarships	129,015	154,956
Student Emergency Loan Fund	75,000	75,000
Academic Program Enhancement Fund	348,274	348,274
Building construction, improvements, and maintenance	827,486	2,125,133
	<u>\$ 2,192,672</u>	<u>\$ 3,473,723</u>

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Building construction, improvements, and real property acquisition	\$ 356,705	\$ 306,806
Scholarships	1,276,251	1,056,807
Title III grant and match	412,696	387,716
Other	419,408	478,019
	<u>\$ 2,465,060</u>	<u>\$ 2,229,348</u>

Temporarily restricted net assets were released primarily for scholarships in the amount of \$403,452 and \$209,028 in 2018 and 2017, respectively.

Permanently restricted net assets of \$6,280,887 and \$4,474,019 at June 30, 2018 and 2017, respectively, are comprised primarily of scholarships, and include related promises to give.

Endowment

The Foundation's endowment consists of various individual funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and a fund designated by the Board to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Interpretation of Relevant Law

The Foundation's policy is to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law. Unless specifically defined as a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Foundation considers the following factors: the duration and preservation of the fund; the purposes of the organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and appreciation of investments; other resources of the organization; and the investment policies of the organization.

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2018 and 2017:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 812,897	\$ -	\$ -	\$ 812,897
Donor-restricted endowment funds	-	472,688	6,280,887	6,753,575
	<u>\$ 812,897</u>	<u>\$ 472,688</u>	<u>\$ 6,280,887</u>	<u>\$ 7,566,472</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 770,360	\$ -	\$ -	\$ 770,360
Donor-restricted endowment funds	-	444,128	4,474,019	4,918,147
	<u>\$ 770,360</u>	<u>\$ 444,128</u>	<u>\$ 4,474,019</u>	<u>\$ 5,688,507</u>

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

The following schedule represents the changes in endowment net assets for the years ended June 30, 2018 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, July 1, 2016	\$ 759,793	\$ 272,181	\$ 3,922,937
Investment return:			
Investment income	2,424	4,490	41,062
Net realized and unrealized	8,143	45,457	266,213
Total investment return	10,567	49,947	307,275
Contributions	-	122,000	295,000
Distributions	-	-	(51,193)
Endowment net assets, June 30, 2017	770,360	444,128	4,474,019
Investment return:			
Investment income	11,794	18,705	177,496
Net realized and unrealized	30,743	9,855	83,440
Total investment return	42,537	28,560	260,936
Transfer in			1,381,110
Contributions	-	-	230,000
Distributions	-	-	(65,178)
Endowment net assets, June 30, 2018	\$ 812,897	\$ 472,688	\$ 6,280,887

Transfer

At December 31, 2017, a donor clarified the restriction related to a contribution they had made in a prior year. The transfer between unrestricted Board-designated net assets and permanently restricted net assets reflects the clarification.

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law required the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at June 30, 2018 and 2017.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted fund that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the broad market indexes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividend). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Foundation has a policy of appropriating restricted net assets for distribution on an as-needed basis. The amount needed to fund the distributions will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of the endowment and, conversely, any undistributed income after the allocation of the total return distribution is added back to the temporarily restricted endowment fund balance. Over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

REQUIRED SUPPLEMENTARY INFORMATION

LEHIGH CARBON COMMUNITY COLLEGE

**SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

Last 10 Fiscal Years¹

PSERS:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
College's proportion of the net pension liability	0.0045%	0.0051%	0.0052%	0.0054%
College's proportionate share of the net pension liability	\$ 2,222,000	\$ 2,527,000	\$ 2,253,000	\$ 2,137,000
State's proportionate share of the net pension liability associated with the College	<u>2,199,006</u>	<u>2,547,040</u>	<u>2,266,282</u>	<u>2,158,043</u>
Total	<u>\$ 4,421,006</u>	<u>\$ 5,074,040</u>	<u>\$ 4,519,282</u>	<u>\$ 4,295,043</u>
College's covered payroll	\$ 592,627	\$ 665,775	\$ 673,190	\$ 695,020
College's proportionate share of the net pension liability as a percentage of its covered payroll	374.94%	379.56%	334.68%	307.47%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	51.84%	50.14%	54.36%	57.24%

¹The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the College is presenting information for those years only for which information is available.

SERS:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
College's proportion of the net pension liability	0.0056%	0.0063%	0.0072%	0.0084%
College's proportionate share of the net pension liability	\$ 977,535	\$ 1,204,834	\$ 1,315,951	\$ 1,245,895
College's covered payroll	\$ 349,755	\$ 362,071	\$ 431,572	\$ 500,417
College's proportionate share of the net pension liability as a percentage of its covered payroll	279.49%	332.76%	304.92%	248.97%
SERS' plan fiduciary net position as a percentage of SERS' total pension liability	63.00%	57.80%	58.90%	64.80%

¹The amounts presented for each fiscal year were determined as of the measurement date, which is as of the end of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the College is presenting information for those years only for which information is available.

See accompanying notes to required supplementary information.

LEHIGH CARBON COMMUNITY COLLEGE

SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS

Last 10 Fiscal Years³

PSERS:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contribution	\$ 183,717	\$ 160,931	\$ 152,717	\$ 140,534
Contributions recognized by PSERS	<u>183,717</u>	<u>160,931</u>	<u>152,717</u>	<u>140,534</u>
Difference between contractually required employer contribution and contributions recognized by PSERS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 665,775	\$ 594,774	\$ 665,775	\$ 695,020
Contributions as a percentage of covered-employee payroll	27.59%	27.06%	22.94%	20.22%

³ The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the College is presenting information for those years only for which information is available.

SERS:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contribution	\$ 110,895	\$ 107,091	\$ 107,628	\$ 98,563
Contributions recognized by PSERS	<u>110,895</u>	<u>107,091</u>	<u>107,628</u>	<u>98,563</u>
Difference between contractually required employer contribution and contributions recognized by PSERS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 349,755	\$ 362,071	\$ 431,572	\$ 500,417
Contributions as a percentage of covered payroll	31.71%	29.58%	24.94%	19.70%

³ The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the College is presenting information for those years only for which information is available.

See accompanying notes to required supplementary information.

LEHIGH CARBON COMMUNITY COLLEGE

SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF PSERS' NET OPEB LIABILITY

Last 10 Fiscal Years¹

	2018
College's proportion of PSERS' net OPEB liability	0.0045%
College's proportionate share of PSERS' net OPEB liability	\$ 92,000
College's covered payroll	\$ 592,627
College's proportionate share of PSERS' net OPEB liability as a percentage of its covered payroll	15.52%
PSERS' plan fiduciary net position as a percentage of PSERS' total OPEB liability	5.73%

¹ The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the College is presenting information for those years only for which information is available.

SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS TO PSERS PREMIUM ASSISTANCE

Last 10 Fiscal Years⁴

	2018
Contractually required employer contribution	\$ 4,499
Contributions recognized by PSERS	4,499
Difference between contractually required employer contribution and contributions recognized by PSERS	\$ -
College's covered payroll	\$ 665,775
Contributions as a percentage of covered payroll	0.68%

⁴ The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the College is presenting information for those years only for which information is available.

See accompanying notes to required supplementary information.

LEHIGH CARBON COMMUNITY COLLEGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

1. Factors and Trends Used in the Actuarial Valuation for Pension Benefits

SERS:

The actuarially determined contributions are calculated as the College's percentage of the total of (1) the employer normal cost percentage and (2) the net amortization of the unfunded liability, but not less than any applicable minimum contribution as prescribed by the Pennsylvania State Employees' Retirement Code and not more than the total contribution amount that results from applying the collars established by Act 2010-120 to limit the extent of annual increase in the employer contribution rate. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

- Valuation date - December 31, 2017
- Actuarial cost method - Entry age
- Amortization method - Straight-line amortization of difference between projected and actual earnings on pension plan investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Investment return - 7.25% net of expenses including inflation
- Salary increases - Average of 5.60% with range of 3.70% - 8.90% including inflation
- Asset valuation method – Fair (market) value
- Inflation – 2.60%
- Mortality rates - Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
- Cost-of-living adjustments - Ad hoc

There were no changes to benefit terms or actuarial assumptions.

PSERS:

Changes in Benefit Terms

With the passage of Act 5, Class T-E and T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2017

None.

Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2016

The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Benefit payments – no postretirement benefit increases assumed in the future
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

2. Factors and Trends Used in the Actuarial Valuation for the PSERS Postemployment Benefits Other Than Pension Benefits (OPEBs)

Changes in Benefit Terms

None.

Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2017

The discount rate increased from 2.71% to 3.13%.

Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2016

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the OPEB required supplementary schedules:

- Investment return – 3.13% - 20-year S&P Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Benefit payments – no postretirement benefit increases assumed in the future

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YEAR ENDED JUNE 30, 2018

- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.