

Lehigh Carbon Community College

Financial Statements

June 30, 2013 and 2012



Lehigh Carbon Community College

Table of Contents

June 30, 2013 and 2012

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statement of Net Position - Primary Institution	9
Statement of Revenues, Expenses and Changes in Net Position - Primary Institution	11
Statement of Cash Flows - Primary Institution	12
Statement of Financial Position - Component Unit	14
Statement of Activities - Component Unit	15
Notes to Financial Statements	16

Independent Auditors' Report

Board of Trustees
Lehigh Carbon Community College

Report on the Financial Statements

We have audited the accompanying financial statements (as described in the table of contents) of Lehigh Carbon Community College (the "College") and its' discretely presented component unit, as of and for the years ended June 30, 2013 and 2012.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lehigh Carbon Community College and of its discretely presented component unit as of June 30, 2013 and 2012, and the 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 ("MD&A") on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do provide us with sufficient evidence to express an opinion or provide any assurance.

ParenteBeard LLC

Allentown, Pennsylvania
January 8, 2014

Lehigh Carbon Community College

Management's Discussion and Analysis (Unaudited)

This section of Lehigh Carbon Community College's (the "College") annual financial report presents our discussion and analysis of the financial performance of the College for the fiscal years ended June 30, 2013 and 2012. 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 for the year ended June 30, 2013 have been 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.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the College's financial statements; the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. 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 Statement of Net Position reflects the financial position of the College at June 30, 2013 and 2012. It presents information on all the College's assets and liabilities, with the difference between the two reported as net position (equity). Assets and liabilities are generally reported at their book value, except investments, which are reported at their fair market value. It also identifies major categories of designations and restrictions on the net position of the College.

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.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the years ended June 30, 2013 and 2012. The statement is prepared using the direct method of cash flows. The statement breaks out the source and uses of the College's cash and cash equivalents into four categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

Lehigh Carbon Community College

Management's Discussion and Analysis (Unaudited)

The College's routine activities appear in the operating and noncapital financing categories. Capital and relating financing sources include debt proceeds, state capital appropriations, capital grants and contracts, and proceeds from the sale of capital assets. Within the capital and related financing, uses of funds consist of acquisition of capital assets and debt repayments. Sales and purchases of investments including use of bond funds held in escrow and interest received on the escrow are part of the investing activities.

Financial Highlights and Analysis

Consistent with its mission of "responding to the community with high quality, affordable, and accessible education," the College offers educational, career and lifelong learning opportunities through innovative partnerships which enhance the lives of residents in Lehigh, Carbon and the neighboring counties. 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.

The fiscal year 2012-2013 credit hours decreased by 1.7% with 131,719 credit hours compared to 133,974 in fiscal year 2011-2012. The College's full-time student credit hour enrollment has decreased by 7.0% compared to the 17.9% decrease experienced in the prior fiscal year. Part-time credit hours increased 1.3% and 1.8% for the fiscal years ended June 30, 2013 and 2012, respectively.

Non-Credit FTEs increased 21% over the prior fiscal year with 887 annual FTEs in fiscal year 2012-2013 compared to 732 annual FTEs in fiscal year 2011-2012. The increase in FTEs was a direct result of retention of students and increased enrollment in the College's literacy program; expansion of the College's SHINE after school programming and increased participation; and a rise in contracted training enrollment and expanded hours of programming.

Cash and cash equivalents increased \$4.3 million, of which \$1.7 million was attributed to a bond issue related to the refinancing of the 2002 bonds. Restricted cash increased \$2.7 million as a portion of the funds the College received in the bond offering were received in an escrow account for a capital construction project. Accounts Receivables and Deferred Revenue increased \$6.4 and \$7.1 million, respectively, in fiscal year 2012-2013. This significant increase was due to a College procedural change that moved the student payment due date from FY2014 to FY2013. Overall the net position of the College increased by \$3,485,500 in fiscal year 2012-2013 to a cumulative total net position of \$50,569,800. The cumulative net position is comprised of investment in capital assets of \$30,442,700, restricted net position of \$403,900 and unrestricted net position of \$19,723,100.

Although the College's unrestricted net position is not subject to externally imposed restrictions, \$19,654,100 of the College's \$19,723,100 of unrestricted net position is designated for purposes to fulfill its various fiduciary responsibilities, including maintaining reserves for capital improvement and operation projects, and a reserve for future operations.

Lehigh Carbon Community College

Management's Discussion and Analysis (Unaudited)

Operating revenues and expenses come from sources that are connected directly to the College's primary business function. This includes revenues from categories such as tuition and fees, certain grants and contracts that will be used for noncapital purposes, and sales and services of auxiliary enterprises. Total College operating revenues increased \$1,003,800 or 4.9%. Student tuition and fee revenues increased by \$1,198,900 or 6.4% due to the credit enrollment decline of 8.2%, net of a 3.4% increase in the credit tuition rate, and a 15.2% decline in non-credit tuition and fee revenue from the prior year. The Commonwealth operating and capital appropriations remained consistent with the prior fiscal year. Local sponsors operating and capital appropriations increased by approximately \$49,000 in FY13 when compared to FY12. Federal grants and contracts increased in fiscal year 2013 by \$428,200. The increase was a result of receiving Title III federal funds throughout the entire year totaling approximately \$286,600 in addition to the first year funding of the National Science Foundation Pathway to Achievement for Science, Technology, Engineering and Math (STEM) Scholars (PASS) program that resulted in approximately \$144,500 increased funds. State grants and contracts remained relatively consistent in fiscal year 2013, while local grants and contracts decreased by \$48,900. All local carry forward funds were expended in three of the local grants while only two new small grants were awarded.

Approximately 58.2% of the College's total operating expenses in fiscal year 2012-2013 directly support instruction, the primary function of the campus and the mission-critical educational support activities. Instruction direct expenses include faculty and instructional support staff salaries, benefits and their direct expenses. Student services, academic support, public services, and student grants and scholarships activities comprise the educational support activities expenses. Total expenses increased by \$1,478,700 or 3.6%. Employee compensation expenses increased \$513,100 from the prior fiscal year while employee benefits increased a small percentage. Faculty compensation costs for non-credit, credit part-time faculty and credit full-time faculty increased approximately \$179,500. This was caused by a 2.25% increase in annual faculty compensation, offset by the campus's continued strategic effort to maximize enrollment sections. The maximization effort helped offset 2.25% increase in faculty annual compensation.

Campus contracted and professional services expenses increased \$552,200 from the previous fiscal year. The increased expenses were the result of an increase in contracted services of approximately \$400,500 and accommodation costs in student services by \$109,000.

Lehigh Carbon Community College

Management's Discussion and Analysis
(Unaudited)

Condensed Statement of Net Position

The following is a Condensed Statement of Net Position as of June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets	\$ 32,473,767	\$ 21,769,004
Non-current assets	<u>56,778,778</u>	<u>55,084,794</u>
Total assets	<u>\$ 89,252,545</u>	<u>\$ 76,853,798</u>
Liabilities and net position:		
Current liabilities	\$ 15,833,178	\$ 7,118,948
Non-current liabilities	<u>22,849,550</u>	<u>22,650,566</u>
Total liabilities	<u>38,682,728</u>	<u>29,769,514</u>
Net position:		
Investment in capital assets	30,442,737	29,151,252
Unrestricted	19,723,152	17,460,017
Restricted	<u>403,928</u>	<u>473,015</u>
Total net position	<u>50,569,817</u>	<u>47,084,284</u>
Total liabilities and net position	<u>\$ 89,252,545</u>	<u>76,853,798</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position

The condensed financial information below highlights the main categories of the Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues include tuition and fees, net of scholarship discounts and allowances. The construction and acquisition of capital assets, although budgeted and tracked as an expenditure in the accounting system, are not reflected as an expense in these statements. Rather, such transactions are reported as an asset with the systematic allocation of the costs expensed over the useful life of the asset acquired. The College shows an operating loss as a result of the requirements that two of the three main revenue sources, state operating appropriation and local sponsor operating appropriation, are reported as non-operating revenues. Depreciation expense is reported as an operating expense. The College does not budget for depreciation expense. For a description of the difference between operating and non-operating, please refer to the Summary of Significant Accounting Policies, Note 1 to the basic financial statements.

Lehigh Carbon Community College

Management's Discussion and Analysis (Unaudited)

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Tuition and fees	\$ 19,939,772	\$ 18,740,848
Auxiliary services	591,970	544,292
Other	1,006,389	1,249,247
Non-operating revenues:		
Commonwealth and local sponsor appropriations	22,098,718	21,899,288
Government/Local grant and contracts	3,209,317	2,850,800
Capital grants and contracts	361,294	395,143
Investment income	60,472	104,228
Total revenues	<u>47,267,932</u>	<u>45,783,846</u>
Operating expenses:		
Educational and general	39,373,739	38,069,191
Depreciation and amortization	3,236,536	3,077,395
Auxiliary services	229,409	214,381
Non-operating expenses:		
Interest on indebtedness	942,715	767,213
Total expenses	<u>43,782,399</u>	<u>42,128,180</u>
Increase in net position	3,485,533	3,655,666
Net position, beginning	<u>47,084,284</u>	<u>43,428,618</u>
Net position, ending	<u>\$ 50,569,817</u>	<u>\$ 47,084,284</u>

Debt Administration

At June 30, 2013, the College had five general obligation bond issues totaling \$26,225,000 and a term loan totaling \$129,700. The debt issues are funded by the Commonwealth capital appropriation, local sponsor capital appropriation and College capital funds. The fiscal year 2012-2013 debt payments were funded from the following sources:

- 1) 50% from the Commonwealth appropriation
- 2) 43% from the local sponsor capital appropriation
- 3) 7% from College capital funds

Additional information on the College's long-term debt can be found in Note 7 to the basic financial statements.

Lehigh Carbon Community College

Management's Discussion and Analysis
(Unaudited)

Current Factors Having Probable Future Financial Significance

The fall 2013 enrollment statistics indicate that part-time enrollment decreased 0.6% from the prior fiscal year while the full-time enrollment also decreased 6.6% for a net decrease of 2.8%. The College revised its operating budget for 2013-2014 to reflect tuition and fee revenue based on 2012-2013 enrollments with a 5% decrease. The College's initial budget projections for 2014-2015 have been created based upon that 5% decrease with a 1% increase. Any increase in enrollment above these projections will have a positive impact on the College's financial situation.

The Commonwealth of Pennsylvania's operating appropriation for fiscal year 2012-2013 remained constant at \$12,266,400. Expectations are that Commonwealth funding will remain fixed at the current level over the next few years.

The Local Sponsor operating appropriation for fiscal year 2012-2013 increased 1.0% over the prior fiscal year appropriation. The 2013-2014 increase is expected to remain at 1.0%.

Capital appropriations for the Commonwealth and the local sponsors are expected to increase in 2013-14 as funding was approved for the College's Administration Building Renovation project. In 2013-14 the Commonwealth will be funding 50% of the annual debt service for the project. The local sponsors will begin funding 25% of the debt service in 2013-2014 with increased percent's in future years.

Summary

This discussion and analysis is designed to provide a general overview of the College's finances for all those with an interest in such matters. The College is proud of its ability to offer affordable, high-quality educational programs and services the College offers to our communities.

Lehigh Carbon Community College

Statement of Net Position - Primary Institution

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 23,380,063	\$ 19,077,159
Accounts receivable, students and other, net	7,966,520	1,562,741
Accounts receivable, grants	558,684	445,574
Prepaid expenses and other assets	<u>568,500</u>	<u>683,530</u>
Total current assets	<u>32,473,767</u>	<u>21,769,004</u>
Noncurrent Assets		
Bond proceeds available for campus construction	3,648,589	947,651
Student loans receivable, net	330,493	387,290
Capital assets, net	52,348,479	53,397,305
Deferred charges	<u>451,217</u>	<u>352,548</u>
Total other assets	<u>56,778,778</u>	<u>55,084,794</u>
Total assets	<u><u>\$ 89,252,545</u></u>	<u><u>\$ 76,853,798</u></u>

See notes to financial statements

Lehigh Carbon Community College

Statement of Net Position - Primary Institution

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities and Net Position		
Current Liabilities		
Notes payable, current portion	\$ 4,349,703	\$ 2,491,853
Capital lease obligation, current portion	572,479	584,698
Accounts payable	991,726	1,383,172
Accrued expenses and other liabilities	1,754,059	1,643,090
Accrued interest payable	170,314	163,563
Deferred revenue	7,817,129	674,803
Accrued settlements	<u>177,768</u>	<u>177,769</u>
Total current liabilities	<u>15,833,178</u>	<u>7,118,948</u>
Noncurrent Liabilities		
Accrued settlements	16,383	194,150
Notes payable, less current portion	22,150,676	21,267,515
Accrued partial retirement benefits	28,485	136,071
Capital lease obligation, less current portion	<u>654,006</u>	<u>1,052,830</u>
Total noncurrent liabilities	<u>22,849,550</u>	<u>22,650,566</u>
Total liabilities	<u>38,682,728</u>	<u>29,769,514</u>
Net Position		
Unrestricted, undesignated	69,049	66,803
Unrestricted, board designated	19,654,103	17,393,214
Net investment in capital assets	30,442,737	29,151,252
Permanently restricted	<u>403,928</u>	<u>473,015</u>
Total net position	<u>50,569,817</u>	<u>47,084,284</u>
Total liabilities and net position	<u>\$ 89,252,545</u>	<u>\$ 76,853,798</u>

See notes to financial statements

Lehigh Carbon Community College

Statement of Revenues, Expenses and Change in Net Position - Primary Institution

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenue		
Student tuition and fees, net of scholarship allowance of \$3,791,290 in 2013 and \$4,182,201 in 2012	\$ 19,939,772	\$ 18,740,848
Auxiliary enterprises	591,970	544,292
Other operating revenues	1,006,389	1,249,247
	<u>21,538,131</u>	<u>20,534,387</u>
Operating Expenses		
Educational and general:		
Instruction	14,666,873	14,575,815
Academic support	5,911,524	5,382,917
Student services	4,355,013	4,221,212
Institutional support	9,514,291	9,209,326
Operation and maintenance of plant	4,926,038	4,679,921
Depreciation	3,236,536	3,077,395
Auxiliary services	229,409	214,381
	<u>42,839,684</u>	<u>41,360,967</u>
Total operating expenses	<u>42,839,684</u>	<u>41,360,967</u>
Operating loss	<u>(21,301,553)</u>	<u>(20,826,580)</u>
Non-Operating Revenues (Expenses)		
Appropriations:		
Local	4,058,505	4,018,232
Commonwealth of Pennsylvania	12,950,582	12,977,389
Federal grants and contracts	2,997,159	2,568,910
Commonwealth of Pennsylvania grant and contracts	161,734	182,536
Local grants and contracts	50,424	99,354
Investment income	60,472	104,228
Interest on indebtedness	(942,715)	(767,213)
	<u>19,336,161</u>	<u>19,183,436</u>
Total non-operating revenues, net	<u>19,336,161</u>	<u>19,183,436</u>
Loss before other revenues	<u>(1,965,392)</u>	<u>(1,643,144)</u>
Other Revenues		
Capital appropriations:		
Local	2,323,046	2,314,172
Commonwealth of Pennsylvania	2,766,585	2,589,495
Capital grants and contracts	361,294	395,143
	<u>5,450,925</u>	<u>5,298,810</u>
Total other revenues	<u>5,450,925</u>	<u>5,298,810</u>
Increase in net position	3,485,533	3,655,666
Net Position, Beginning	<u>47,084,284</u>	<u>43,428,618</u>
Net Position, Ending	<u>\$ 50,569,817</u>	<u>\$ 47,084,284</u>

See notes to financial statements

Lehigh Carbon Community College

Statement of Cash Flows - Primary Institution

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Student tuition and fees	\$ 20,735,116	\$ 18,028,114
Payments to employees	(21,487,778)	(20,785,397)
Payments for benefits	(6,999,125)	(6,818,686)
Payments to suppliers and utilities	(11,367,274)	(10,624,442)
Auxiliary services	591,970	544,292
Other receipts	1,006,389	1,249,247
	<u>(17,520,702)</u>	<u>(18,406,872)</u>
Net cash used in operating activities		
Cash Flows from Noncapital Financing Activities		
Local appropriations	4,058,505	4,018,232
Commonwealth appropriations	12,950,582	12,977,389
Grants and contracts for other than capital purposes	3,096,207	3,073,205
	<u>20,105,294</u>	<u>20,068,826</u>
Net cash provided by noncapital financing activities		
Cash Flows from Capital and Related Financing Activities		
Local and commonwealth capital appropriations	5,089,631	4,903,667
Capital grants and contracts	361,294	395,143
Purchases of capital assets	(1,825,870)	(2,772,698)
Borrowings on capital debt	5,239,354	-
Principal paid on capital debt	(2,498,343)	(2,423,750)
Interest paid on capital debt	(935,964)	(780,708)
Payment of deferred charges	(113,979)	-
Payments on capital lease obligation	(779,577)	(737,853)
Payments on accrued settlement	(177,768)	(177,768)
	<u>4,358,778</u>	<u>(1,593,967)</u>
Net cash provided by (used) in capital and related financing activities		
Cash Flows from Investing Activities		
Decrease in bond funds available		
for campus construction	(2,700,938)	1,768,623
Proceeds from redemption of certificates of deposit	-	3,028,497
Interest on investments	60,472	104,228
	<u>(2,640,466)</u>	<u>4,901,348</u>
Net cash (used) in provided by investing activities		
Net increase in cash and cash equivalents	4,302,904	4,969,335
Cash and Cash Equivalents, Beginning	<u>19,077,159</u>	<u>14,107,824</u>
Cash and Cash Equivalents, Ending	<u>\$ 23,380,063</u>	<u>\$ 19,077,159</u>

See notes to financial statements

Lehigh Carbon Community College

Statement of Cash Flows - Primary Institution

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (21,301,553)	\$ (20,826,580)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	3,251,846	3,108,427
Bad debt expense	416,053	481,567
Loss on disposal of capital assets	6,694	-
Changes in assets and liabilities:		
Accounts receivable	(6,819,832)	(998,475)
Prepaid and other current assets	115,030	(92,897)
Student loans receivable	56,797	12,520
Accounts payable	(391,446)	(126,193)
Accrued expenses and other liabilities	110,969	107,034
Accrued partial retirement benefits	(107,586)	136,071
Deferred revenue	7,142,326	(208,346)
Net cash used in operating activities	<u>\$ (17,520,702)</u>	<u>\$ (18,406,872)</u>
Supplementary Disclosure of Noncash Capital, Financing Activity		
Capital leases	<u>\$ 368,534</u>	<u>\$ 1,461,850</u>

See notes to financial statements

Lehigh Carbon Community College

Statement of Financial Position - Component Unit
Lehigh Carbon Community College Foundation
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 553,091	\$ 792,251
Investments	6,144,533	4,257,039
Accounts receivable	13,000	83,304
Promise to give	127,044	470,951
Prepaid expenses	1,080	-
	<u>6,838,748</u>	<u>5,603,545</u>
Noncurrent Assets		
Promise to give	232,842	353,095
Land and buildings, net	5,754,171	5,845,774
	<u>5,987,013</u>	<u>6,198,869</u>
Total assets	<u>\$ 12,825,761</u>	<u>\$ 11,802,414</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ -	\$ 48
Deferred revenue	56,313	22,975
	<u>56,313</u>	<u>23,023</u>
Total current liabilities	<u>56,313</u>	<u>23,023</u>
Net Assets		
Unrestricted	6,988,985	6,755,223
Unrestricted, designated	3,229,213	2,687,916
Temporarily restricted	871,608	739,876
Permanently restricted	1,679,642	1,596,376
	<u>12,769,448</u>	<u>11,779,391</u>
Total net assets	<u>12,769,448</u>	<u>11,779,391</u>
Total liabilities and net assets	<u>\$ 12,825,761</u>	<u>\$ 11,802,414</u>

See notes to financial statements

Lehigh Carbon Community College

Statement of Activities - Component Unit
 Lehigh Carbon Community College Foundation
 Years Ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support								
Contributions	\$ 176,792	\$ 89,013	\$ -	\$ 265,805	\$ 27,543	\$ 122,090	\$ 7,602	\$ 157,235
Special event revenue	82,679	-	-	82,679	119,752	-	-	119,752
Rental income	508,261	-	-	508,261	506,304	-	-	506,304
Investment return	217,294	253,484	83,266	554,044	55,842	76,910	(24,061)	108,691
Other income	501,602	-	-	501,602	1,000	-	-	1,000
Net assets released from restrictions, satisfaction of program restrictions	210,765	(210,765)	-	-	179,127	(179,127)	-	-
Total revenues and other support	1,697,393	131,732	83,266	1,912,391	889,568	19,873	(16,459)	892,982
Expenses								
Program services	674,945	-	-	674,945	687,467	-	-	687,467
Supportive services:								
Management and general	193,295	-	-	193,295	147,793	-	-	147,793
Fundraising	54,094	-	-	54,094	73,358	-	-	73,358
Total expenses	922,334	-	-	922,334	908,618	-	-	908,618
Change in net assets	775,059	131,732	83,266	990,057	(19,050)	19,873	(16,459)	(15,636)
Net Assets, Beginning	9,443,139	739,876	1,596,376	11,779,391	9,462,189	720,003	1,612,835	11,795,027
Net Assets, End	\$ 10,218,198	\$ 871,608	\$ 1,679,642	\$ 12,769,448	\$ 9,443,139	\$ 739,876	\$ 1,596,376	\$ 11,779,391

See notes to financial statements

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

1. Nature of Operations and Reporting Entity

Lehigh Carbon Community College (the "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, and the students.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment to GASB 14* the College has determined that the Lehigh Carbon Community College Foundation (the "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 financially accountable or 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, 2013 and 2012.

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.

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 presented 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 GASB.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

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 to the maximum insured amount.

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 \$20,000 and \$57,000 as of June 30, 2013 and 2012, respectively.

Capital Assets

Capital assets are stated at cost or at fair market 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 assets as follows:

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

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, 2013 and 2012.

Deferred Financing Costs

Costs incurred in connection with debt financing are deferred and amortized over the term of the related debt using the straight-line method, which approximates the interest method. Amortization expense was \$32,622 and \$42,697 in 2013 and 2012, respectively.

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 in the statement of net position.

Deferred Revenue

Deferred 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. The unamortized deferred costs of refunding are reported as a reduction of the outstanding bonds payable.

Net Position

The College maintains the following net position classifications:

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 includes funds not subject to donor-imposed stipulations. Unrestricted net position may be designated for specific purposes by the College's Board of Trustees.

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.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

Permanently Restricted

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

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 allowances 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.

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 students' behalf. Certain governmental grants are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Income Taxes

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

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

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 Fund

The College has elected to use the direct reimbursement method of paying for any unemployment compensation claims charged to it. In order to cover future claims, the College has established an unemployment compensation liability reserve account included in other liabilities in the statement of net assets.

Advertising

Advertising expenses are recorded as incurred and were approximately \$426,000 and \$487,000 in 2013 and 2012, respectively.

Subsequent Events

The College has evaluated subsequent events through January 8, 2014, which is the date the financial statements were issued.

New Accounting Standards

The College adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. The College implemented Statement No. 61 as of July 1, 2012. This implementation did not change the determination of the College's component unit or the related display and disclosure of its component unit.

The College adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 directly incorporates the applicable guidance from those FASB and AICPA pronouncements, issued prior to November 30, 1989, into the state and local government accounting and financial reporting standards. The College implemented the accounting and reporting requirement of GASB 62 as of July 1, 2012. This implementation did not materially change the College's accounting and reporting policies.

The College adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The application of this guidance affects presentation only and therefore does not have an impact on the College's financial statements.

New Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The College is required to adopt Statement No. 65 for the fiscal year ending June 30, 2014.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a government financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The College is required to adopt Statement No. 66 for the fiscal year ending June 30, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. Statement No. 68 requires cost-sharing employers to recognize a liability for its proportionate share of the net pension liability of all employers for benefits provided through the pension plan. Statement No. 68 also requires additional footnote disclosure and required supplementary information. The College is required to adopt Statement No. 68 for the fiscal year ending June 30, 2015.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. It also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. To the extent applicable, the College is required to adopt Statement No. 69 for the fiscal year ending June 30, 2015.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objectives of this Statement is to establish accounting and financial reporting standards related to governments that extend or receive financial guarantees for the obligations of another organization without directly receiving equal or approximately equal value in exchange. To the extent applicable, the College is required to adopt Statement No. 70 for the fiscal year ending June 30, 2014.

The College has not yet determined the effect of Statement Nos. 65, 66, 68, 69 and 70 on its financial statements.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

3. Cash, Certificates of Deposit and Investments

Cash and Cash Equivalents

The College follows Section 1706 of the County Code of the Commonwealth of Pennsylvania for investment of College funds. As such, the College is authorized to invest its funds in the following:

- United States Treasury Bills
- Short-term obligations of the United States government or its agencies and instrumentalities.
- Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation ("FDIC") or other like insurance.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.
- Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania that are insured by the FDIC or other like insurance. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets pursuant to Act No. 72 of the General Assembly. Certificates of deposit may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets net of its liabilities.
- Commercial paper and prime commercial paper meeting certain requirements.
- Repurchase agreements that are fully collateralized by obligations of the United States of America.

The carrying amount of the College's deposits was \$27,028,652 and \$20,024,810 as of June 30, 2013 and 2012, respectively, including restricted cash of \$5,495,059 and \$947,926 as of June 30, 2013 and 2012, respectively. The bank balance totaled \$28,467,529 and \$20,524,185 as of June 30, 2013 and 2012, respectively. The difference represents outstanding checks payable and normal reconciling items.

Lehigh Carbon Community College

Notes to Financial Statements

June 30, 2013 and 2012

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 1972, as amended, allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover public funds on deposit 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 is categorized as follows to give an indication of the level of risk assumed by the College at year end.

	<u>2013</u>	<u>2012</u>
Insured	\$ 1,197,007	\$ 1,253,579
Collateralized, collateral held by pledging banks trust department not in the College's name	<u>27,270,522</u>	<u>19,270,606</u>
	<u>\$ 28,467,529</u>	<u>\$ 20,524,185</u>

Bond proceeds available for campus construction represent restricted funds held by First Niagara Bank, N.A., State Public School Building Authority and The Bank of New York, (the trustees), under the terms of various bond indentures. Bond proceeds available for campus construction are carried in the financial statements at fair value and consist of short-term investments guaranteed by the U.S. Government. As of June 30, 2013 and 2012, bond proceeds available for campus construction were \$3,648,589 and \$947,651, respectively.

The College invests in the Pennsylvania Local Government Investment Trust ("PLGIT"), which is an external governmental investment and money market pool. The purpose of the pool is to allow local governmental units to maximize investment potential through cash pooling while providing security and liquidity. Pool participants are allocated a pro-rata share of each investment purchased by the pool. PLGIT's investment policies are consistent with the investment policies of its participants. The investments of the pool serve as collateral and are held in safekeeping by the pool's investment custodian. As of June 30, 2013 and 2012, \$634 was included in cash and cash equivalents from PLGIT.

PLGIT is governed by a Board of Trustees who is responsible for the overall management of the Trust, including the formulation and implementation of investment policies and the oversight of the Trust's investment advisor and its custodians. The PLGIT pool is not SEC regulated. The fair value of the College's position in the PLGIT pool is the same as the value of the pool shares. The College's investment in PLGIT has been rated AAA, the highest rating available, by Standard and Poor's, an independent investment rating company.

Concentration of Credit Risk

The College does not have a formal investment policy that limits the amount invested in an individual insurer.

As required by Governmental Accounting Standards Board Statement No. 40, the College's investment in external investment pools such as PLGIT and investments in mutual funds such as the First Niagara Treasury Money Market are excluded from the concentration of credit risk disclosure above.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Accounts receivable, student	\$ 5,377,101	\$ 560,614
Accounts receivable, other	2,609,451	1,059,567
Less allowance for doubtful accounts	<u>(20,032)</u>	<u>(57,440)</u>
	7,966,520	1,562,741
Accounts receivable, grants	<u>558,684</u>	<u>445,574</u>
	<u>\$ 8,525,204</u>	<u>\$ 2,008,315</u>

5. Capital Assets, Net

	<u>July 1, 2012 Balance</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>June 30, 2013 Balance</u>
Non depreciable assets:				
Land	\$ 2,109,624	\$ 336,093	\$ -	\$ 2,445,717
Construction in progress	<u>1,760,340</u>	<u>922,155</u>	<u>(2,302,549)</u>	<u>379,946</u>
Total non-depreciable assets	<u>3,869,964</u>	<u>1,258,248</u>	<u>(2,302,549)</u>	<u>2,825,663</u>
Depreciable assets:				
Land improvements	4,988,112	2,093,555	-	7,081,667
Buildings and building improvements	58,231,910	293,417	-	58,525,327
Furniture and equipment	17,959,236	820,104	(547,046)	18,232,294
Library books	<u>1,325,398</u>	<u>31,630</u>	<u>-</u>	<u>1,357,028</u>
	<u>82,504,656</u>	<u>3,238,706</u>	<u>(547,046)</u>	<u>85,196,316</u>
Less accumulated depreciation	<u>(32,977,315)</u>	<u>(3,236,536)</u>	<u>540,351</u>	<u>(35,673,500)</u>
Total capital assets, net	<u>\$ 53,397,305</u>	<u>\$ 1,260,418</u>	<u>\$ (2,309,244)</u>	<u>\$ 52,348,479</u>

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

	<u>July 1, 2011 Balance</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>June 30, 2012 Balance</u>
Non depreciable assets:				
Land	\$ 2,109,624	\$ -	\$ -	\$ 2,109,624
Construction in progress	1,374,835	2,368,533	(1,983,028)	1,760,340
 Total non- depreciable assets	 3,484,459	 2,368,533	 (1,983,028)	 3,869,964
Depreciable assets:				
Land improvements	2,961,435	2,026,677	-	4,988,112
Buildings and building improvements	58,106,483	125,427	-	58,231,910
Furniture and equipment	16,295,744	1,663,492	-	17,959,236
Library books	1,291,951	33,447	-	1,325,398
	<u>78,655,613</u>	<u>3,849,043</u>	<u>-</u>	<u>82,504,656</u>
Less accumulated depreciation	<u>(29,899,920)</u>	<u>(3,077,395)</u>	<u>-</u>	<u>(32,977,315)</u>
 Total capital assets, net	 <u>\$ 52,240,152</u>	 <u>\$ 3,140,181</u>	 <u>\$ (1,983,028)</u>	 <u>\$ 53,397,305</u>

As of June 30, 2013, the College has committed to approximately \$3,800,000 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, 2013 and 2012 was as follows:

	<u>July 1, 2012 Balance</u>	<u>Additions</u>	<u>Payments/ Settlements</u>	<u>June 30, 2013 Balance</u>	<u>Current Portion</u>
Accrued settlements	\$ 371,919	\$ -	\$ (177,768)	\$ 194,151	\$ 177,768
Accrued partial retirement benefits	136,071	-	(107,586)	28,485	-
Notes payable	23,759,368	5,239,354	(2,498,343)	26,500,379	4,349,703
Lease obligations	1,637,528	368,534	(779,577)	1,226,485	572,479
 Total	 <u>\$ 25,904,886</u>	 <u>\$ 5,607,888</u>	 <u>\$ (3,563,274)</u>	 <u>\$ 27,949,500</u>	 <u>\$ 5,099,950</u>

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

	July 1, 2011 Balance	Additions	Payments/ Settlements	June 30, 2012 Balance	Current Portion
Accrued settlements	\$ 549,687	\$ -	\$ (177,768)	\$ 371,919	\$ 177,769
Accrued partial retirement benefits	-	136,071	-	136,071	-
Notes payable	26,183,118	-	(2,423,750)	23,759,368	2,491,853
Lease obligations	913,531	1,461,850	(737,853)	1,637,528	584,698
Total	\$ 27,646,336	\$ 1,597,921	\$ (3,339,371)	\$ 25,904,886	\$ 3,254,320

7. Notes Payable

Notes payable as of June 30, 2013 and 2012 consists of the following:

	2013	2012
General Obligation Note, Series of 2010, evidencing the College's obligation to pay the required debt service on the Commonwealth of Pennsylvania State Public School Building Authority Bonds, Series of 2010, due serially through November 1, 2030 at interest rates ranging from 0.50% to 5.00%.	\$ 7,070,000	\$ 7,405,000
General Obligation Note, Series of 2007, evidencing the College's obligation to pay the required debt service on the Commonwealth of Pennsylvania State Public School Building Authority Bonds, Series of 2007, due serially through November 1, 2026 at interest rates ranging from 3.625% to 5.00%.	12,180,000	13,780,000
General Obligation Note, Series of 2002, evidencing the College's obligation to pay the required debt service on the Commonwealth of Pennsylvania State Public School Building Authority Bonds, Series of 2002, due serially through November 1, 2026 at interest rates ranging from 2.50% to 4.30%.	1,685,000	1,985,000
General Obligation Note, Series of 2008, interest at 2.0%, payments due semiannually through November 1, 2013.	129,703	386,757

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
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%.	\$ 5,290,000	\$ -
	26,354,703	23,556,757
Unamortized discount on notes payable	(50,223)	-
Unamortized premium on notes payable	246,398	264,774
Deferred cost of refunding	(50,499)	(62,163)
	<u>\$ 26,500,379</u>	<u>\$ 23,759,368</u>

During the year ended June 30, 2013, the College borrowed funds under the General Obligation Note, Series of 2013. As part of this borrowing, the College allocated \$1,750,000 of the proceeds to advance refund the 2002 Series bonds. The proceeds allocated for this purpose were placed in a restricted cash account and are included in the Statement of Net Position in cash and cash equivalents. See Note 3 for disclosures of restricted cash amounts.

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ended June 30:			
2014	\$ 4,349,703	\$ 852,475	\$ 5,202,178
2015	1,920,000	793,483	2,713,483
2016	1,970,000	727,545	2,697,545
2017	2,035,000	660,605	2,695,605
2018	1,790,000	599,649	2,389,649
2019-2023	5,615,000	2,567,045	8,182,045
2024-2028	6,055,000	1,209,525	7,264,525
2029-2033	2,390,000	254,069	2,644,069
2034	230,000	8,625	238,625
Total	<u>\$ 26,354,703</u>	<u>\$ 7,673,021</u>	<u>\$ 34,027,724</u>

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

8. Capital Lease Obligations

The College has entered into lease agreements for equipment under a noncancelable leases that are classified as capital leases. The principal balance due under capital leases amounted to \$1,234,301 and \$1,637,528 as of June 30, 2013 and 2012, respectively. Future minimum lease payments under capital leases are as follows:

Years ending June 30:	
2014	\$ 627,475
2015	471,032
2016	<u>234,493</u>
	1,333,000
Less amounts representing interest	<u>(106,515)</u>
	1,226,485
Present value of net minimum lease payments	
Portion reflected as current liability	<u>(572,479)</u>
	<u>\$ 654,006</u>

The cost of equipment under capital leases is \$5,428,304 and \$5,059,770 as of June 30, 2013 and 2012, respectively. Accumulated depreciation for equipment under capital leases is \$4,327,050 and \$3,529,273 as of June 30, 2013 and 2012, respectively. Depreciation for equipment under capital leases is included with depreciation expense in the Statement of Revenues, Expenses and Changes in Net Assets.

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:	
2014	\$ 1,632,408
2015	1,392,942
2016	1,408,120
2017	1,399,490
2018	679,640
Thereafter	<u>5,476,368</u>
	<u>\$ 11,988,968</u>

Rent expense for the years ended June 30, 2013 and 2012 was approximately \$1,567,000 and \$1,538,000, respectively.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

10. Related Party Transactions

The Lehigh Carbon Community College Foundation (“Foundation”) provided institutional support to the College of approximately \$675,000 and \$687,000 for the years ended June 30, 2013 and 2012, respectively. During the year ended June 30, 2013, the College contributed approximately \$500,000 to the Foundation. There were no contributions to the Foundation in the year ended June 30, 2012.

The Foundation leases building space to the College under formal lease agreements. Rental expense for the College was \$508,261 and \$506,304 for the years ended June 30, 2013 and 2012, respectively. The following is a schedule of future minimum lease rental payments as of June 30, 2013:

Years ending June 30:		
2014	\$	510,268
2015		522,775
2016		525,594
2017		538,733
2018		552,202
Thereafter		<u>2,872,380</u>
	\$	<u>5,521,952</u>

11. Retirement Plans

Public School Employees' Retirement System (“PSERS”)

The College participates in the Public School Employees' Retirement System of Pennsylvania (“PSERS”), a state-administered pension program established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535). The pension program is a governmental cost-sharing multiple-employer defined benefit plan covering substantially all public school districts and many vocational-technical schools, intermediate units, colleges and universities within Pennsylvania. PSERS provides retirement and disability benefits, with legislative mandated ad hoc cost-of-living adjustments and healthcare insurance premium assistance to qualifying annuitants. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, P. O. Box 125, Harrisburg, PA 17108-0125.

The report is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

The contribution policy is established by the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth of Pennsylvania. Active members who joined PSERS prior to July 22, 1983 contribute at a rate of 5.25% (Membership Class TC) or at 6.50% (Membership Class TD) of the member's qualifying compensation. Members who joined the PSERS on or after July 22, 1983 and who were active or inactive as of July 1, 2001; contribute at a rate of 6.25% (Membership Class TC) or at 7.50% (Membership Class TD) of the member's qualifying compensation. Members who joined PSERS after June 30, 2001 contribute at 7.50% (automatic membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required by employers are based upon an actuarial valuation. The current rate at June 30, 2013 is 12.36% of annual covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and 0.86% for healthcare insurance premium assistance. The rate was 8.65% at June 30, 2012 and 5.64% at June 30, 2011. The College's contribution to PSERS for the years ended June 30, 2013, 2012, and 2011 was, \$84,884, \$49,844 and \$46,854, respectively, which equals the required contractual contribution.

Commonwealth of Pennsylvania State Employees' Retirement System ("SERS")

The Commonwealth of Pennsylvania State Employees' Retirement System ("SERS") is a governmental cost-sharing multiple-employer defined benefit plan. SERS provides retirement, death, and disability benefits, and legislative mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania State Employees' Retirement System, P.O. Box 1147, Harrisburg, PA 17108.

The contribution policy for SERS, as established by SERS's Board, requires contributions by active members and employers (the "College"). Active members contribute at a rate of 6.25 percent of their qualifying compensation. The contribution rate for the College is an actuarially determined rate. The rate for the years ended June 30, 2013, 2012 and 2011 is 11.31%, 8.01% and 5.00%, respectively of annual covered payroll. The College's contribution for the years ended June 30, 2013, 2012, and 2011 were \$75,093, \$33,393, and \$29,673, respectively.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

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 who elect to participate in this Plan are not required to make contributions to the Plan, although they may elect to contribute a percentage of total annual compensation. The College's contribution rate on June 30, 2013, 2012 and 2011 was between 3.0% and 9.0% of qualifying compensation. The contributions to TIAA-CREF for the years ended June 30, 2013, 2012, and 2011 were \$1,160,890, \$1,048,598, and \$1,108,594, respectively.

12. Accrued Settlements

The Commonwealth of Pennsylvania has conducted audits of cost reimbursements and other matters for the year 1998 through 2005. Based upon these audits, the College has recorded a liability of \$194,151, a result of the findings and resulting claims against the College for these years. The liability for each applicable audit year is payable to the Pennsylvania Department of Education over a period of 20 consecutive quarters.

Estimated future payments of the liability are as follows:

Years ending June 30:	
2014	\$ 177,768
2015	16,383
	<hr/>
	\$ 194,151
	<hr/> <hr/>

13. Contingencies

The College participates in both state and federally assisted grant programs and receives appropriations from the Commonwealth of Pennsylvania. 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, other than the audit settlements discussed in Note 12.

14. Concentrations

Approximately 34% of the College's total revenue for the years ended June 30, 2013 and 2012 was provided by appropriations and contracts with the Commonwealth of Pennsylvania. A significant reduction in the amounts provided by the Commonwealth of Pennsylvania could have an adverse impact on the College's operations.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

15. Designation of Unrestricted Net Position

Designations of unrestricted net position is not legally required segregations but are segregated by the College's management for specific purposes. As of June 30, 2013 and 2012, the College designated unrestricted net position as follows:

	<u>2013</u>	<u>2012</u>
Unrestricted, board designated:		
Designated for capital projects	\$ 12,188,917	\$ 12,067,678
Designated for operating projects and auxiliary student operations	5,665,186	3,508,536
Reserve for future operations	<u>1,800,000</u>	<u>1,817,000</u>
Total unrestricted, board designated	<u>19,654,103</u>	<u>17,393,214</u>
Unrestricted, undesignated net position	<u>\$ 69,049</u>	<u>\$ 66,803</u>

16. Commitments

The College employs approximately 961 employees. Approximately 29% of the College's employees are covered by collective bargaining agreements. The current contract with the Faculty Association expires August 13, 2015. The current contract with the Education Support Professionals expires June 30, 2015.

17. Component Unit Disclosures, Lehigh Carbon Community College Foundation

Promises to Give

Unconditional promises to give as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Library renovations	\$ 375,000	\$ 500,000
Fowler Education Center	-	8,403
Scholarships	-	335,000
Field of Dreams	<u>3,262</u>	<u>4,899</u>
	<u>\$ 378,262</u>	<u>\$ 848,302</u>
Receivable in less than one year	\$ 127,044	\$ 470,951
Receivable in one to five years	<u>251,218</u>	<u>377,351</u>
	378,262	848,302
Less discounts to net present value at 3.20% - 5.80%	<u>(18,376)</u>	<u>(24,256)</u>
	<u>\$ 359,886</u>	<u>\$ 824,046</u>

Lehigh Carbon Community College

Notes to Financial Statements

June 30, 2013 and 2012

Conditional promises to give for both the years ended June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</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 2019.

Investments

Investments as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Money market accounts	\$ 940,514	\$ 111,251
Equity mutual funds:		
Large cap equity funds	1,622,725	1,368,077
Small and mid cap equity funds	413,458	322,584
International funds	847,922	546,221
Commodities	171,873	-
Real estate	180,056	-
Fixed income mutual funds	1,967,985	1,660,055
Marketable equity securities:		
Materials	-	8,058
Energy	-	6,609
Information technology	-	81,863
Consumer discretionary	-	55,928
Consumer staples	-	10,342
Industrials	-	47,199
Financials	-	3,697
Healthcare	-	35,155
	<u>\$ 6,144,533</u>	<u>\$ 4,257,039</u>

The following schedule summarizes the investment return (loss) and its classification in the Statement of Activities for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Investment income	\$ 43,969	\$ 94,846
Realized gains	132,628	139,552
Unrealized gains (losses)	<u>377,447</u>	<u>(125,707)</u>
	<u>\$ 554,044</u>	<u>\$ 108,691</u>

Lehigh Carbon Community College

Notes to Financial Statements

June 30, 2013 and 2012

Land and Buildings

Land and buildings is comprised of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</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>(925,446)</u>	<u>(833,843)</u>
	<u>\$ 5,754,171</u>	<u>\$ 5,845,774</u>

Restrictions and Limitations on Net Assets

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

	<u>2013</u>	<u>2012</u>
Endowment	\$ 1,004,918	\$ 504,696
Scholarships	271,801	305,303
Building construction, improvement and maintenance	<u>1,952,494</u>	<u>1,877,917</u>
	<u>\$ 3,229,213</u>	<u>\$ 2,687,916</u>

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

	<u>2013</u>	<u>2012</u>
Building construction, improvement and real property acquisition	\$ 254,084	\$ 259,571
Scholarships	396,577	267,642
Other	<u>220,947</u>	<u>212,663</u>
	<u>\$ 871,608</u>	<u>\$ 739,876</u>

Permanent restricted net assets of \$1,679,642 and \$1,596,376 at June 30, 2013 and 2012, respectively, are comprised primarily of scholarships.

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

Endowment

The Foundation's endowments consist of two individual funds established for a variety of purposes. Its endowments include both a donor-restricted endowment fund and fund designated by the Board of Trustees 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. Investment income on permanently restricted funds is earned and expended within the same year unless specifically restricted to be reinvested by the donor.

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 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, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Foundation considers the following factors:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2013 and 2012:

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 1,004,918	\$ -	\$ -	\$ 1,004,918
Donor-restricted endowment funds	-	-	1,679,642	1,679,642
	<u>\$ 1,004,918</u>	<u>\$ -</u>	<u>\$ 1,679,642</u>	<u>\$ 2,684,560</u>

Lehigh Carbon Community College

Notes to Financial Statements
June 30, 2013 and 2012

	June 30, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board designated endowment funds	\$ 504,696	\$ -	\$ -	\$ 504,696
Donor-restricted endowment funds	-	-	1,596,376	1,596,376
	<u>\$ 504,696</u>	<u>\$ -</u>	<u>\$ 1,596,376</u>	<u>\$ 2,101,072</u>

The following schedule represents the changes in endowment net assets for the years ended June 30, 2013 and 2012:

	Unrestricted	Permanently Restricted
Endowment net assets, June 30, 2011	<u>\$ 504,312</u>	<u>\$ 1,612,835</u>
Investment return:		
Investment income	-	8,048
Net realized and unrealized	-	(32,109)
Total investment return	-	(24,061)
Contributions	<u>384</u>	<u>7,602</u>
Endowment net assets, June 30, 2012	<u>504,696</u>	<u>1,596,376</u>
Investment return:		
Investment income	-	3,345
Net realized and unrealized	-	79,921
Total investment return	-	83,266
Contributions	<u>500,222</u>	<u>-</u>
Endowment net assets, June 30, 2013	<u>\$ 1,004,918</u>	<u>\$ 1,679,642</u>

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 requires 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, 2013 or 2012.

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 funds 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 of Trustees, 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 6% 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 dividends). 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 Endowment Funds 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.