Lehigh Carbon Community College

Financial Statements and Required Supplementary Information

Years Ended June 30, 2017 and 2016
with Independent Auditor's Report

MaherDuessel

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LEHIGH CARBON COMMUNITY COLLEGE

YEARS ENDED JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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 an opinion 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, 2017 and 2016 , 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 contributions (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 October 20, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Maher Duessel

Harrisburg, Pennsylvania
October 20, 2017

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, 2017 and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

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 16 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, 2017 and 2016. 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.

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 nearly 7,000 students from Lehigh, Carbon, Schuylkill and surrounding counties offering more than 90 programs of study including healthcare, information technology, criminal justice, education and business administration.

From the main campus in Schnecksville and modern satellite sites in Allentown, Tamaqua and Jim Thorpe, 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 $2.1 million in 2017 compared to an increase of $1.2 million in 2016.

At June 30, 2017, the College assets of $79.1 million exceeded its liabilities of $27.0 million by $52.1 million, an increase over prior year of 4.0%.

Tuition and fee revenue was flat totaling $20.9 million in both 2017 and 2016.

Total credit full time equivalents (FTE's) were 9,627 and 9,634 in 2017 and 2016, respectively.

The fiscal year 2016-2017 credit hours were 123,789 compared to 123,564 in fiscal year 2015-2016.

LEHIGH CARBON COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

YEAR ENDED JUNE 30, 2017

The following is a Condensed Statement of Net Position as of June 30, 2017 and 2016 (dollars are in thousands).

	2017	2016	Increase/ Decrease	Percentage Change
Assets:				
Current assets	$ 29,892	$ 26,182	$ 3,710	14.17%
Non-current assets	49,159	51,518	(2,359)	-4.58%
Total assets	79,051	77,700	1,351	
Deferred outflow of resources	659	425	234	55.06%
Liabilities:				
Current liabilities	6,582	6,808	(226)	-3.32%
Non-current liabilities	20,449	20,886	(437)	-2.09%
Total liabilities	27,031	27,694	(663)	-2.39%
Deferred inflow of resources	452	347	105	30.26%
Net position:				
Investment in capital assets	30,892	31,311	(419)	-1.34%
Unrestricted	21,335	18,773	2,562	14%
Restricted	-	-	-	0.00%
Total net position	$ 52,227	$ 50,084	$ 2,143	4.28%

The College's assets amounted to $79.1 and $77.7 million as of June 30, 2017 and 2016, respectively.

- The $2.4 million decrease in non-current assets was caused by current year depreciation of $3.5 million exceeding new asset additions by $2.4 million.

- Total liabilities decreased $0.7 million. The majority of the decrease was capital lease obligation payments of $0.6 million.

- 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 $3.7 million as a result of the $2.1 million increase in net position plus the $1.4 million savings from the 2016 Bond Issue that refinanced prior debt.

- Although the College's unrestricted net position is not subject to externally imposed restrictions, the College's $21.3 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, 2017

The following is a Condensed Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2017 and 2016 (dollars are in thousands):

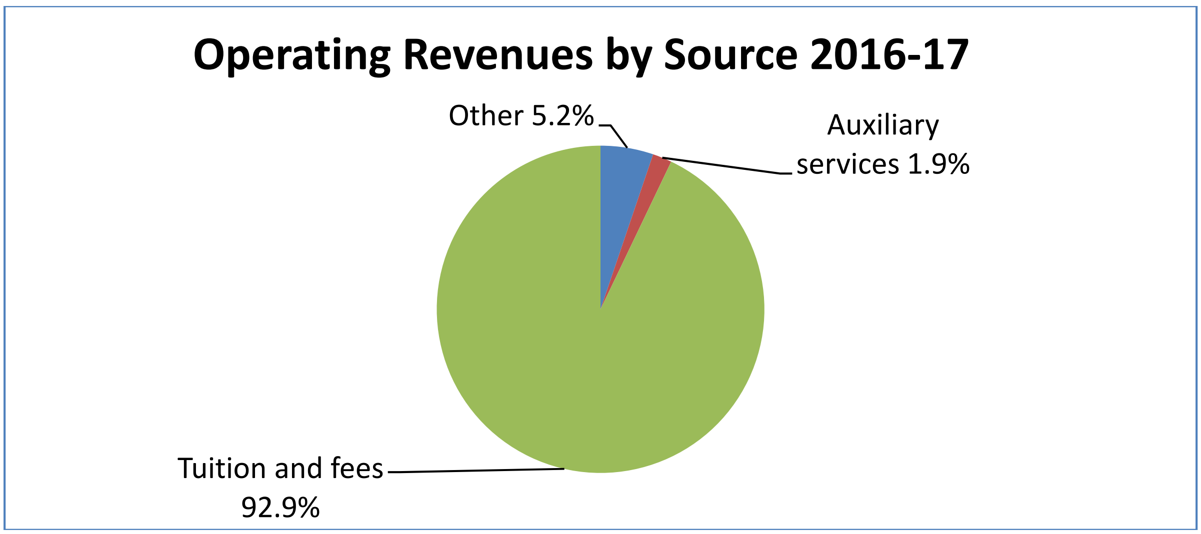
	2017	2016	Increase/ Decrease	Percentage Change
Operating revenues:				
Tuition and fees	$ 20,886	$ 20,865	$ 21	0.10%
Auxiliary services	434	481	(47)	-9.77%
Other	1,173	971	202	20.80%
Nonoperating revenues:				
Commonwealth and local sponsor appropriations	22,977	22,433	544	2.42%
Government/local grant and contracts	4,164	3,799	365	9.61%
Capital grants and contracts	-	-	-	0%
Investment income	227	173	54	31.21%
Total revenues	49,861	48,722	1,139	2.34%
Operating expenses:				
Educational and general	42,911	42,904	7	0.02%
Depreciation and amortization	3,516	3,601	(85)	-2.36%
Loss on disposal of capital assets	(2)	(4)	2	-50%
Auxiliary services	178	235	(57)	-24.26%
Nonoperating expenses:				
Interest on indebtedness	1,115	801	314	39.20%
Total expenses	47,718	47,537	181	0.38%
Increase in net position	2,143	1,185	958	80.84%
Net position, beginning period	50,084	48,899	1,185	2.42%
Net position, ending	$ 52,227	$ 50,084	$ 2,143	4.28%

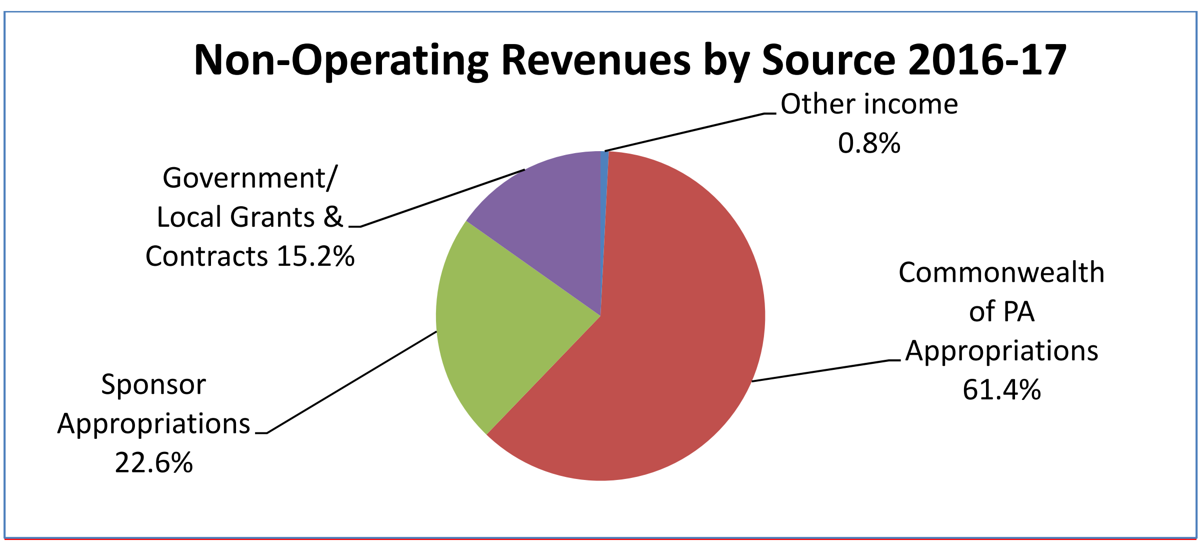
Revenue recognized from appropriations amounted to $23.0 million and $22.4 million in 2017 and 2016, respectively.

- Operating expenses decreased $0.1 million or 0.3% over prior year. Non-operating expenses increased $0.3 million or 39.2% over prior year.

- Approximately, 57.9% of the College's total operating expenses in fiscal year 2016-2017 directly support instruction compared to 58.8% in fiscal year 2015-2016.

Revenue by Sources





- The College received student financial assistance of approximately $8.3 million from the Pell Grant and Supplemental Educational Opportunity Grant in 2016-2017 for a decrease of 3.6% over 2015-2016.

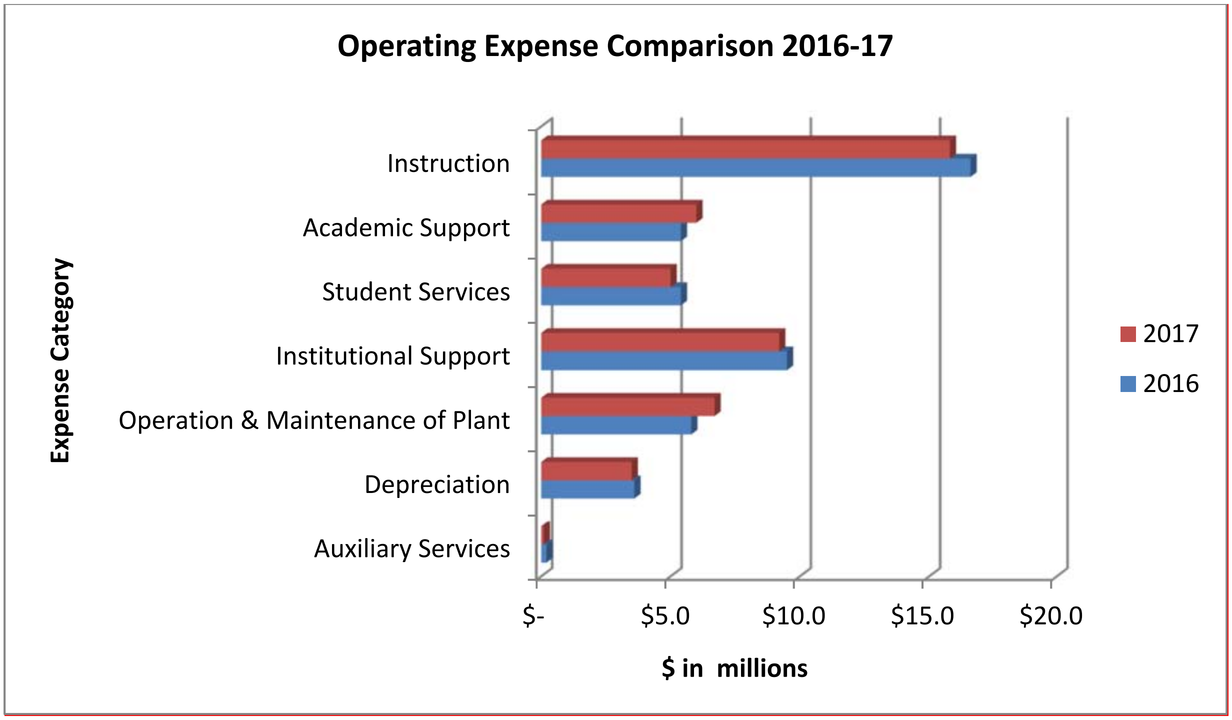
- Pennsylvania Higher Education Assistance Agency (PHEAA) awarded grants of approximately $1.0 million dollars for the year, which is consistent with the prior year.

- There were approximately 2,200 of Federal Direct Loan recipients for a total of $9.4 million disbursed in 2016-2017.

- The Commonwealth of Pennsylvania's operating appropriation for fiscal year 2016-2017 was $13,305,718. Expectations are that Commonwealth funding will remain at that level over the next few years.

- The Local Sponsor operating appropriation for fiscal year 2016-2017 remained the same as the prior fiscal year appropriation. The 2017-2018 appropriation is expected to remain flat.

Expense Comparison



- Instruction direct expenses include faculty and instructional support staff salaries, benefits and their related expenses. Instruction expenses decreased $0.7 million or 4.4% from prior year primarily due to a $0.5 million reduction of program costs caused by restructuring third party contracts for two large programs.

- Academic support, student services, and public services comprise the education support activities expense. These support activities increased $0.2 million or 2.0% over prior year due to additional special term hires and an increase in grant activity for the Twenty-First Century Community Learning Centers.

- Institutional support and operation maintenance of plant expenses consist of administrative and facility operating costs. These expenses increased $0.5 million or 3.4% overall due to $0.3 million of bond financing costs and increased technology improvements.

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 $1.1 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 2017 were as follows:

- $0.4 million – Computers and equipment
- $0.3 million – Equipment purchased under the various grants
- $0.1 million – Academic resource center and Berner Hall roof replacement

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, 2017, the College had two general obligation bond issues totaling $16.4 million. The debt issues are funded by the Commonwealth capital appropriation, local sponsor capital appropriation and College capital funds. The fiscal year 2016-2017 debt payments were funded from the following sources:

- 53% from the Commonwealth appropriation
- 42% from the local sponsor capital appropriation
- 5% 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 2016-2017 budget impasse and the timely passing of the 2016-2017 Commonwealth budget.

More detailed information about the College's long-term debt is presented in Note 7.

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 1.4% over the prior fiscal year while the full-time FTEs decreased 1.6% for an overall decrease of .07%.

Summary

Overall, the College's financial position remains strong as evidenced by the 2017 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, 2017 AND 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 12,010,963	$ 16,662,454
Certificates of deposit	15,198,219	7,500,000
Accounts receivable:		
Students and other, net	1,045,755	1,095,854
Grants	429,987	462,746
Prepaid expenses and other assets	1,207,027	461,457
Total current assets	29,891,951	26,182,511
Noncurrent assets:		
Funds held by the Foundation	719,331	688,001
Capital assets, not being depreciated	2,703,714	2,626,350
Capital assets, net of accumulated depreciation	45,735,853	48,203,413
Total noncurrent assets	49,158,898	51,517,764
Total Assets	79,050,849	77,700,275
Deferred Outflows of Resources		
Deferred outflows of resources for pension	659,251	424,675

(Continued)

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

Liabilities	2017	2016
Current liabilities:		
Accounts payable	1,442,382	878,397
Accrued expenses and other liabilities	1,382,053	1,843,247
Accrued interest payable	105,148	124,131
Unearned revenue	1,198,663	1,328,862
Accrued partial retirement benefits	26,493	42,828
Notes payable, current portion	1,820,000	1,975,000
Capital lease obligation, current portion	607,243	615,232
Total current liabilities	6,581,982	6,807,697
Noncurrent liabilities:		
Accrued partial retirement benefits, less current portion	97,920	25,681
Notes payable, less current portion	16,142,445	16,273,462
Capital lease obligation, less current portion	476,148	1,017,696
Net pension liability	3,731,834	3,568,951
Total noncurrent liabilities	20,448,347	20,885,790
Total Liabilities	27,030,329	27,693,487
Deferred Inflows of Resources		
Deferred inflows of resources for pension	452,100	347,370
Net Position		
Net investment in capital assets	30,891,649	31,311,024
Unrestricted	21,335,022	18,773,069
Total Net Position	$ 52,226,671	$ 50,084,093

(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, 2017 AND 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 249,809	$ 444,774
Promise to give	224,333	482,467
Accounts receivable	10,835	-
Prepaid expenses	6,340	1,000
Total current assets	491,317	928,241
Noncurrent assets:		
Promise to give	205,005	744,504
Deferred rent	17,274	30,467
Investments:		
Investments	11,525,015	9,045,737
Investments - held for College	719,331	688,001
Total investments	12,244,346	9,733,738
Land and buildings, net	5,387,757	5,479,361
Total noncurrent assets	17,854,382	15,988,070
Total Assets	$ 18,345,699	$ 16,916,311
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$ 41,299	$ 22,905
Deferred revenue	63,390	52,861
Total current liabilities	104,689	75,766
Noncurrent liabilities:		
Funds held for College	719,331	688,001
Total Liabilities	824,020	763,767
Net Assets:		
Unrestricted:		
Undesignated	1,956,832	1,148,719
Invested in land and buildings	5,387,757	5,479,361
Designated	3,473,723	3,529,453
Total unrestricted net assets	10,818,312	10,157,533
Temporarily restricted	2,229,348	2,072,074
Permanently restricted	4,474,019	3,922,937
Total Net Assets	17,521,679	16,152,544
Total Liabilities and Net Assets	$ 18,345,699	$ 16,916,311

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, 2017 AND 2016

	2017	2016
Operating Revenues:		
Student tuition and fees, net of scholarship allowance of $3,649,694 in 2017 and $3,862,622 in 2016	$ 20,886,092	$ 20,865,426
Auxiliary enterprises	434,070	481,467
Other operating revenues	1,173,330	970,918
Total operating revenues	22,493,492	22,317,811
Operating Expenses:		
Educational and general:		
Instruction	15,889,142	16,624,612
Academic support	6,009,058	5,442,189
Student services	5,083,546	5,430,423
Institutional support	9,206,160	9,531,278
Operation and maintenance of plant	6,721,804	5,875,598
Depreciation	3,516,527	3,600,916
(Gain) loss on disposal of capital assets	(1,350)	(3,791)
Auxiliary expenses	177,949	235,109
Total operating expenses	46,602,836	46,736,334
Operating income (loss)	(24,109,344)	(24,418,523)

(Continued)

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

	2017	2016
Non-operating Revenues (Expenses):		
Appropriations:		
Local	$ 4,140,080	$ 4,140,080
Commonwealth of Pennsylvania	14,095,007	13,851,741
Federal grants and contracts	3,206,767	3,450,007
Commonwealth of Pennsylvania grant and contracts	925,647	335,812
Local grants and contracts	31,511	13,223
Other non-operating revenues	210	-
Investment income	226,555	172,964
Interest on indebtedness	(1,115,039)	(801,168)
Total non-operating revenues	21,510,738	21,162,659
Change in Net Position Before Other Revenues	(2,598,606)	(3,255,864)
Capital Contributions:		
Capital appropriations:		
Local	2,046,256	2,046,257
Commonwealth of Pennsylvania	2,695,928	2,394,978
Total capital contributions	4,742,184	4,441,235
Change in Net Position	2,143,578	1,185,371
Net Position:		
Beginning of year	50,084,093	48,898,722
End of year	$ 52,227,671	$ 50,084,093

(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, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:								
Contributions	$ 178,303	$ 320,757	$ 295,000	$ 794,060	$ 130,821	$ 690,368	$ 5,000	$ 826,189
Special event revenue	65,707	-	-	65,707	81,310	-	-	81,310
Rental income	535,541	-	-	535,541	522,720	-	-	522,720
Investment return	817,301	45,545	307,275	1,170,121	(19,751)	(47,153)	(32,343)	(99,247)
Other income	-	-	-	-	2,720	-	-	2,720
Net assets released from restrictions, satisfying of program restrictions	260,221	(209,028)	(51,193)	-	542,997	(541,997)	(1,000)	-
Total revenues and other support	1,857,073	157,274	551,082	2,565,429	1,260,817	101,218	(28,343)	1,333,692
Expenses:								
Program services	979,345	-	-	979,345	832,304	-	-	832,304
Supportive services								
Management and general	181,889	-	-	181,889	162,137	-	-	162,137
Fundraising	35,060	-	-	35,060	46,161	-	-	46,161
Total expenses	1,196,294	-	-	1,196,294	1,040,602	-	-	1,040,602
Change in Net Assets	660,779	157,274	551,082	1,369,135	220,215	101,218	(28,343)	293,090
Net Assets, Beginning	10,157,533	2,072,074	3,922,937	16,152,544	9,937,318	1,970,856	3,951,280	15,859,454
Net Assets, Ending	$ 10,818,312	$ 2,229,348	$ 4,474,019	$ 17,521,679	$ 10,157,533	$ 2,072,074	$ 3,922,937	$ 16,152,544

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

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Student tuition and fees	$ 20,805,992	$ 21,105,590
Payments to employees	(22,865,920)	(23,435,474)
Payments for benefits	(7,688,164)	(8,145,541)
Payments to suppliers and utilities	(13,086,063)	(12,122,559)
Auxiliary enterprises	434,070	481,467
Other receipts	1,173,330	970,918
Net cash used in operating activities	(21,226,755)	(21,145,599)
Cash Flows From Non-capital Financing Activities:		
Local appropriations	4,140,080	4,140,080
Commonwealth appropriations	14,095,007	13,851,741
Other non-operating revenues	210	-
Grants and contracts for other than capital purposes	4,196,684	3,659,281
Net cash provided by non-capital financing activities	22,431,981	21,651,102
Cash Flows From Capital and Related Financing Activities:		
Local and commonwealth capital appropriations	4,742,184	4,441,235
Proceeds from bond issuance	12,915,000	-
Purchases of capital assets	(1,049,461)	(854,039)
Principal paid on capital debt	(13,201,017)	(1,973,681)
Interest paid on capital debt	(1,134,022)	(811,047)
Payments on capital lease obligation	(626,407)	(713,066)
Net cash provided by capital and related financing activities	1,646,277	89,402
Cash Flows From Investing Activities:		
Sale (purchase) of certificates of deposit	(7,698,219)	2,517,500
Funds held by the Foundation	(31,330)	(138,933)
Interest on investments	226,555	172,964
Net cash provided by (used in) investing activities	(7,502,994)	2,551,531
Net Increase (Decrease) in Cash	(4,651,491)	3,146,436
Cash:		
Beginning of year	16,662,454	13,516,018
End of year	$ 12,010,963	$ 16,662,454

(Continued)

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

LEHIGH CARBON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

JUNE 30, 2017 AND 2016
(Continued)

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (24,109,344)	$ (24,418,523)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,516,527	3,600,916
Bad debt expense	451,379	561,811
(Gain) loss on disposal of capital assets	(1,350)	(3,791)
Effects of changes in operating assets and liabilities:		
Accounts receivable	(399,930)	(244,926)
Prepaid and other current assets	(745,570)	182,835
Deferred outflows - pension	(234,576)	(186,928)
Notes receivable	-	47,475
Accounts payable	563,985	(269,225)
Accrued expenses and other liabilities	(461,194)	(440,151)
Accrued partial retirement benefits	55,904	(107,278)
Net pension liability	162,883	184,578
Deferred inflows - pension	104,730	24,329
Unearned revenue	(130,199)	(76,721)
Net cash used in operating activities	$ (21,226,755)	$ (21,145,599)
Supplementary Disclosure of Noncash Capital, Financing Activity:		
Capital leases	$ 76,870	$ 1,170,537

(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, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ 1,369,135	$ 293,090
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	91,604	91,603
Discount on promise to give	(10,510)	7,224
Realized gain on investments	(614,442)	(69,224)
Unrealized (gain) loss on investments	(436,620)	324,698
Contributions restricted for long-term use	(295,000)	(310,660)
(Increase) decrease in assets:		
Accounts receivable	(10,835)	-
Prepaid expenses	(5,340)	1,519
Deferred rent	13,193	12,872
Promises to give	207,367	232,660
Increase (decrease) in liabilities:		
Accounts payable	18,394	22,905
Deferred revenue	10,529	(17,097)
Funds held for college	31,330	138,933
Net cash provided by operating activities	368,805	728,523
Cash Flows From Investing Activities:		
Proceeds from sales of investments	5,159,482	1,145,448
Purchases of investments	(6,619,028)	(2,350,955)
Net cash used in investing activities	(1,459,546)	(1,205,507)
Cash Flows From Financing Activities:		
Contributions restricted for long-term use	895,776	310,660
Net Increase (Decrease) in Cash and Cash Equivalents	(194,965)	(166,324)
Cash and Cash Equivalents:		
Beginning of year	444,774	611,098
End of year	$ 249,809	$ 444,774

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

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, 2017 and 2016.

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 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

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 $87,000 and $42,000 as of June 30, 2017 and 2016, 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:

	Years
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, 2017 and 2016.

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. Total compensated absences for the years ended June 30, 2017 and 2016 totaled $576,475 and $636,647 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. The unamortized deferred costs of refunding are reported as a reduction of the outstanding bonds payable.

Long-Term Obligations

Long-term liabilities related to postemployment benefits, including pensions, are calculated based on actuarial valuations as described in Note 11.

Deferred Outflows and Inflows of Resources Related to Pensions

In conjunction with pension accounting requirements, differences between expected and actual experience, 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. These amounts are determined based on the actuarial valuation performed for the SERS and PSERS plan. Note 11 presents additional information about the SERS and PSERS plan.

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 allowanced 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 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. 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 position.

Advertising

Advertising expenses are recorded as incurred and were approximately $488,000 and $493,000 in 2017 and 2016, respectively.

Adoption of GASB Statements

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

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.

Pending Accounting Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 75 (OPEB Employer), 81 (Split-Interest Agreements), 82 (Pensions), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Omnibus 2017), 86 (Certain Debt Extinguishment Issues), and 87 (Leases). Management has not yet determined the impact of these statements on the financial statements.

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.

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. For the years ended June 30, 2017 and 2016, no balance exceeded the FDIC limit.

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.

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 respected 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.

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 $12,010,963 and $16,662,454 as of June 30, 2017 and 2016, respectively. The bank balance totaled $12,777,768 and $17,033,448 as of June 30, 2017 and 2016, 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.

	2017	2016
Cash and cash equivalents:		
Insured	$ 536,338	$ 652,098
Collateralized, collateral held by pledging banks trust department not in the College's name	12,241,425	16,381,350
Total	$ 12,777,763	$ 17,033,448
Investments:		
Insured	$ 698,384	$ 250,000
Collateralized, collateral held by pledging banks trust department not in the College's name	14,499,835	7,250,000
Total	$ 15,198,219	$ 7,500,000

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

As of June 30, 2017 and 2016, the College's FDIC insured certificates of deposits in the amounts of $15,198,219 and $7,500,000, 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, 2017 and 2016:

	2017	2016
Accounts receivable, student	$ 636,743	$ 321,593
Accounts receivable, other	496,129	816,457
Less allowance for doubtful accounts	(87,117)	(42,196)
	1,045,755	1,095,854
Accounts receivable, grants	429,987	462,746
Total	$ 1,475,742	$ 1,558,600

5. Capital Assets, Net

	Balance July 1, 2016	Additions	Retirements and Adjustments	Balance June 30, 2017
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	2,626,350	127,770	(50,406)	2,703,714
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	92,830,414	1,048,967	-	93,879,381
Less: accumulated depreciation	(44,627,001)	(3,516,527)	-	(48,143,528)
Net Capital Assets	$ 50,829,763	$ (2,339,790)	$ (50,406)	$ 48,439,567

	Balance July 1, 2015	Additions	Retirements and Adjustments	Balance June 30, 2016
Non-depreciable assets:				
Land	$ 2,531,117	$ -	$ -	$ 2,531,117
Construction in progress	66,920	50,406	(22,093)	95,233
Total non-depreciable assets	2,598,037	50,406	(22,093)	2,626,350
Depreciable assets:				
Land improvements	7,506,197	74,410	-	7,580,607
Buildings and building improvements	62,617,882	128,963	-	62,746,845
Furniture and equipment	19,272,122	1,755,389	(4,830)	21,022,681
Library books	1,437,540	42,741	-	1,480,281
Total depreciable assets	90,833,741	2,001,503	(4,830)	92,830,414
Less: accumulated depreciation	(41,029,466)	(3,600,916)	3,381	(44,627,001)
Net Capital Assets	$ 52,402,312	$ (1,549,007)	$ (23,542)	$ 50,829,763

As of June 30, 2017, the College has committed to approximately $451,000 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, 2017 and 2016 was as follows:

	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	$ 19,949,899	$ 13,114,270	$ (13,893,920)	$ 19,170,249	$ 2,453,736

	Balance July 1, 2015	Additions	Payments/ Settlements	Balance June 30, 2016	Current Portion
Accrued partial retirement benefits	$ 175,787	$ -	$ (107,278)	$ 68,509	$ 42,828
Lease obligations	1,175,457	1,170,537	(713,066)	1,632,928	615,232
Notes payable, net	20,222,143	-	(1,973,681)	18,248,462	1,975,000
	$ 21,573,387	$ 1,170,537	$ (2,794,025)	$ 19,949,899	$ 2,633,060

7. Notes Payable

Notes payable as of June 30, 2017 and 2016 consists of the following:

	2017	2016
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%.	$ 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%.	3,455,000	3,955,000
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%.	-	5,490,000
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%.	-	8,670,000
	16,370,000	18,115,000
Unamortized premium on notes payable	1,632,565	176,089
Unamortized discount on notes payable	(40,120)	(42,627)
	$ 17,962,445	$ 18,248,462

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.

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

Years ending June 30:	Principal	Interest	Total
2018	$ 1,820,000	$ 618,734	$ 2,438,734
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
2023-2027	6,835,000	1,318,434	8,153,434
2028-2032	2,820,000	267,747	3,087,747
2033-2034	455,000	17,156	472,156
Total	$ 16,370,000	$ 4,308,931	$ 20,678,931

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 $1,083,391 and $1,632,928 as of June 30, 2017 and 2016, respectively. Future minimum lease payments under capital leases are as follows:

Years ending June 30:	
2018	$ 627,429
2019	325,057
2020	147,540
2021	12,582
	1,112,608
Less amounts representing interest	(29,217)
Present value of net minimum lease payments	1,083,391
Portion reflected as current liability	(607,243)
	$ 476,148

The cost of equipment under capital leases is $7,805,569 and $7,728,699 as of June 30, 2017 and 2016, respectively. Accumulated depreciation for equipment under capital leases is $6,856,176 and $6,249,897 as of June 30, 2017 and 2016, 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:	
2018	$ 1,658,100
2019	1,251,554
2020	812,664
2021	594,662
2022	609,529
Thereafter	522,025
	$ 5,448,534

Rent expense for the years ended June 30, 2017 and 2016 was approximately $1,678,000 and $1,654,000, respectively.

10. Related Party Transactions

The Lehigh Carbon Community College Foundation (Foundation) provided institutional support to the College of approximately $942,000 and $832,000 for the years ended June 30, 2017 and 2016, respectively. There were no contributions to the Foundation by the College in the years ended June 30, 2017 and 2016.

The Foundation leases building space to the College under formal lease agreements. Rental expense for the College was approximately $536,000 and $523,000 for the years ended June 30, 2017 and 2016, respectively. The following is a schedule of future minimum lease rental payments as of June 30, 2017:

Years ending June 30:	
2018	$ 561,833
2019	575,629
2020	579,770
2021	594,264
2022	609,121
Thereafter	537,731
	$ 3,458,348

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, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the SERS and PSERS 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 on 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.

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS 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, 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. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

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 2.5%, multiplied by class of service multiplier.

PSERS provides retirement, disability, and death benefits. 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 equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied times 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 Class T-F members, the right to benefits is vested after 10 years of service.

PSERS 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 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 a normal retirement age. Members over normal retirement age may apply for disability benefits.

PSERS 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.

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.

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the members qualifying compensation.

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

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, 2017 and 2016 was 29.95% and 24.86%, respectively, of gross pay. 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, 2017 and 2016 was $107,091 and $107,628, respectively.

The College's PSERS contractually required contribution rate for the fiscal years ended June 30, 2017 and 2016 was 29.20% and 25.00%, respectively, of covered payroll, actuarially determined as an amount that when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability.

The combined PSERS contributions rate will increase to 32.57% in fiscal year 2018 and is projected to grow to 36.40% by fiscal year 2022.

The College contributed approximately $160,931 and $152,717 towards pension benefits, which were recognized by PSERS for the years ended June 30, 2017 and 2016, respectively. Approximately, $47,000 and $39,000 is owed to PSERS as of June 30, 2017 and 2016, 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, 2017 and 2016, the College reported a liability of $3,731,834 and $3,568,951 for its proportionate share of the SERS and PSERS net pension liabilities, respectively. The liability is allocated to the respective plans as follows for the year ended June 30:

	2017	2016
SERS	$ 1,204,834	$ 1,315,951
PSERS	2,527,000	2,253,000
Total	$ 3,731,834	$ 3,568,951

The SERS net pension liability was measured as of December 31, 2016, 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 .0063%, which was a decrease from its proportion of .0072% measured as of December 31, 2015.

The PSERS net pension liability 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. The College's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. 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. 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:

	2017	2016
The College's proportionate share of the net pension liability	$ 2,527,000	$ 2,253,000
State's proportionate share of the net pension liability associated with the College	2,547,040	2,266,282
Total	$ 5,074,040	$ 4,519,282

For the year ended June 30, 2017, the College recognized pension expenses of $174,373 and $217,627 for SERS and PSERS plans, respectively. For the year ended June 30, 2016, the College recognized pension expenses of $102,129 and $18,907 for SERS and PSERS plans, respectively.

At June 30, 2017, 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
Differences between expected and actual experience - SERS	$ 17,393	$ 26,956
Differences between expected and actual experience - PSERS	-	21,000
Net difference between projected and actual earnings on pension plan investments - SERS	101,253	-
Net difference between projected and actual earnings on pension plan investments - PSERS	141,000	-
Change of assumptions - SERS	73,593	-
Change of assumptions - PSERS	91,000	-
Net difference between employer contributions and proportionate share of contributions - SERS	16,703	-
Changes in proportion and differences between College contributions and proportionate share of contributions - SERS	-	301,144
Changes in proportion and differences between College contributions and proportionate share of contributions - PSERS	-	103,000
College contributions subsequent to the measurement date - SERS	52,221	-
College contributions subsequent to the measurement date - PSERS	166,088	-
Total	$ 659,251	$ 452,100

$218,309 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, 2018.

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
2018	$ (32,259)	$ (7,000)
2019	(28,036)	(7,000)
2020	(22,061)	(49,000)
2021	(4,543)	(45,000)

Actuarial Assumptions

SERS

The following methods and assumptions were used in the December 31, 2016 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 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 as part of its annual valuation. Based on this work, the SERS actuary recommended, and the SERS Board adopted at the April 2017 meeting, a reduction in the targeted investment return rate assumption to 7.25% for the 2016 actuarial valuation from 7.5% used for the 2015 actuarial valuation based on the experience study. The SERS actuary also recommended and the SERS Board adopted a reduction in the inflation rate to 2.6% for the 2016 valuation from the 2.75% used for the 2015 actuarial valuation based on the experience study. The change in inflation rate also impacted the general salary growth rate, which was lowered to 2.9% for the 2016 valuation from 3.05% used for the 2015 valuation based on the experience study. Projected salary increases changed from an average of 5.70%, with a range of 3.85% - 9.05% for December 31, 2015, to an average of 5.60%, with a range of 3.70% - 8.90% for December 31, 2016.

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Private Equity	16.00%	8.00%
Global Public Equity	43.00%	5.30%
Real Assets	12.00%	5.44%
Hedge Funds	12.00%	4.75%
Fixed Income	14.00%	1.63%
Cash	3.00%	-0.25%
Total	100.00%	

PSERS

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016 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%, which reflects an allowance for inflation of 2.75%, real wage growth of 1%, and merit or seniority increases of 1.25%
- 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.

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 meeting, and were effective beginning with the June 30, 2016 actuarial 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 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 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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public entity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	20.0%
Financing (LIBOR)	-14.0%	0.5%
Total	100%	

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.

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 rate of 7.25 percent, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	Decrease (6.25%)	Discount Rate (7.25%)	Increase (8.25%)
College's proportionate share of the SERS net pension liability	$ 1,491,038	$ 1,204,834	$ 959,741
College's proportionate share of the PSERS net pension liability	3,092,000	2,527,000	2,053,000

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, 2017 and 2016 was between 3% and 9% of qualifying compensation. The College's contributions to TIAA-CREF for the years ended June 30, 2017, 2016, and 2015 were $1,239,583, $1,270,720, and $865,125, respectively.

12. 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.

13. Concentrations

Approximately 34% and 33% of the College's total revenue for the years ended June 30, 2017 and 2016, 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.

14. 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, 2017 and 2016, the College designated unrestricted net position as follows:

	2017	2016
Designated for capital projects	$ 11,499,054	$ 10,510,000
Designated for operating projects and auxiliary student operations	7,868,345	6,337,679
Reserve for future operations	1,950,000	1,900,000
Total unrestricted, board-designated	21,317,399	18,747,679
Unrestricted, undesignated	17,623	25,390
Total unrestricted net position	$ 21,335,022	$ 18,773,069

15. Commitments

The College employs approximately 913 employees. Approximately 30% of the College's employees are covered by collective bargaining agreements. The current contract with the Faculty Association expires August 2018. The contract with the Education Support Professionals expires June 30, 2020.

16. Component Unit Disclosures, Lehigh Carbon Community College Foundation

Promises to Give

Unconditional promises to give as of June 30, 2017 and 2016 are as follows:

	2017	2016
Title III Grant Match	$ -	$ 80,000
Scholarships	453,258	1,138,001
Campus maintenance	-	42,000
Field of Dreams	-	1,400
	$ 453,258	$ 1,261,401
Receivable in less than one year	$ 224,333	$ 482,467
Receivable in one to five years	228,925	778,934
	453,258	1,261,401
Less discounts to net present value at 2.20% - 5.80%	(23,920)	(34,430)
	$ 429,338	$ 1,226,971

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, 2017 and 2016 consist of the following:

	2017	2016
Technology Center Building and Leasehold Improvements	$ 6,000,000	$ 6,000,000

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:

	2017			
	Level 1	Level 2	Level 3	Total
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
	$ 11,941,939	$ 302,407	$ -	$ 12,244,346

	2016			
	Level 1	Level 2	Level 3	Total
Money market accounts	$ 325,684	$ -	$ -	$ 325,684
Equity mutual funds:				
Large cap equity funds	2,778,099	-	-	2,778,099
Small and mid cap equity funds	756,148	-	-	756,148
International funds	1,624,348	-	-	1,624,348
Commodities	248,124	-	-	248,124
Real estate	251,228	-	-	251,228
Blended funds	481,847	-	-	481,847
Structured note	-	236,575	-	236,575
Fixed income mutual funds	3,031,685	-	-	3,031,685
	$ 9,497,163	$ 236,575	$ -	$ 9,733,738

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.

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2017 and 2016:

	2017	2016
Investment income	$ 119,059	$ 149,500
Realized gains	614,442	69,224
Unrealized gains (losses)	436,620	(317,971)
	$ 1,170,121	$ (99,247)

Land and Buildings

Land and buildings is comprised of the following as of June 30, 2017 and 2016:

	2017	2016
Land	$ 572,725	$ 572,725
Buildings	6,106,892	6,106,892
	6,679,617	6,679,617
Accumulated depreciation	(1,291,860)	(1,200,256)
	$ 5,387,757	$ 5,479,361

Depreciation expense of $91,604 was recognized for the years ended June 30, 2017 and 2016.

Restrictions and Limitations on Net Assets

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

	2017	2016
Endowments	$ 770,360	$ 759,793
Scholarships	154,956	196,021
Student Emergency Loan Fund	75,000	75,000
Academic Program Enhancement Fund	348,274	-
Building construction, improvements, and maintenance	2,125,133	2,498,639
	$ 3,473,723	$ 3,529,453

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

	2017	2016
Building construction, improvements, and real property acquisition	$ 306,806	$ 303,707
Scholarships	1,056,807	926,305
Title III grant and match	387,716	323,464
Other	478,019	518,598
	$ 2,229,348	$ 2,072,074

Temporarily restricted net assets were released primarily for scholarships in the amount of $209,028 and $541,997 in 2017 and 2016, respectively.

Permanently restricted net assets of $4,474,019 and $3,922,937 at June 30, 2017 and 2016, 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.

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, 2017 and 2016:

	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
	$ 770,360	$ 444,128	$ 4,474,019	$ 5,688,507

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 759,793	$ -	$ -	$ 759,793
Donor-restricted endowment funds	-	272,181	3,922,937	4,195,118
	$ 759,793	$ 272,181	$ 3,922,937	$ 4,954,911

The following schedule represents the changes in endowment net assets for the years ended June 30, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, July 1, 2015	$ 645,360	$ 212,529	$ 3,951,280
Investment return:			
Investment income	17,119	3,570	23,512
Net realized and unrealized	(27,686)	(3,918)	(55,855)
Total investment return	(10,567)	(348)	(32,343)
Contributions	125,000	60,000	5,000
Distributions	-	-	(1,000)
Endowment net assets, June 30, 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

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, 2017 and 2016.

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 gifs 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 Years[1]

PSERS:

	2017	2016	2015
College's proportion of the net pension liability	0.0051%	0.0052%	0.0054%
College's proportionate share of the net pension liability	$ 2,527,000	$ 2,253,000	$ 2,137,000
State's proportionate share of the net pension liability associated with the College	2,547,040	2,266,282	2,158,043
Total	$ 5,074,040	$ 4,519,282	$ 4,295,043
College's covered-employee payroll	$ 665,775	$ 673,190	$ 695,020
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	379.56%	334.68%	307.47%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	50.14%	54.36%	57.24%

[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.

SERS:

	2017	2016	2015
College's proportion of the net pension liability	0.0063%	0.0072%	0.0084%
College's proportionate share of the net pension liability	$ 1,204,834	$ 1,315,951	$ 1,245,895
College's covered-employee payroll	$ 362,071	$ 431,572	$ 500,417
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	332.76%	304.92%	248.97%
SERS' plan fiduciary net position as a percentage of SERS' total pension liability	57.80%	58.90%	64.80%

[1] The 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 Years[3]

PSERS:

	2017	2016	2015
Contractually required employer contribution	$ 160,931	$ 152,717	$ 140,534
Contributions recognized by PSERS	160,931	152,717	140,534
Difference between contractually required employer contribution and contributions recognized by PSERS	$ -	$ -	$ -
College's covered-employee payroll	$ 594,774	$ 665,775	$ 695,020
Contributions as a percentage of covered-employee payroll	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:

	2017	2016	2015
Contractually required employer contribution	$ 107,091	$ 107,628	$ 98,563
Contributions recognized by PSERS	107,091	107,628	98,563
Difference between contractually required employer contribution and contributions recognized by PSERS	$ -	$ -	$ -
College's covered-employee payroll	$ 362,071	$ 431,572	$ 500,417
Contributions as a percentage of covered-employee payroll	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.

1. Changes of Assumptions

The actuarial valuation uses assumptions regarding future rates of investment return (discount rate) and rates of retirement, withdrawal, death, and disability among State Employees' Retirement Board (SERS) members and their beneficiaries. The current set of assumptions used in the December 31, 2016 actuarial valuation was adopted by the SERS Board based upon actual experience of SERS during the years 2011 through 2015. As a result of the review undertaken during March/April of 2017, the SERS Board approved (i) a reduction in the annual discount rate assumption from 7.50% to 7.25% and (ii) a reduction in the annual inflation assumption from 2.75% to 2.60% and both changes became effective with the December 31, 2016 actuarial evaluation. SERS will continue to closely monitor these assumptions and will recommend changing them if conditions warrant such change.

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

SERS:

The actuarially determined contributions are calculated as the Authority'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, 2016
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 rate of return	7.25% net of expense, including inflation

Projected 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 rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement

The following was updated in the December 31, 2016 actuarial valuation: investment rate of return decreased from 7.50% for December 31, 2015 to 7.25% for December 31, 2016; projected salary increases changed from average of 5.70%, with range of 3.85% - 9.05% for December 31, 2015 to average of 5.60%, with range of 3.70% - 8.90% for December 31, 2016; and inflation decreased from 2.75% for December 31, 2015 to 2.60% for December 31, 2016.

PSERS:

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, 2017. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

Changes in benefit terms	None
Changes in assumptions	None
Valuation date	June 30, 2015
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Investment rate of return	7.50% net of expense, including inflation at 3.00%

Projected salary increases	Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
Asset valuation method	A ten-year moving market average value of assets that recognizes the 7.50% actuarial expected investment return immediately and spread the difference between the actual return on the market value of assets and the expected return to the actuarial value of assets over a period of ten years. The averaging period is being phased-in from fiscal year 2006.
Multiple decrement tables	Mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.